NEWMEDENERGY

2021

ANNUAL REPORT AS OF 31.12.2021

NEWMED IN NUMBERS

22
Number of employees[2]

330
Area of Leviathan reservoirs (km^2)

5.08
Average price of natural gas sales from Leviathan ($) (MMBTU)

10.7
Natural gas sales from the Leviathan reservoir (BCM)

4,518[3]
Value of the Partnership's share in Leviathan

614[4]
EBITDA

405
Net profit

883
REVENUES

3,850
Total assets

6.2
Natural gas sales for export from the Leviathan reservoir (BCM)

938
Equity

2,451[5]
Market value

Footnotes:

1. The above figures relate to 2021 in dollars in millions, unless stated otherwise.
2. Including employees employed by the General Partner.
3. NPV10 of reserves and contingent resources (2P+2C), as released in the report on reserves, contingent resources and discounted cash flow for the Leviathan lease of February 20, 2022.
4. EBITDA was calculated as operating income plus depreciation and amortization and the Partnership's share in the losses of the company accounted for at equity.
5. The participation unit price quoted on TASE as of December 31, 2021 according to the representative exchange rate quoted as of such date.

OUR EVOLUTION

1991 Dr. David Cohen OBM, geologist Eli Rosenberg, and Gideon Tadmor establish Avner Oil & Gas Exploration

1993 Delek Drilling is founded as a limited partnership which is the energy arm of the Delek Group

1998 Yitzhak Tshuva becomes the owner of the Delek Group. He recruits the U.S. energy giant Noble Energy (now Chevron), and the two companies work together in exploration of natural gas reservoirs in the Mediterranean

1999 The first gas discovery off the shores of Israel – Noa and Mari B

2004 Yam Tethys pipes natural gas to the Israeli market. For the first time since its establishment, Israel produces power independently

2009 A new reservoir off the shores of Israel – Tamar

2010 The Leviathan reservoir, the largest natural gas field in the Mediterranean, is discovered by NewMed Energy, Chevron and Ratio

2011 The Aphrodite reservoir, located in the NewMed Energy, Chevron and Shell lease in the EEZ of Cyprus, is declared as the first natural gas discovery identified off the shores of Cyprus

2012 A seventh discovery in the Israeli EEZ –Tanin

2013 Piping begins – The first gas from the Tamar reservoir reaches the shores of Israel.

2013 Karish reservoir is discovered

2014 Bond. Tamar Bond. Issuance of Tamar bonds

2014 MOUs for gas export to neighboring countries – Jordan and Egypt

2016 Sale of Karish and Tanin to the Greek company Energean

2017 For the first time in history, Israel produces natural gas for a neighboring country, Jordan

2017 Leviathan gets underway: NewMed Energy and Chevron adopt a final investment decision (FID) for development of the Leviathan reservoir

2018 Dolphinus transaction The partners in Tamar and Leviathan sign historic gas export agreements with the Egyptian company Dolphinus

2019 A new era: The piping of natural gas commences from the Leviathan reservoir to customers in Israel, Jordan and Egypt

2021 Sale of the holdings in the Tamar reservoir to Mubadala Petroleum of Abu Dhabi

2022 Looking to the future: Delek Drilling changes its name to NewMed Energy

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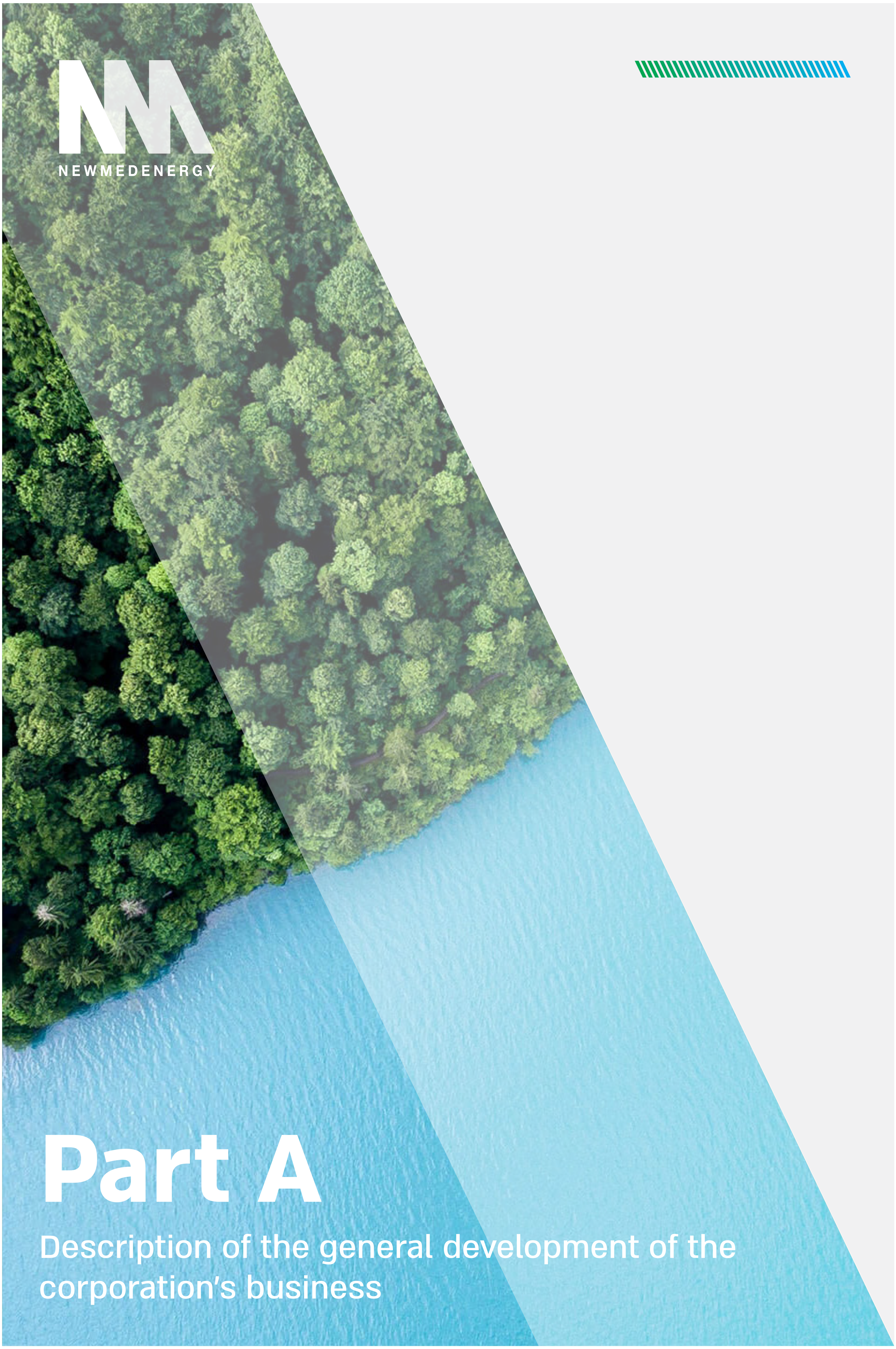

Part A

Description of the general development of the corporation's business

Chapter A – Description of the General Development of the Partnership's Business

This report is a translation of NewMed Energy - Limited Partnership's Hebrew-language Description of the General Development of the Partnership's Business, which is prepared solely for convenience purposes. Please note that the Hebrew version is the binding version and will prevail in any event of discrepancy.

1. Description of the General Development of the Partnership's Business[1]

1.1. NewMed Energy – Limited Partnership (the "**Partnership**")[2] is a public limited partnership, within the meaning thereof in the Partnerships Ordinance [New Version], 5735-1975 (the "**Partnerships Ordinance**"). Since its establishment, the Partnership is engaged primarily in the exploration, development, production and marketing of natural gas, condensate and oil in Israel and Cyprus.

1.2. The Partnership was established under a partnership agreement signed on July 1, 1993 (as amended from time to time) (the "**Partnership Agreement**")[3], between NewMed Energy Management Ltd. (the "**General Partner**") of the first part, as general partner, and NewMed Energy Trusts Ltd. as limited partner, of the second part (the "**Limited Partner**").[4] The Partnership was registered on July 25, 1993, under the Partnerships Ordinance. According to the Partnerships Ordinance, the Partnership Agreement, as amended from time to time, constitutes the Limited Partnership's articles of association.

1.3. In accordance with prospectuses released by the Partnership between the years 1993-2003, the Limited Partner issued participation units to the public which confer a right to participate in the rights of the Limited Partner in the Partnership (the "**Participation Units**" or the "**Units**"), which are listed for trade on the Tel Aviv Stock Exchange Ltd. ("**TASE**"). The Limited Partner serves as trustee and holds in trust for the unit holders the Participation Units issued thereby.

1.4. The current management of the Partnership is performed by the General Partner under the supervision of the supervisors, Fahn Kanne & Co., Accountants, together with Keidar Supervision & Management (jointly: the "**Supervisor**").

On July 1, 1993, the Limited Partner in the Partnership and the Supervisor signed a trust agreement (as amended from time to time) (the "**Trust Agreement**")[5], which confers on the Supervisor powers of supervision over the Partnership's management by the General Partner, as well as powers of supervision over the fulfillment of the Limited Partner's obligations to the Unit holders.

1.5. The General Partner and the Limited Partner are subsidiaries of Delek Energy Systems Ltd. ("**Delek Energy**"), a private company wholly owned by Delek Group Ltd. ("**Delek**

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[1] For definitions of some of the professional terms included in this chapter, see the professional terms annex at the end of the chapter as well as **Annex B**, which is attached hereto.

[2] The Partnership's previous name was Delek Drilling – Limited Partnership. On February 21, 2022, the Partnership's name was changed to its current name.

[3] As published in the Partnership's immediate report of July 10, 2019 (Ref. no.: 2019-01-059628).

[4] The General Partner's previous name was Delek Drilling Management (1993) Ltd. and the Limited Partner's previous name was Delek Drilling Trusts Ltd. On February 24, 2022, their names were changed to their current name.

[5] As published in the Partnership's immediate report of June 7, 2020 (Ref. no.: 2020-01-058218).

Group"), the controlling shareholder of which is Mr. Yitzhak Sharon (Tshuva)[6]. To the best of the Partnership's knowledge, as of the report approval date Delek Group holds, directly and indirectly (through Delek Energy and the General Partner, and through an indirect holding in Avner Oil & Gas Ltd.) approx. 54.66% of the Partnership's issued unit capital.[7]

1.6. On May 17, 2017, a merger was closed between the Partnership and Avner Oil Exploration, Limited Partnership ("**Avner**" or the "**Avner Partnership**") such that all of Avner's assets and liabilities were transferred, as is, to the Partnership. The Limited Partner issued participation units to the holders of the participation units in the Avner Partnership, and the Avner Partnership was liquidated without dissolution, and struck off from the records of the Registrar of Partnerships (the "**Merger**" or the "**Merger of the Partnerships**").

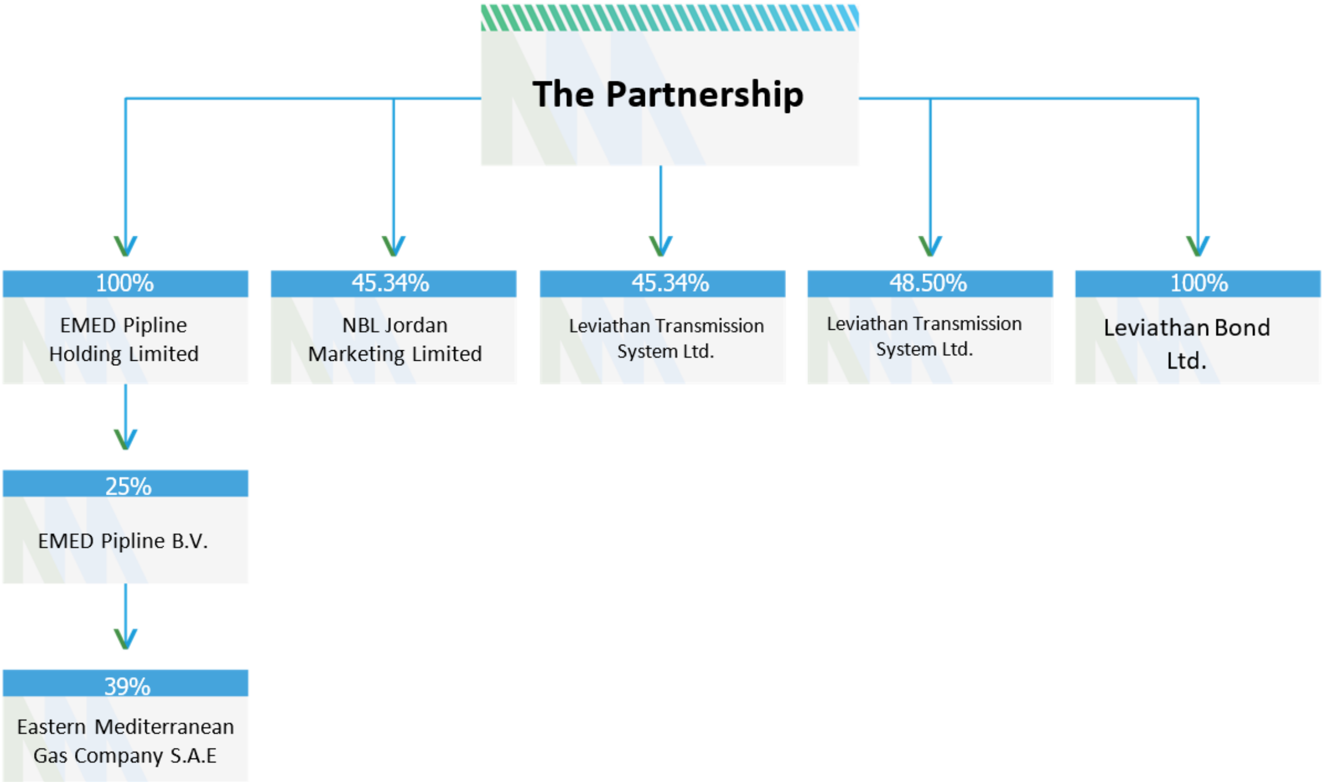
1.7. According to the directives of the Government Resolution on the "Gas Framework" specified in Section 7.22.1 below, the Partnership was obligated to transfer, by December 17, 2021, its full rights in the I/12 "Tamar" and I/13 "Dalit" leases (the "**Tamar and Dalit Leases**") and its full holdings in the shares of Tamar Petroleum Ltd. ("**Tamar Petroleum**"). On May 5, 2021, the transaction for the sale of the Partnership's entire rights of 22.6% in Tamar Petroleum to a third party was closed, in an off-exchange sale for the sum total of approx. ILS 100 million. For further details, see the Partnership's immediate report of April 28, 2021 (Ref. no.: 2021-01-072519), the information appearing therein is included herein by way of reference. On December 9, 2021, a transaction for the sale of the Partnership's remaining rights of 22% in the Tamar and Dalit Leases to Tamar Investment 1 RSC Limited and Tamar Investment 2 RSC Limited, was closed. For further details regarding the transaction for the sale of the Partnership's remaining rights in the Tamar and Dalit Leases and the closing thereof, see Sections 7.24.11, 7.24.12 and 7.8.3 below.

1.8. As of the report approval date, the Partnership is promoting a possible restructuring transaction, by way of approval of an arrangement under Sections 350 and 351 of the Companies Law, 5759-1999 (the "**Companies Law**"), which essentially replaces all of the Partnership's Participation Units with ordinary shares of a new company incorporated in England, which will hold all of the rights of the General Partner and Limited Partner in the Partnership, and whose shares will be listed for parallel trading on TASE and the London Stock Exchange. For further details see Section 7.26.2 below.

[6] As of the report approval date, Mr. Yitzhak Sharon (Tshuva) holds approx. 48.60% of the issued capital and approx. 50.21% of the voting rights in Delek Group.

[7] To the best of the Partnership's knowledge, and in accordance with Delek Group's reports, as of the report approval date, the vast majority of the units owned by Delek Group are pledged in favor of the holders of the bonds issued by Delek Group.

1.9. The structure of principal holdings of the Partnership:



1.9.1. Yam Tethys Ltd. is a special purpose company (SPC) incorporated by the partners in the Yam Tethys project (the "**Yam Tethys Partners**") for the purpose of receiving a license for gas transmission from the production platform of the Yam Tethys project to the terminal on the Ashdod shore (the Ashdod Onshore Terminal, AOT) (the "**Terminal**"), as mandated by the provisions of the Natural Gas Sector Law, 5760-2000 (the "**Natural Gas Sector Law**").

As of the report approval date, Yam Tethys Ltd. has no activity aside from being the holder of a construction and operation license for the gas transmission pipe, which was granted thereto by the Minister of Energy on April 29, 2002, and additional activity related to its being the holder of such license, including its being a party to various agreements in connection with the Terminal and security issues.

1.9.2. Leviathan Transmission System Ltd. is a special purpose company (SPC) ("**Leviathan Transmission System**"), whose shareholders are the partners in the Leviathan project (the "**Leviathan Partners**"), which hold the shares of the company according to the rate of their holdings in the I/14 Leviathan South and I/15 Leviathan North leases (the "**Leviathan South Lease**" and the "**Leviathan North Lease**", respectively. The Leviathan South and Leviathan North leases shall hereinafter be referred to collectively as: the "**Leviathan Leases**"). The company was established for the purpose of obtaining a license for the transmission of natural gas from the production platform of the Leviathan project to the northern entry point of the national transmission system of Israel Natural Gas Lines Ltd. ("**INGL**"), as mandated by the provisions of the Natural Gas Sector Law.

1.9.3. NBL Jordan Marketing Limited is a company whose shareholders are the Leviathan Partners, which hold the shares of the company according to the rate of their holdings in the Leviathan Leases. The company was established in connection with the engagement of the Leviathan Partners in a gas supply agreement with the national electric company of Jordan – The National Electric Power Company ("**NEPCO**"), whereby it will purchase the natural gas from the Leviathan Partners at the entry point to INGL's transmission system and shall sell it to NEPCO at the delivery point near the Israel-Jordan border under the same terms and conditions set forth in the said gas supply agreement (back-to-back). For further details, see Section 7.10.3(c)1 below.

1.9.4. EMED Pipeline B.V. ("**EMED**") is an SPC, established for the EMG Transaction (as defined in Section 7.24.4 below), registered in the Netherlands, whose shares are held, as follows: EMED Pipeline Holding Limited, a wholly owned subsidiary of the partnership that is registered in Cyprus – 25%; Chevron Cyprus Limited – 25%; and Sphinx EG BV, a wholly owned subsidiary of East Gas Company S.A.E., which holds, inter alia, a gas pipeline and infrastructures in Egypt (the "**Egyptian Partner**") – 50%.

1.9.5. Eastern Mediterranean Gas Company S.A.E. ("**EMG**") is a private company, registered in Egypt, which owns a subsea natural gas transport pipeline that connects between the Egyptian natural gas transmission system in the el-Arish area and the Israeli transmission system in the Ashkelon area, whose shares are held, as follows: EMED – 39%; Snam S.p.A ("**SNAM**")[8] – 25%, Mediterranean Gas Pipeline Ltd. ("**MPGC**")[9] – 17%; Egyptian Partner – 9%, Egyptian General Petroleum Corporation ("**EGPC**")[10] – 10%. For further details see Section 7.24.4 below.

1.9.6. Leviathan Bond Ltd. ("**Leviathan Bond**") is a special purpose company (SPC) which was established for the purpose of the issue of bonds to the institutional market in Israel and overseas, which are secured by the Partnership's interests in the Leviathan Leases. For further details, see Section 7.19.2 below.

For further details with respect to the aforesaid companies, see Regulation 11 of Chapter D hereof.

2. Field of Business

2.1. As of the report approval date, the Partnership operates in the energy field and its primary business is exploration, development, production and marketing of natural gas, condensate and oil in Israel and Cyprus, and promotion of various natural gas-based projects, with the aim of increasing the volume of the sales of natural gas produced by the Partnership. At the same time, the Partnership is exploring various business opportunities in the field of exploration, development, production and marketing of natural gas, condensate and oil in other countries, and is examining possibilities for entry into the field of renewable energy and blue hydrogen, which is

[8] In November 2021, PTT Energy Resources Company Limited ("**PTT**"), which is a public energy company partly owned by the Government of Thailand, sold its holdings in EMG to an SPC fully held by SNAM, which is an Italian public energy company.

[9] A private company which, to the best of the Partnership's knowledge, is controlled by Evsen Group, a company headed by Dr. Ali Evsen.

[10] An Egyptian government-owned company.

produced from natural gas, and which can be a low-carbon substitute for energy consumers. For further details see Section 7.26 below.

2.2. The Partnership's primary petroleum asset on the report approval date, is a holding of 45.34% (out of 100%) of the Leviathan reservoir, the gas flow therefrom began in December 2019. The Leviathan reservoir currently supplies natural gas to a number of customers in the Israeli and regional market, and among its prominent customers are, *inter alia*, Blue Ocean Energy[11] in Egypt ("**Blue Ocean**") and Jordan's national electricity company (NEPCO).

In addition to the rights in the Leviathan reservoir, the Partnership holds rights in the Aphrodite reservoir which was discovered in the area of Block 12 in Cyprus ("**Aphrodite**" or "**Block 12**") and in additional petroleum assets, as specified in Sections 7.2 to 7.8 below.

2.3. The operators of the Leviathan and Block 12 reservoirs are Chevron Mediterranean Limited ("**Chevron**") and Chevron Cyprus Limited ("**Chevron Cyprus**")[12], respectively, subsidiaries of Noble Energy Inc., which was merged in 2020 with a subsidiary wholly-owned by Chevron Corporation ("**Chevron Corp**").[13]

2.4. According to the directives of the Government Resolution on the "Gas Framework" specified in Section 7.22.1 below, in December 2021, the Partnership sold the balance of its rights in the Tamar Project. The operator in the Tamar Project is Chevron, which holds 25% of the rights in the Tamar Project. Following the aforesaid sale of the rights, the Tamar Reservoir and the partners therein are the Partnership's main competitors.[14] For further details with respect to the competition, see Section 7.13 below.

2.5. In accordance with the TASE Rules, the Partnership is entitled to only carry out gas and oil exploration, development and production projects, which were defined in the Partnership Agreement or in the amendment thereto to be approved by the meeting of the Unit holders. The Partnership Agreement defines the geographical areas included in the Partnership's existing petroleum assets, which are specified in Sections 7.2-7.8 below. Morevoer, amendments made to the TASE Rules in March 2019 and July 2021 allow the Partnership, under specific terms and conditions, to invest in projects that were not expressly defined in the Partnership Agreement and to invest in renewable energy projects.[15]

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[11] The agreement was signed with Dolphinus Holdings Limited, which, in June 2020 endorsed its Export to Egypt Agreement (as defined in Section 7.10.3(d) below) to Blue Ocean.

[12] The previous names of the operators of the Leviathan and Block 12 reservoirs were Noble Energy Mediterranean Ltd. and Noble Energy International Ltd., respectively, and they were changed following the aforesaid merger.

[13] Chevron Corp is a foreign public corporation, the shares of which are traded on NYSE. To the best of the Partnership's knowledge, there is no single shareholder holding more than 10% of Chevron Corp's issued share capital.

[14] To the best of the Partnership's knowledge, the partners in the Tamar Project, as of the report approval date, are: Chevron (25%), Isramco Negev 2, Limited Partnership (28.75%) ("**Isramco**"), Tamar Investment 1 RSC Limited (11%), Tamar Investment 2 RSC Limited (11%), Tamar Petroleum Ltd. (16.75%), Dor Gas Exploration, Limited Partnership (4%) ("**Dor**") and Everest Infrastructure, Limited Partnership (3.5%) ("**Everest**" and jointly, the "**Tamar Partners**").

[15] For details on the March 2019 amendment, see https://mayafiles.tase.co.il/reports/1216001-1217000/E1216813.pdf.

For details on the July 2021 amendment, see https://mayafiles.tase.co.il/reports/1384001-1385000/E1384631.pdf.

2.6. It is further provided in the Partnership Agreement, *inter alia*, that the principal part of the Partnership's expenses would be "Exploration and Development Expenses", within the meaning of such term in the Income Tax Regulations (Rules for the Calculation of Tax due to the Holding and Selling of Participation Units in an Oil Exploration Partnership), 5749-1988 (the "**Income Tax Regulations**").[16]

2.7. Below are details with respect to the optimal evaluation (best estimate) of the quantities of the reserves (2P), contingent resources (2C) and prospective resources (2U) attributed to the petroleum assets Leviathan and Block 12 in Cyprus (in 100% terms) as of December 31, 2021, as estimated by the independent evaluator Netherland Sewell and Associates Inc. (the "**Evaluator**" or "**NSAI**").

	Rate of the Partnership's interests	Optimal Evaluation (2U) of the Total Quantity of the Prospective Resources[17] (100%)			Optimal Evaluation (2C) of the Quantity of Contingent Resources (100%)		Optimal Evaluation (2P) of the Total Quantity of Reserves (100%)	
		Natural Gas BCF	Condensate Million barrels	Oil Million barrels	Natural Gas BCF	Condensate Million barrels	Natural Gas BCF	Condensate Million barrels
Leviathan Reservoir	45.34%	-	-	-	8,894	19.6	13,396	29.5
Prospect Leviathan Deep	45.34%	390.2	-	379.2	-	-	-	-
Aphrodite Reservoir	30.0%	913	1.9	-	3,477	7.6	-	-

2.8. In addition to the said primary assets, the Partnership has rights in additional petroleum assets which, as of the report approval date, were classified by the Partnership as negligible petroleum assets, as follows:

2.8.1 The exploration licenses 405/"New Ofek" and 406/"New Yahel" (the "**New Ofek License**" and the "**New Yahel License**", respectively);

2.8.2 Rights to receive royalties from the I/16 "Tanin" and I/17 "Karish" leases (the "**Tanin Lease**" and the "**Karish Lease**", respectively);

2.8.3 Yam Tethys project in leases I/7 "Noa" and I/10 "Ashkelon" (the "**Noa Lease**" and the "**Ashkelon Lease**", respectively).

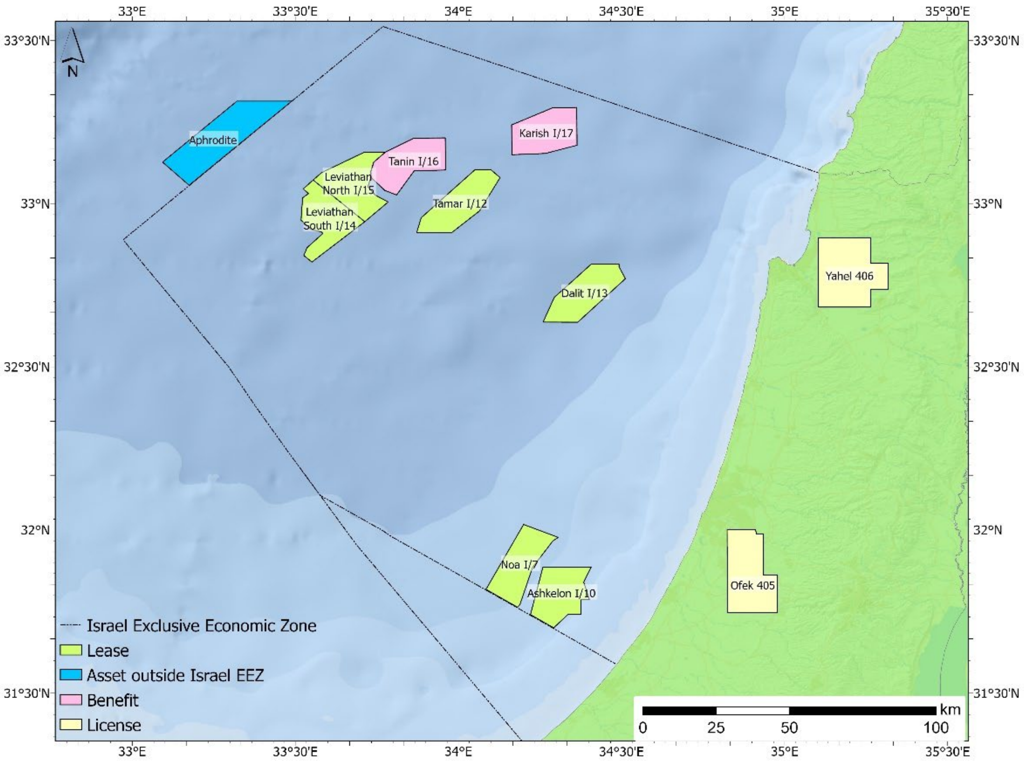
2.9 For details on the Partnership's petroleum assets on the report approval date, see Sections 7.2-7.7 below.

For details on petroleum assets, the activity in which has been terminated, see Section 7.8 below.

[16] On September 14, 2021, the Income Tax Regulations (Rules for the Calculation of Tax due to the Holding and Sale of Participation Units in Oil Exploration Partnerships) (Amendment), 5782-2021, were published in the Official Gazette. For further details on this matter, see Section 7.20.1 below.

[17] The prospective resources stated below are located in several fault blocks and/or various prospects, the chances of the presence of which vary.

The following map shows the location of the Partnership's petroleum assets, as of the report approval date:



3. Investments in the Partnership's Capital and Off Exchange Transactions made by Interested Parties in the Participation Units

To the best of the Partnership's knowledge and according to the reports of the Delek Group, Delek Group pledged most of its Units owned thereby in favor of the holders of bonds issued by Delek Group. For details regarding the engagement between the General Partner and Delek Group and Delek Energy regarding the pledge of up to 4.5% of the issued Participation Units owned by the General Partner, see Regulation 21A of Chapter D hereof.

4. Distribution of Profits

4.1. In the period from January 1, 2020 to December 31, 2021, the Partnership declared profit distributions (as defined in the Partnership Agreement), as specified below:

Declaration Date	Distribution Date	Distribution Amount per Participation Unit	Total Distribution Amount	Immediate Report
November 17, 2020	December 7, 2020	$0.05537	$65 million	Ref.: 2020-01-115519
September 22, 2021	October 13, 2021	$0.08519	$100 million	Ref.: 2021-01-148473
December 9, 2021	December 23, 2021	$0.08519	$100 million	Ref.: 2021-01-178155

4.2. For details on the tax regime applicable to the Partnership and the change that will occur therein starting from the tax year 2022, following the taking effect of the Income Tax Regulations (Rules for the Calculation of Tax due to the Holding and Selling of Participation Units in an Oil Exploration Partnership) (Amendment), 5782-2021, see Section 7.20 below.

4.3. As of December 31, 2021, the Partnership has profits available for distribution in the amount of approx. 757 million U.S. Dollars ("**Dollars**" or "**$**").

4.4. Other than restrictions set forth in financing agreements, as specified in Section 7.19 below, as of the report approval date, there are no external restrictions that may affect the Partnership's ability to distribute profits in the future.

4.5. <u>The provisions of the Partnership Agreement regarding a profit distribution and resolutions of general meetings thereon</u>

4.5.1 The Partnership Agreement provides that all of the Partnership's profits, which are distributable, by the Partnership under law, net of amounts (which were not taken into account for the purpose of determination of the profits) required for the Partnership, as per the discretion of the General Partner, for the purpose of or in connection with the Partnership's existing undertakings, including the repayment of loans, and including amounts which are required, in the opinion of the General Partner, in order to meet unforeseeable expenses, the amount of which shall not exceed $250,000 (in this section: the "**Profits**"), will be distributed to the partners in the Partnership according to their rights.

Once a year, on or about the end of the year, the General Partner, in consultation with the Partnership's accountants, will perform an estimation of the Partnership's annual taxable income. Based on such estimation, the General Partner will determine the amount for first distribution (the "**First Distribution Amount**"). The First Distribution Amount will be published by the General Partner before the year-end and thereafter distributed to the partners (as being at the year-end). The balance of the Profits remaining for distribution (if any) due to the same year will be determined by the General Partner and published shortly after the release of the Partnership's audited financial statements for the same year (the "**Second Distribution**"). The Partnership Agreement clarifies that in the event that after the Second Distribution it transpires, following a change of circumstances, that additional amounts may be distributed for the same year, the General Partner may perform additional distributions for the same year, and the General Partner will be obligated to do so if the additional distributable amounts exceed $3 million.

Calculation of the Profits will always be made for the year ending on December 31. Notwithstanding the aforesaid, no amounts will be distributed if receipt thereof by the Limited Partner is deemed a withdrawal of its investment or part thereof, within the meaning thereof in Section 63(b) of the Partnerships Ordinance. In any event of doubt as to whether the distribution of any amounts to the Limited Partner is deemed a withdrawal of its investment or part thereof as aforesaid, the distribution will not be performed, unless the Supervisor consents thereto.

4.5.2 On December 30, 2013, a general meeting of the Unit holders was held, in which it was resolved, *inter alia*, to approve refraining from distribution of profits (within the meaning thereof in the Partnership Agreement), for the purpose of investment thereof in the development of the Leviathan reservoir according to the work plan and budgets approved and/or to be approved under the joint operating agreements that apply to the Leviathan Leases, and also to approve use of the surplus cash accumulated and to be accumulated by December 31, 2014, for the purpose of investment thereof in activities of exploration and evaluation in the Leviathan Leases and in Block 12 which is situated in the EEZ of Cyprus, according to a work plan and budgets approved and/or to be approved under the joint operating agreements that apply to the aforesaid petroleum assets.

4.5.3 On May 16, 2019, a general meeting of the Unit holders was held at which it was resolved, *inter alia*, to give approval to the General Partner to refrain from the distribution of profits (as defined in Section 9.4 of the Partnership Agreement) for the purpose of their investment in oil and/or gas exploration and the production thereof, *inter alia*, in the New Ofek and New Yahel licenses. For details see the Partnership's immediate reports dated March 31, 2019 and May 16, 2019 (Ref.: 2019-01-028755 and 2019-01-042057, respectively), the information in which is incorporated herein by reference.

5. Financial Information regarding the Partnership's field of business

5.1. For figures with respect to revenues, costs, profit from ordinary activities in the field of business, see the statements of comprehensive income included in the financial statements (Chapter C hereof).

5.2. For details with respect to the total assets and liabilities of the Partnership as of December 31, 2021 and December 31, 2020, see the Statements of Financial Position included in the financial statements (Chapter C hereof).

5.3. For explanations with respect to the aforesaid financial data, see Part One of the board of directors' report (Chapter B hereof).

6. General Environment and the Effect of External Factors

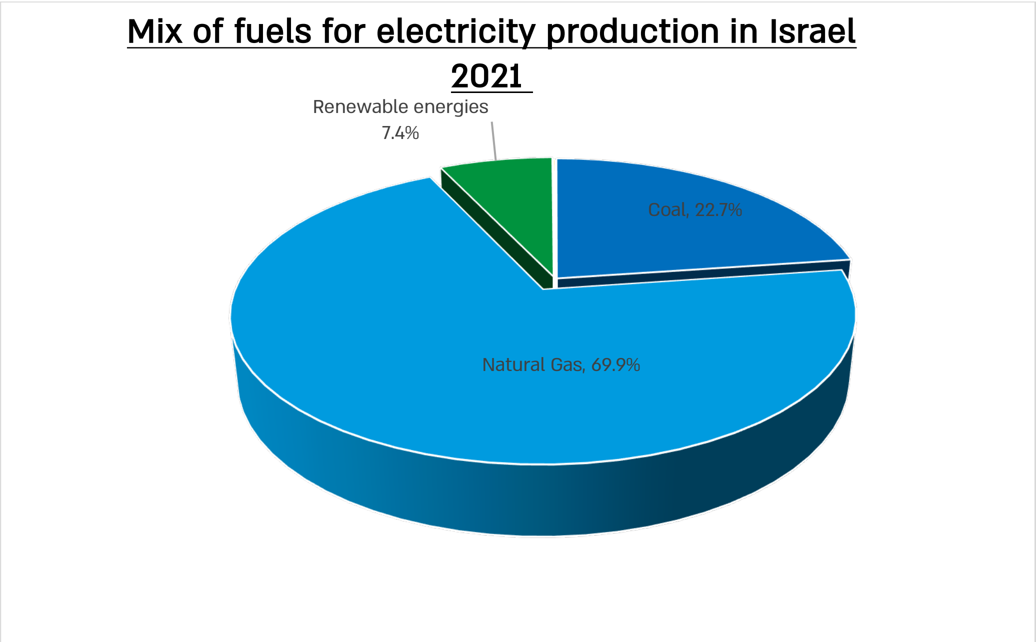
6.1. The Petroleum Law, 5712-1952 (the "**Petroleum Law**") governs the regulation in the sector of oil and natural gas exploration and production in Israel and prescribes, *inter alia*, that oil and gas exploration activities in Israel can be conducted in geographical areas in which the exploring entity was granted a gas and petroleum right under the Petroleum Law. The Natural Gas Sector Law mainly governs the issue of transmission, distribution, marketing and storage of natural gas and/or liquefied natural gas (LNG) within the State of Israel. In addition, the Taxation of Profits from Natural Resources Law, 5771-2011 (the "**Natural Resources Law**") regulates, *inter alia*, issues of tax, petroleum profit levy and payment of royalties to the State. For further details with respect to the Petroleum Law, the Natural Gas Sector Law and the Taxation of Profits from Natural Resources Law, see Sections 7.22.3(a), 7.22.4(a), 7.22.5 and 7.20.2 below, respectively.

6.2. The economic merit of investments in the exploration for and development of natural gas reservoirs is greatly affected by oil and gas prices in the world, *inter alia* LNG prices, by the demand for natural gas in the global, regional and domestic markets and by the ability to export natural gas (whether by pipes, in compressed form or in liquid form), which requires, *inter alia*, gas resources of considerable volumes and engagements in long term agreements for the sale of natural gas in substantial amounts, to justify the large investments required for construction of the appropriate infrastructures and/or the payments in respect of usage fees for preexisting infrastructures. In addition, the amount of the payments to the State has a material impact on the economic merit of investments in oil and gas projects.

6.3. The development of the natural gas sector in Israel began in 1999-2000 upon the discovery of the Noa reservoir in the Noa Lease and the Mari B reservoir in the Ashkelon Lease. Later on, in 2009, the natural gas reservoirs Tamar and Dalit were discovered, in 2010, the Leviathan reservoir was discovered and thereafter, the Tanin and Karish reservoirs were discovered.

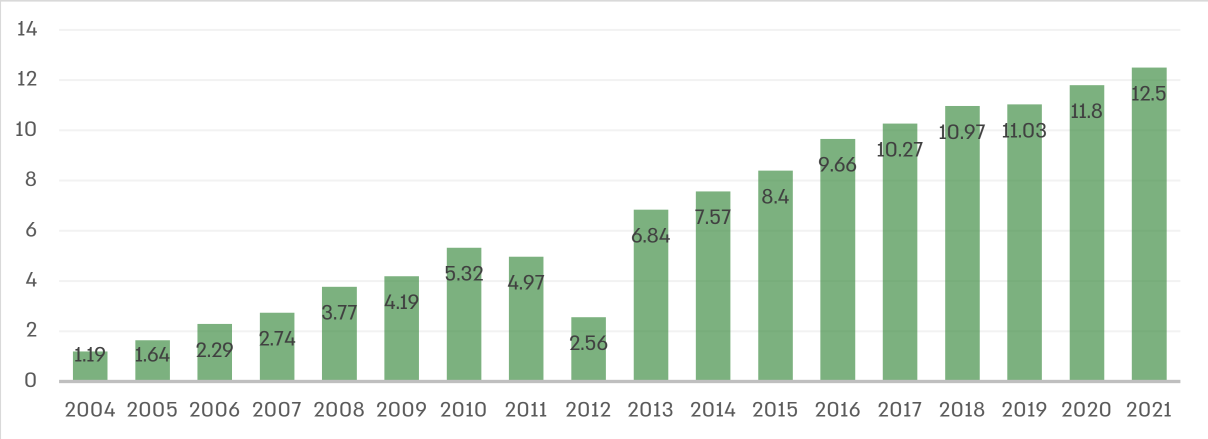
In 2004, natural gas began to flow from the Yam Tethys project through the transmission system of INGL. Initially, the facilities of the Israel Electric Corporation Ltd. (the "**IEC**") and large industrial plants were connected. Subsequently, with the start of gas flow from the Tamar Project in 2013, private power plants and additional plants were connected, and the overall consumption of natural gas in Israel has increased concurrently with the progress in the construction of the transmission infrastructure of INGL and the connection of consumers (including power plants of the IEC and private power plants) to the transmission system and of smaller consumers to the distribution network. In December 2019, commercial production to the domestic market from the Leviathan project, has commenced.

6.4. In the past two decades, the natural gas sector in Israel has been undergoing significant changes (which include, *inter alia*, regulatory, economic, commercial and environmental changes). Within a few years, natural gas has become the primary component in the Israeli economy in the range of fuels for electricity production and a significant energy source for the industry. The natural gas resources that have been discovered in Israel can provide for all of Israel's gas needs in the next decades, thereby substantially reducing the State of Israel's dependence on foreign energy sources, as well as enabling export of natural gas in material quantities to countries in the region, and chiefly to Egypt and Jordan.



* Source of data: Assessments of BDO Consulting Group

6.5. According to the data of the Ministry of Energy[18], the scope of consumption of natural gas in Israel increased from approx. 6.8 BCM in 2013 to approx. 11.8 BCM in 2020, where in 2021, it is estimated by the Partnership at approx. 12.5 BCM, as specified in the graph below (in terms of BCM):



6.6. 2017 saw the commencement of natural gas export from the Tamar reservoir to Jordan for the first time, at a limited volume. In July 2020, export of natural gas began from the Tamar reservoir to Egypt, which totaled approx. 0.25 BCM in 2020. To the best of the Partnership's knowledge, the scope of export from Tamar amounted in 2021 to approx. 0.81 BCM. To the best of the Partnership's knowledge, and according to publications of the Ministry of Energy, in 2021, approx. 8.7 BCM natural gas was produced from the Tamar Reservoir.[19]. December 31, 2019 saw the commencement of natural gas flow from the Leviathan reservoir to the domestic market, and January 1, 2020 and January 15, 2020 saw the commencement of natural gas flow from the Leviathan reservoir to Jordan and to Egypt, respectively. In 2020, approx. 3.5 BCM of natural gas was supplied from the Leviathan reservoir to the domestic market, and approx. 1.9 BCM and approx. 1.9 BCM to Jordan and to Egypt, respectively and in 2021 approx. 4.5 BCM of natural gas was supplied from the Leviathan reservoir to the domestic market, and approx. 2.7 BCM and approx. 3.4 BCM to Jordan and to Egypt, respectively.

6.7. In the Partnership's estimation, by 2040, natural gas consumption in Israel is expected to double, *inter alia*, given the connection of additional gas suppliers to the national transmission system, the Government's policy with regard to a gradual discontinuation of electricity production via polluting coal-fired power plants by the end of 2025, external increase in the scope of demand for electricity (*inter alia* as a result of significant penetration of electric vehicles), the assimilation of compressed natural gas uses in some transportation sectors, accessibility to natural gas for additional industrial enterprises throughout Israel, *inter alia*, through a government-sponsored

[18] Source of data: The Ministry of Energy, Natural Gas Authority, Review of the Developments in the Natural Gas Sector – 2020 summary, https://www.gov.il/BlobFolder/reports/ng_2020/he/ng_2020.pdf.

[19] Source of data: Ministry of Energy, Royalties, Accounting and Economics Department, Report on Income from Natural Resources – Y2021, https://www.gov.il/BlobFolder/reports/income_reporte/he/revenue_report_2021.pdf.

program to supports companies that received a government franchise to lay down a distribution pipeline and government legislative moves for changes in the distribution segment, for the purpose of upgrading the distribution systems, implementation of the use of natural gas in additional segments, such as services, development and tapping of industries based on natural gas as feedstock (such as production of blue hydrogen and development of petrochemical plants and ammonia production, that use natural gas), all over and above the natural increase in demand for natural gas and for electricity in the Israeli economy due to the population growth and the increased standard of living. Notwithstanding the aforesaid, the increase in the demand for natural gas may moderate in the coming years against the backdrop of the government policy on reducing greenhouse gas emissions and promoting the use of renewable energies. For details see Section 7.22.10 below.

6.8. The Covid-19 pandemic and the impact thereof on the Partnership's business

At the end of 2019 and during Q1/2020, Covid-19 began spreading throughout the world, and in March 2020 it was declared a global pandemic by the World Health Organization (the "**Covid-19 Crisis**").

During H1/2020, extremely sharp declines were recorded in the international markets in oil and natural gas prices, which may be attributed to the Covid-19 Crisis, as well as to other causes and reasons which affect the supply and demand of energy products. However, towards the end of 2020 and during 2021, a sharp recovery is felt in the prices of energy products worldwide, including oil and LNG prices and specifically in the prices of natural gas at the international hubs for natural gas, to price levels that significantly exceed those before the Covid-19 Crisis.

It is noted that even though the Covid-19 Crisis continued, an increase in the demand for natural gas was recorded in 2021 compared with the same period last year.

As of the report approval date, it is difficult to estimate how the Covid-19 Crisis will continue to develop in the coming years, what the extent of the impact of the Covid-19 Crisis on the global and local economy will be and what will be its impact on the demand and prices of natural gas and other energy products. In these circumstances, the Covid-19 Crisis constitutes a global macroeconomic risk that creates uncertainty as to the future economic activity in the world and in the local market, and the expected effects on financial markets, interest rate margins, currency exchange rates and commodity prices in the energy sector and may adversely affect many industries including the energy sector in which the Partnership operates.

Furthermore, if the Covid-19 Crisis continues or worsens, the restrictions and actions that will be taken by the Israeli government and other countries in coping with the Covid-19 Crisis may have a material adverse effect on the Partnership's business and its work plans. As a result of these measures, delays may be caused in the entry of foreign experts and in the supply of designated equipment to Israel due to restrictions that apply to civilian movement between sites and countries, and restrictions on production or shipping that apply in the various countries, which may, *inter alia*, disrupt the regular production activity, the work plans of the operator and also impose unexpected additional costs despite the preventive measures taken by the partners.

Caution concerning forward-looking information – The Partnership's assessments regarding the possible repercussions of Covid-19 constitute forward-looking information, as defined in Section 32A of the Securities Law, 5728-1968 (the "Securities Law"). Such

information is based, *inter alia*, on the Partnership's assessments and estimates as of the report approval date and on reports published in Israel and around the world on this issue and the instructions of the relevant authorities, the materialization of which, in whole or in part, is uncertain and not in the Partnership's control.

6.9. The principal external factors that affect this sector are:

6.9.1. Fluctuations in linkage components in the formulas of natural gas prices

The gas prices stated in the agreements for the sale of natural gas from the Leviathan project are based on various pricing formulas including, *inter alia* linkage to the Brent barrel price, linkage to the electricity production tariff as determined from time to time by the Public Utility Authority-Electricity (the "**Electricity Production Tariff**") and linkage to the Shekel/Dollar exchange rate (jointly: the "**Linkage Components**")[20]. It is noted that the natural gas sale agreements include floor prices and some include a fixed price, and therefore the Partnership's exposure to fluctuations in the Linkage Components in such agreements is hedged by a bottom threshold. For details on the possible effect of changes to the various Linkage Components on the Partnership's business, see Section 7.28.2 below.

6.9.2. Regulation

The sector of exploration, development and production of oil and natural gas is subject to regulation in countries where the activity is carried out. In Israel, the sector is subject to extensive regulation with respect to petroleum assets (including rules for granting, transferring and pledging the same), to conditions for development, production and supply (including the construction of transmission and distribution and consumer connection infrastructures), to royalties and taxation, environmental regulation, restrictive trade practices and so forth. Following the gas discoveries which were made by the Partnership and its partners throughout the years, in the various petroleum assets, in the State of Israel's EEZ, there has been a significant increase in the extent of regulation of the energy and environment sectors in Israel in general and in connection with the natural gas ventures in particular.

For details with respect to restrictions and supervision over the activities of exploration, development and production of natural gas and/or oil in Israel and in Cyprus, see in Section 7.22 below.

6.9.3. Supply and demand conditions

For details on the supply and demand in the international markets and in the local market, see Sections 7.1.3, 7.11 and 7.14 below.

[20] It is noted that in addition to the effect of the changes in the Brent barrel price, the Partnership's business is also indirectly affected by the prices of natural gas and other alternative energy products which are determined on the international markets. For further details, see Section 7.1.3 below.

7. Description of the Partnership's Business per field of business

7.1. General information about the field of business

7.1.1. Structure of the field of business and changes occurring therein

The operation of exploration, development and production of oil and natural gas is complex and dynamic, involving substantial costs and evident uncertainty with respect to costs, timetables, the presence of oil or natural gas and the ability to produce them while protecting the environment and maintaining cost effectiveness. As a result thereof, despite considerable investments, the exploration activities, including the exploration and appraisal drilling often does not accomplish positive results and do not generate any revenues and may lead to the loss of most or all of the investment in a relatively short time.

Activities of exploration, development and production of oil and natural gas are usually conducted in the framework of joint ventures between several partners who sign a joint operating agreement (JOA), whereby one of the partners is appointed as the operator of the joint venture (for a description of a joint operating agreement, see, for example, the operating agreement that applies to the Leviathan Project, which is described in Section 7.24.5 below).

A typical process of exploration, development and production of oil and natural gas in any area may include, *inter alia*, the following stages:

(a) Initial analysis of existing geological and geophysical data, for the selection of areas presenting a potential for oil and natural gas exploration.

(b) Formulation of an initial geological model (Play).

(c) Performance of various geophysical surveys, including seismic surveys, which assist in the location of geological structures that may contain oil and/or natural gas (Leads) and data processing and interpretation.

(d) Examination of the Leads and preparation of prospects fit for test drilling therefrom.

(e) Decision to perform test drilling and performance of activities in preparation for the drilling.

(f) Engagement with contractors for the performance of the drilling and for receipt of related services.

(g) Performance of the test drilling, including logs and additional tests.

(h) Performance of production tests (, to the extent justified by the findings of the drilling).

(i) Analysis of the results of the drilling and, in the event of a finding, based on an initial evaluation of the features of the reservoir and the amount of oil and/or natural gas, an economic (including a market assessment) and fiscal analysis and an initial evaluation of the development format and cost. There may be additional seismic surveys and/or appraisal wells, as necessary, for the purpose of formulating a better estimate of the features of the reservoir and the amount of oil and/or natural gas present therein.

(j) Examination of the alternatives for commercialization of the oil and/or natural gas, identification of the target markets and examination thereof, formulation of a development plan and preparation of a financial plan for the project.

(k) A final analysis of the data and a final investment decision (FID).

(l) The projects for development of natural gas findings require, over and above engineering feasibility, also the signing of binding long-term supply agreements for appropriate quantities and prices with customers that have the financial ability that allows for obtaining project financing.

(m) Development of the reservoir, including the performance of production drilling, layout of transmission pipeline, construction of treatment facilities and so forth.

(n) Production from the reservoir, including operation and ongoing maintenance, and performance of additional development and expansion work in the purpose of preserving and/or increasing the production volume.

(o) Decommissioning of the field facilities after the reservoir is depleted, and after weighing various technical, economic and regulatory parameters. Abandonment acts may include, *inter alia*, plugging the wells, abandoning the facilities and the area of the lease, in accordance with the various regulatory directives and local accepted standards.

Due to the various characteristics and data of each and every project, the stages specified above are not necessarily exhaustive of all of the stages of the exploration, development, production and abandonment process in a specific project, which, due to the quality and nature thereof, may only include some of the aforesaid stages and/or additional stages and/or stages in a different order.

In addition, the timeframes for performance of each of the stages vary according to the nature of the project.

As specified above, the commercial merit of oil and/or natural gas findings is complex and dependent upon numerous and various factors. In this context, there are material differences between an offshore finding, the development of which requires financial input and use of unique technologies, such as drilling at a considerable water depth or laying subsea facilities and pipelines which are able to operate at a high level of reliability in the sea depths, and an onshore discovery, whose development costs may be substantially lower. In addition, the financial, logistical and technical inputs required to develop a natural gas reservoir, including for building the components used for the transmission and/or transportation of the natural gas that is intended for export to the regional or international market, are generally immeasurably more significant relative to those required for development and production from a natural gas reservoir which is designated solely for the local domestic market. An additional key parameter is the demand and the price at the target markets. There is great difficulty in developing a project of significant scope when the demand and prices of natural gas do not allow the raising of project finance. Furthermore, there are substantial technological, marketing and financial differences between oil reservoirs and natural gas reservoirs. For example, the economic merit of a natural gas reservoir mostly derives from the ability to market it to a guaranteed attractive target over the course of years, due to the fact that unlike oil, natural gas is not a commodity which is sold for similar prices all around the world and transportation thereof to the target markets may be complicated and entail liquefaction or compression. Moreover, the commerciality of an oil reservoir is highly impacted by global oil prices, thus, for example, a reservoir which is not commercial when the price of an oil barrel is X Dollars, may become commercial when the price of an oil barrel rises to 1.5X Dollars and vice versa. In light of the aforesaid, naturally, oil and/or natural gas reservoirs, which are not commercial under certain market conditions, may become, upon the occurrence of material changes in the regulation and market conditions, commercial reservoirs, and vice versa.

7.1.2. <u>Restrictions, legislation, standardization, directives and special constraints applicable to the field of business</u>

For details, see Section 7.22 below.

7.1.3. <u>Developments in markets or changes in customer characteristics</u>

As of the report approval date, the Partnership sells natural gas from the Leviathan project to various customers in the domestic and regional market, the most important of which being NEPCO in Jordan, and Blue Ocean in Egypt, as specified in Section 7.10.3 below.

At the same time, and in light of the significant volume of resources discovered off the shores of the State of Israel, mainly in the Leviathan and Tamar natural gas reservoirs, the Partnership is acting to identify additional markets and customers, in the domestic market and in neighboring countries and/or markets in Europe and in Asia, subject to restrictions on gas export, as specified in Section 7.22.9 below. The Partnership is also promoting use of infrastructures now in existence and/or that will exist in the foreseeable future and/or that will be built especially for natural gas export purposes including additional ways to export the natural gas, including by way of the liquefaction (LNG) and/or compression (CNG) thereof. For further details on this matter, see Sections 7.11.2(j) and 7.11.2(k) below. The Partnership is also conducting an initial examination of possibilities for the production of blue hydrogen from natural gas. For details regarding the Partnership's strategy and goals, see Section 7.26 below.

7.1.4. <u>Factors affecting the price of and demand for natural gas and other energy products</u>

The demand for energy in general and natural gas in particular depends on a number of key factors, including the prices of the various energy products and their alternative products, GDP (gross domestic product) growth rate, population growth rate, living standards, weather conditions, and the energy efficiency of electricity and gas consumers and producers.

In addition, the Government's policy and specifically the Ministry of Energy's policy may affect the market share of natural gas in the mix of electricity production sources in the Israeli economy, through, *inter alia*, encouraging development of energy sources that serve as alternatives to natural gas, such as renewable energies; energy storage measures; the rate of entry of electric vehicles; the rate of connection of plants to the natural gas system; construction of new natural gas-powered power plants and the rate of conversion of coal-fired power plants to natural gas use.

The prices of natural gas and liquefied natural gas ("**LNG**") in the international markets and the prices of alternative energy products, including renewable energies, oil and coal, may also affect demand levels and the volume of the Partnership's natural gas sales and the sale prices of natural gas, both under existing agreements and under future agreements, such as agreements for natural gas sale to liquefaction facilities and/or LNG sale agreements, thereby affecting the economic viability of the promotion of new projects that depend on the LNG market or of the expansion of existing projects. Moreover, low LNG prices in international markets may lead to increased LNG import into Israel and/or into the regional markets, reducing the demand for natural gas produced in Israel in the markets relevant to the Partnership and reducing the Partnership's revenues from the Leviathan reservoir. Thus, high LNG prices reduce the import of LNG into Israel and/or the regional markets, and increase the demand for natural gas that is produced in Israel.

In recent years, there has been a significant global increase in the capacity to produce LNG, *inter alia* due to the operation of new liquefaction facilities, or expansion of existing facilities, such as liquefaction facilities in the U.S., Qatar, Russia (in the Arctic Circle) and Australia. Following the outbreak of the Covid-19 pandemic in H1/2020, a drop was recorded in LNG and natural gas prices on the spot markets in Europe and Asia, where natural gas prices developed independently of the oil price, and to which the LNG surpluses were directed.

In 2021, the global energy economy underwent dramatic changes, which led, *inter alia*, to a sharp rise in the prices of energy products. In a special survey report by the Ministry of Energy from November 2021, headed "Global Energy Crisis 2021"[21], it was stated, *inter alia*, that natural gas prices in Europe rose during the year to $35 or more per MMBTU, more than 10 times the price of the previous year. The authors of the report believe that the gas storage facilities in Europe, which are required in order to supply the higher demand for natural gas for heating in the winter months, lack significant capacity, which has created significant pressure alongside demand. Other factors for the price increase are the decrease in natural gas exports from Norway, which is one of the main suppliers of natural gas in Europe and a relatively weak wind regime recorded in 2021 which reduced electricity generation capacity through wind energy. The authors note that in recent years there has been a decline in inland production capacity in Europe, and European reliance on increased imports of natural gas rose, particularly LNG imports from countries such as Qatar, U.S.A., Algeria and more. Such change is naturally complex,

[21] https://www.gov.il/BlobFolder/reports/energy_101121/he/energy_101121.pdf

especially when made in such a short time, and it is evident that Europe was not prepared for the rapid change in demand, following the Covid-19 Crisis and the cold winter. Along with China's entry into global competition over natural gas, this has led to a sharp rise in prices and an energy crisis. In the estimation of the authors of the report, although Israel is not dependent on natural gas imports, the price of natural gas in Israel will be affected indirectly due to the linkage components of the supply contracts, and the global energy crisis is expected to raise natural gas prices in the various contracts to varying degrees, and at varying times. Notwithstanding the foregoing, the assessment of the authors of the report is that only a moderate increase is expected. As of the report approval date, the price of LNG at the main entry points to Europe (TTF) and East Asia (JKM) is approx. $32 and $35 per MMBTU, respectively, a price significantly higher than the price environment to which the world has become accustomed in recent years, *inter alia* due to a slowdown in investments in natural gas ventures and due to an increase in demand following the climate crisis. According to the International Energy Agency ("**IEA**") forecast, LNG prices are expected to remain high during 2022.

The high LNG prices, as aforesaid, resulted in an almost complete cessation of LNG imports to Israel, Egypt and Jordan, an increase in the quantities of LNG exports by Egypt, and an increase in the demand for natural gas in the regional market in general, and in Israel in particular.

Along with the sharp rise in natural gas prices in the world market, there were also sharp rises in coal prices in 2021, whose main consumers are China and India, after a low that was recorded in May 2020. At the same time, oil prices also rose in 2021, however at a more moderate rate than natural gas and coal. As of the report approval date, the price of a barrel of brent oil is approx. $115, a significantly higher price than the price range to which the world has become accustomed in recent years.

On February 24, 2022, the Russian army invaded Ukraine as part of an initiated campaign which included mobilizing ground forces, alongside air and artillery assaults. As a result, the United States and the member states of the European Union imposed a series of economic punitive measures against Russia, which included, among others, sanctions on trade with Russia and Russian seniors, a decision to suspend the completion of the Nord Stream 2 project, which is intended to double the volume of gas exported from Russia to Germany, discontinuation of some collaboration with Russian entities by international companies, including significant companies in the fields of natural gas and oil production, and more.

Following the above and in light of Russia's status as a major global supplier of natural gas and oil, the concern of a long-term shortage of natural gas and oil has arisen, leading to a further rise in energy prices.
As of the report approval date, the Partnership cannot estimate how the aforesaid crisis will develop and what long-term effect it will have on the energy market and operations in particular. However, in 2021 Russia supplied approx. 150 BCM of natural gas to European countries – approx. 40% of the total European gas consumption. However, many European countries are apparently seeking to diversify their natural gas resources in order to decrease dependence on natural gas from Russia, which may lead to additional significant demand for natural gas from areas with the possibility

to connect to a natural gas pipeline to Europe and additional demand for LNG. The Partnership, together with its partners in the Leviathan and Aphrodite projects, is examining the effect of the said factors on the possibilities for development and/or expansion of its assets.

7.1.5. Material technological changes

The last decades saw technological changes in the field of oil and natural gas exploration, development and production, both in the area of information collection and analysis and in the drilling and production methods. These changes have improved the quality of the data available to oil and natural gas explorers and have allowed for more advanced identification of potential oil and natural gas reservoirs, and therefore may also reduce the risks of drilling. Furthermore, the technological improvements have increased the efficiency of the drilling and production work and also presently allow to operate in rougher conditions than before, including at significant water depths. Accordingly, corporations exploring for oil and natural gas, are able to invest exploration efforts in areas where drillings were not feasible in the past, or were feasible but at very high costs and at greater risks. The Partnership and the operators in the various projects in which the Partnership is a partner strive to use the best available technologies in all of the operation segments. Thus, for example, until 2021 significant resources were invested in the reprocessing and reanalyzing of seismic surveys by means of innovative technologies, in order to improve the database, update the maps of the reservoirs and the assessment of their characterizing parameters, and thereby accordingly update the volume of resources therein, and update the development plans. In addition, reprocessing was used to define new deep prospects. Furthermore, technologies defined as the best available technologies are used, to the extent possible, in the Leviathan project in order to increase the efficiency of the production system, enhance the facilities' safety and reduce their effect on the environment.

Technological changes in the natural gas production and marketing segment, such as newer and more efficient technologies for converting natural gas into LNG through an onshore or offshore facility (FLNG), or into compressed natural gas (CNG) and into liquid (GTL) may facilitate more efficient transportation and commercialization of natural gas.

7.1.6. Critical success factors in the field of business

(a) Identification and receipt of exploration rights (purchase or farm-in) in areas presenting a potential for commercial finding.

(b) Financial abilities and ability to raise considerable financial resources.

(c) Use of advanced technologies, e.g., 3D seismic surveys and advanced information processing for the identification and preparation of prospects for drilling, for improvement of the evaluation of drilling results and for the formulation of a development plan.

(d) Joining forces with highly knowledgeable and experienced entities which operate in the sector for the purpose of performing complex development plans and/or drillings, while being assisted by the professional knowledge possessed thereby and the contribution thereof to the considerable financial investments.

(e) Success of the exploration activity.

(f) In the event of a natural gas find, engagement in agreements for the sale of gas in the appropriate quantities and for the appropriate prices.

(g) Existence of engineering, geological, financial and commercial knowledge, experience and ability to manage exploration, development and production projects at considerable financial scopes, including the construction of production and export infrastructures.

7.1.7. Barriers to entry and exit

The main barriers to entry to the field of business are the need for permits and licenses for the performance of oil and natural gas exploration, development and production, compliance with the requirements of law and regulation, including the directives and criteria determined by the Petroleum Commissioner (and, in Cyprus – directives and criteria prescribed by legislation and arrangements under the Production Sharing Contract, as described in Section 7.4.3(j) below), the ability to transfer and/or purchase interests in petroleum and natural gas assets, including as pertains to demonstration of the applicant's financial soundness and the operator's technical ability for the purpose of receipt thereof, and the existence of the financial and technical ability to make large-scale investments of billions of Dollars characterized by a relatively high level of risk, which are entailed by the performance of the exploration, development and production activities.

The significant barriers to exit in the field of business in Israel are mainly undertakings under long-term gas supply agreements in which the Partnership has engaged. In addition, both in Israel and in Cyprus, there is a duty to plug and abandon wells and to decommission production facilities before abandoning lease areas, as specified in the lease deeds, the production sharing contract in Cyprus and the provisions of the law regarding the abandonment of offshore oil and gas wells.

It is noted that, as concerns exit from existing projects by way of partial or full sale, there may be exit barriers that derive from the regulatory requirements that will apply to the purchaser, and from the substantial financial scale of such sale.

7.1.8. Substitutes for the products of the field of business

Natural gas is mainly used for electricity production and is sold in Israel and in the region mainly to electricity producers and industrial customers. In general, the alternatives to natural gas use are other fuels such as diesel oil, fuel oil, coal, LPG, LNG and petcoke, as well as energy from renewable sources, such as solar energy, wind energy and so forth, including renewable energy that may be produced in excess of market demand and stored in storage facilities for use when the energy source is unavailable (for example during night hours when it is not possible to produce energy from solar sources). Each of the aforesaid interchangeable fuels and the alternative energy production methods has advantages and disadvantages and they are subject to volatility of prices, availability, technical constraints, availability of land and more. The switch from using one type of energy to using another type of energy usually involves large investments. The principal advantages of the natural gas compared with coal and liquid fossil fuels, are the fact that the energy efficiency of power plants operated by natural gas is significantly higher than that of power plants operated by coal and fuel oil, and the fact that the emission of carbon dioxide, particles and nitrogen and sulfur oxides from the combustion of natural gas is significantly lower than that of coal and fuel oil. For details with respect to the resolutions of the Israeli government on the promotion of use of renewable energy and setting targets for reducing greenhouse gas emissions, see Sections 7.22.10(a) and 7.22.10(b) below, respectively.

7.1.9. Structure of competition in the field of business

For details, see Section 7.13 below.

Following are details regarding the Partnership's petroleum assets:

7.2. Leviathan project

7.2.1. General

General Details with respect to the Petroleum Asset	
Name of the petroleum assets:	Leviathan North. Leviathan South.
Location:	Offshore assets situated approx. 130-140 km west of the shores of Haifa.
Area:	The overall area of the two leases combined is approx. 500 km^2.
Type of petroleum asset and description of the activities permitted for such type:	Lease; Permitted activities under the Petroleum Law – exploration and production.
Original granting date of the petroleum asset:	March 27, 2014
Original expiration date of the petroleum asset:	February 13, 2044
Dates on which an extension of the term of the petroleum asset was decided:	-
Current expiration date of the petroleum asset:	February 13, 2044
Note on whether there is an additional option to extend the term of the petroleum asset; if such option exists – the optional extension term should be noted:	Subject to the Petroleum Law, it may be extended by another 20 years.
The name of the operator:	Chevron
The names of the direct partners in the petroleum asset and their direct share in the petroleum asset, and, to the best of the Partnership's knowledge, the names of the	▪ The Partnership (45.34%). ▪ Chevron (39.66%). ▪ Ratio Energies – Limited Partnership ("**Ratio**") (15%). To the best of the Partnership's

controlling shareholders of such partners:	knowledge, the general partner of Ratio, Ratio Oil Explorations Ltd., is a company co-owned by D.L.I.N. Ltd. ("**D.L.I.N.**") (34%), Hiram Landau Ltd. ("**Hiram**") (34%), Eitan Aizenberg Ltd. ("**Aizenberg**") (8.5%), Eyal Zafriri (4.3%), Edo Porat (1.4%), Asher Porat (1.4%), Daniel Soldin (1.4%) and Adv. Boaz Ben-Zur and Adv. Robi Behar in trust for Mr. Shlomi Shukrun (15%). D.L.I.N. is a private company owned by Yair Rotlevy (1/3) and Ligad Rotlevy (2/3). Hiram is a private company whose shares are held by the administrators of the estate of the late Yeshayahu Landau (Mr. Landau OBM left his shares in Hiram to his children Yigal Landau, Yuval Landau and Shlomit Landau, in equal shares). Aizenberg is a private company controlled by Eitan Aizenberg[22].
General Details with respect to the Partnership's Share in the Petroleum Asset	
For a holding in a purchased petroleum asset – the purchase date:	-
Description of the nature and manner of the Partnership's holding in the petroleum asset:	The Partnership directly holds 45.34% of each of the Leviathan Leases.
The actual share in the revenues from the petroleum asset attributable to the holders of the equity interests of the Partnership:	Before investment recovery – 37.63%. After investment recovery – 35.37%.
The total share of the holders of the equity interests of the Partnership in the aggregate investment in the petroleum asset during the five years preceding the last day of the year of the report (whether recognized as an expense or as an asset in the financial statements):	Approx. $2,163,321 thousand[23].

7.2.2. The principal terms and conditions of the Leviathan Leases

(a) The terms and conditions of the Leviathan North and Leviathan South leases are principally identical. The description presented below relates to the main subjects in the Leviathan South lease (in this Section: the "**Lease**"), and where there is a material difference in relation to the Leviathan North lease, it is stated.

(b) The Operator's actions will be binding on the lease holder and notices from the Petroleum Commissioner or anyone on his behalf to the Operator will be binding on the lease holder. Nothing in the provisions of this section shall derogate from the undertakings and liability of each of the

[22] To the best of the Partnership's knowledge, as of the report approval date, the rate of holdings of all of the interested parties in Ratio (apart from the holdings of institutional bodies, mutual funds and provident funds) is approx. 22.5%.

[23] The costs in the table do not include costs in respect of Leviathan's Participation (as defined in Section 7.24.4(b) below), the Combined Section (as specified in Sections 7.11.2(e)3.E, 7.11.2(e)3.F and 7.11.2(e)3.G below), the EMG transaction (as specified in Section 7.24.4 below), and the construction of the Israeli transmission system up to the border between Israel and Jordan (as specified in Section 7.10.3(c) below).

Leviathan Partners to act in accordance with the provisions of the lease and the provisions of any law, jointly and severally.

(c) The lease holder will only replace the Operator with approval in advance and in writing by the Petroleum Commissioner.

(d) Scope of the lease

1. The lease holder will have the exclusive right to explore and produce oil and natural gas in the lease area alone, throughout the entire term of the lease, as aforesaid, subject to the other provisions of the lease deed and to any law.

2. The lease holder, at its sole responsibility, will plan, finance, construct and operate the production system and will maintain it for the purpose of its ongoing operation, all through the Operator, contractors, planners and consultants who have a high level of knowledge and vast experience in their fields, in such manner so as to enable the reliable, regular, proper and safe supply of oil and natural gas from the Leviathan field.

(e) Term of the lease

If the term of the lease ends or if the lease is revoked under the provisions of the Petroleum Law, or by virtue of the regulations thereof, or under the provisions of the lease deed, the right of the lease holder to act by virtue of the lease deed will expire.

(f) Sale to consumers in Israel and export

1. The lease holder will not unreasonably refuse to supply oil and natural gas to consumers in Israel.

2. The export of natural gas from the lease will require written approval from the Petroleum Commissioner with the approval of the Minister of Energy (in this Section: the "**Export Approval**"). An Export Approval will be given in accordance with the government resolution on the export and subject to the conditions specified therein, and subject to any law; and provided that no export will be allowed in practice unless, following the execution of the development program, a quantity of 540 BCM will be available to the domestic market in accordance with the provisions of the government resolution.[24] Similarly, export will not be allowed in a manner that harms the lease holder's ability to supply and to pipe, from the Leviathan field to the national transmission system, an amount of at least 1.05 MCM of gas per hour (from the areas leased to Leviathan together).
Despite the aforementioned provisions, the Petroleum Commissioner may consider decreasing the amount that the lease holder is required to supply and pipe from the Leviathan field to the national transmission system as aforesaid, if there is, *inter alia*, another lease holder that will receive a lease following March 27, 2014, that will pipe

[24] For details regarding the government resolutions on export, see Section 7.22.9 below.

or is expected to pipe gas to the national transmission system, according to a reasonable timetable.

3. In case of a shortage of natural gas in Israel, the lease holder will give preference to the needs of the local economy, in relation to its supply capacity which is not subject to sale undertakings under a contract thereof, valid at the time. The quantity that will be supplied, as aforesaid, to the local economy will be considered part of the quantity designated for the local economy according to the foregoing government resolution, and will not diminish the quantity permitted for export according to the Export Approval, to the extent it is given.

(g) <u>Construction of facilities and adjustment of the capacity to the needs of the local economy</u>

1. The planning and set up of the production system and transmission system to the shore, in the framework of the development program, will be performed so as to allow the supply and piping of gas to the national transmission system in an amount of at least 1.4 MCM per hour (approx. 12 BCM per year) from the areas of the Leviathan Leases jointly.

2. The lease holder may, subject to receiving written approval from the Petroleum Commissioner and the Director General of the Natural Gas Authority, as applicable, increase the capacity of the production system and the transmission system to the supplier, and add facilities and wells, in a manner that will allow for the piping of quantities of gas exceeding those stated in Subsection (a) above to the national transmission system.

3. The Petroleum Commissioner may demand that the lease holder, if necessary due to special circumstances, adds facilities and wells, and another entrance point to the production system and transmission system, in a manner that allows for the safe, reliable, and effective piping of quantities of gas, that exceed those aforementioned, to consumers in Israel; the demand, as aforesaid, will be made only if special circumstances exist, and while weighing and balancing all the relevant considerations, amongst them considerations of economic merit, and if the Petroleum Commissioner finds that the addition has no economic merit for the lease holder, only upon finding a solution thereto. If the Petroleum Commissioner demands, as aforesaid, the lease holder will prepare an addition to the development plan and submit it for his approval within the period determined by the Petroleum Commissioner in his demand.

(h) <u>The commercial production</u>

1. Commercial production from the lease area will be conducted under the following principles:

   a. Production will be carried out with proper diligence, without waste, without creating a risk, and in a manner that does not constitute any harm to the features of the gas reservoir situated in the Leviathan field.

b. The production from each well will be performed in a manner so as not to exceed the maximum effective output; the Petroleum Commissioner may instruct the lease holder, from time to time, of the maximum output, taking into account the data from the gas reservoirs located on the Leviathan field, and the characteristics thereof.

c. The lease holder will maintain the quality of the gas piped by him to the national transmission system in accordance with the gas specification, as will be determined.

2. The lease holder will perform commercial production in accordance with the provisions of the authorized authorities and any law, and in accordance with the provisions of any license, permit, approval etc. required as such according to any law.

3. The lease holder will only commence commercial production and will only commence natural gas flow into the transmission system to the supplier, after the submission of an application for approval of the operation to the Petroleum Commissioner, and the approval of the application by him.

4. At the end of every year (at least 30 days prior to the end of the calendar year), the lease holder will submit to the Petroleum Commissioner a detailed work plan describing the work that he intends to perform in the following year with regards to the lease for the purpose of the production and compliance with the provisions of the lease deed, a projection of the costs for performing the activities in the aforementioned work plan, and a forecast of the production rate in the following year.

5. The lease holder shall notify the Petroleum Commissioner of the dates on which it intends to begin construction of additional facilities in order to fulfill the provisions of the lease deed.

(i) <u>The supervision companies</u>

The planning of the production system, the production of its components, its construction and operation will be carried out under the supervision of supervision companies with training and experience in supervising planning, production, construction or operation, as applicable, of maritime production systems, subject to the approval of the Petroleum Commissioner.

(j) <u>The development plan</u>

1. The lease holder will prepare and submit the development plan that it proposes for the Leviathan field to the Petroleum Commissioner for approval.

2. The lease holder will include in the development plan a detailed timetable for executing the development plan regarding the production system for the local economy, according to which the commercial production and the piping of gas to the transmission system will begin 48 months from the date of the provision of the lease deed.

3. The lease holder may submit to the Petroleum Commissioner a reasoned and detailed request to postpone or update the timetable determined in the development plan, as aforesaid. The Petroleum Commissioner will postpone or update the timetable, as requested or otherwise, as he sees fit under the circumstances, if convinced that the lease holder acted with appropriate diligence as required for keeping up with the timetable, and the delay in the timetable does not derive from an act or omission of the lease holder, or from an event the results of which the lease holder could, had he acted with the appropriate diligence, have prevented or limited or mitigated.

(k) Change of conditions in the lease deeds

If a layer is discovered on the area of the lease, from which crude oil can be produced in commercial quantities, the Petroleum Commissioner will add chapters to the lease deed that will include all that is necessary to adapt it to what is required for the production of crude oil, its processing and transmission; the lease holder will not produce oil from the leased territory, unless the aforesaid chapters are added, and in accordance with their provisions.

(l) Revocation or restriction of the lease

The lease will be terminated upon the end of the term of the lease, upon expiration thereof under Section 29 of the Petroleum Law, upon revocation thereof under Section 55 of the Petroleum Law, or upon the occurrence of either of the conditions specified below:

1. The lease holder shall have materially deviated from a material provision of the lease deed or from the instructions of the Petroleum Commissioner by virtue of the lease deed.

2. The guarantee (as detailed in Section 7.2.2(n) below) or a part thereof shall have been forfeited and the lease holder shall not have supplemented the amount of the guarantee as required under the provisions of the lease deed.

(m) Decommissioning plan

1. No later than the date on which the balance of the reserves (2P) in the Leviathan field, according to the updated and latest resource assessment report will be reduced to less than 125 BCM, the lease holder will submit a detailed plan for the decommissioning of the facilities, and an estimate of the decommissioning costs (the "**Decommissioning Plan**") to the Petroleum Commissioner for approval. If the lease holder does not submit the foregoing

Decommissioning Plan on time, or the Petroleum Commissioner finds that the Decommissioning Plan that was submitted is not suitable for approval, and the parties did not succeed in agreeing on a Decommissioning Plan, the Petroleum Commissioner will determine the Decommissioning Plan in accordance with the accepted international standards.

2. On the date of approval of the Decommissioning Plan by the Petroleum Commissioner, the Petroleum Commissioner will determine a plan for the lease holder according to which the lease holder will provide collateral or a deposit into an "abandonment fund", on the dates, in the format and according to the accrual method, as instructed by the Petroleum Commissioner, with the aim of ensuring that the lease holder will have the means required for executing the Decommissioning Plan.

3. The lease holder will provide notice of his intention to abandon a well, to the Petroleum Commissioner, at least 3 months prior to the date on which he requests to perform the act, and it will not be executed until after receiving written approval from the Petroleum Commissioner.

(n) Guarantees[25]

1. For the purpose of ensuring compliance with the provisions of the lease deed and any approval provided by the Petroleum Commissioner according to the lease deed (in this Section: "**Letters of Approval**"), for ensuring the payments from the lease holders to the State according to any law, and as a condition for the provision of a lease deed, the lease holder will provide an autonomous, unconditional and irrevocable bank guarantee in favor of the State of Israel in the amount of $50 million for each of the Leviathan Leases (and in total $100 million, while the Partnership's share is approx. $45 million) in accordance with timetables determined in advance (in this section: the "**Guarantee**"). As of the report approval date, each one of the holders of the Leviathan Leases has provided its share in the said Guarantee.

2. The Guarantee will be valid throughout the lease period and will continue to remain valid also following the expiration of the lease so long as the Petroleum Commissioner shall not have given notice that there is no need therefor, and subject to the provisions of the Petroleum Law.

3. The Guarantee will serve to ensure compliance with the provisions of the lease deed and the Letters of Approval by the lease holder, to ensure payments due according to any law by the lease holder to the State for compensation and indemnification of the State and any authority thereof, for any damage, payment, loss, or expense incurred thereby, directly or indirectly, following non-compliance with the provisions of the lease deed or Letters of Approval, on time and in full,

[25] Such a guarantee will be provided for each of the Leviathan Leases separately, but each one of them will be used for both leases, as aforesaid.

or following the revocation of a condition in the lease, its limitation or its suspension or following any action or omission of the lease holder in connection with the lease and the compliance with the conditions of the lease deed, and ensuring the payment of pecuniary sanctions if imposed on the lease holder according to any law.

4. The Petroleum Commissioner may forfeit the Guarantee, in full or part, in any of the cases detailed below:

   a. The lease holder did not carry out the development plan approved by the Petroleum Commissioner and according to the conditions determined in the approval, or did not set up the production system facilities, or did not begin the commercial production or the piping to the transmission system to the supplier on the dates determined therefor according to the lease deed or Letters of Approval.

   b. A safety or environmental malfunction occurred as a result of the lease holder's operations, and the lease holder did not repair the malfunction or its results according to the instructions of the Petroleum Commissioner and any law.

   c. With regards to the Leviathan North lease alone – the lease holder violated a term set by the Petroleum Commissioner in connection with the abandonment of the "Leviathan 2" well or did not execute in the optimal manner, the Abandonment Plan related to the foregoing well.

   d. The lease holder did not execute the abandonment in accordance with the Decommissioning Plan.

   e. A claim or demand is filed against the State for payment of compensation for damage caused due to a violation of any condition of the lease deed or the Letters of Approval, due to the deficient performance of the provisions of the lease deed or the Letters of Approval, or due to the revocation of the lease deed, and also if the State incurs expenses as a result of such claim or demand. Forfeiture of the Guarantee for the purpose of covering the amount of such claim will only be made after a judgment on such claim (including an arbitrator's award) becomes final and conclusive, and according to amounts ruled against the State in such judgment (and in the event of a settlement – subject to approval thereof by the lease holder, which approval shall not be unreasonably withheld) and subject to the lease holder being given the opportunity to join as a party to the proceeding;

   f. The State incurs expenses or damage as a result of the revocation of the lease;

   g. The lease holder did not perform the tests required according to the lease deed, did not submit reports and documents as required according to the lease deed.

h. The lease holder did not comply with one of the provisions relating to insurance as determined in the lease deed or imposed on him according to any law.

i. The lease holder violated instructions given to him by a representation of the IDF on any security matter related to the production system.

j. The lease holder did not comply with the provisions in the lease deed relating to the Guarantee.

k. The lease holder materially breached another condition in the lease deed or the Letters of Approval or the instructions given him by the Commissioner according thereto.

5. If the Petroleum Commissioner finds that *prima facie* grounds are established for forfeiture, the Petroleum Commissioner shall give the lease holder notice thereof and enable him to respond in relation to the prima facie grounds and the possibility of forfeiture, within 7 days of receiving the cease-and-desist letter, unless under the circumstances waiting is not possible; If the Petroleum Commissioner decided, after weighing the lease holders response, if any, that there is room for forfeiture, a notice will be sent to the lease holder detailing the breach, the explanations for the forfeiture, and the amount of the forfeiture. The Petroleum Commissioner may contact the bank and demand the forfeiture commencing from the end of the 7 days from the day the notice was delivered, unless prior to that, the lease holder paid the amount determined in the notice.

6. Notwithstanding the provisions in Subsection (e) above, if the prima facie grounds for forfeiture is an act or omission that may be remedied, the Petroleum Commissioner may notify the lease holder that his request to the bank will be made if within a determined period the lease holder does not remedy the act or omission, and the stated period will pass without the lease holder remedying the act or omission to the satisfaction of the Petroleum Commissioner.

7. If the Guarantee or any part thereof is forfeited, the lease holder will provide a new guarantee, or supplement the balance thereof up to the amount of the Guarantee, as it is intended to be at such time, immediately upon receipt of the Petroleum Commissioner's demand.

8. Neither the authority to forfeit nor the forfeiture derogates from the State's right to claim from the lease holder payment of damage which it owes according to the lease deed, or the right of the State or the Director General of the Natural Gas Authority to claim any remedy or other relief according to any law or the lease deed.

(o) The lease deeds include additional provisions, including on the following subjects: security arrangements, conditions for operation of the facilities and dealing with malfunctions, tests, reporting and supervision; provision of services to other lease holders, provisions relating to environment protection, safety; limitations on the transfer or pledge on the lease deed and assets of the production system; liability, indemnification and insurance.

7.2.3. Compliance with the conditions of the work plan in the Leviathan project

Over and above the terms and conditions of Leviathan's lease deeds as specified in Section 7.2.2 above, no binding work plan in the Leviathan project was determined.

7.2.4. Actual and planned work plan for the Leviathan project

Below is a concise description of the main activities actually carried out in the Leviathan project between January 1, 2019 and the report approval date, as well as a concise description of planned activities in the aforesaid project:

Leviathan Leases			
Period	Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan	Total Estimated Budget for Activity at the Petroleum Asset Level (Dollars in thousands)[26]	Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Partnership (Dollars in thousands)
2019[27]	• Completion of Phase 1A for the development of the Leviathan reservoir and commencement of gas piping therefrom. • Completion of the project for the reprocessing of seismic surveys and commencement of the work of interpretation of the results, *inter alia*, in relation to a deep-target exploration well in the Leviathan Leases. • Examination of various alternatives for the export of natural gas through a subsea pipeline and/or liquefaction, including an FLNG, *inter alia*, through an engagement for the receipt of engineering services for the performance of FEED and technical design. • Performance of monitoring activities in the area of the Leviathan 2 well, with the aim of ensuring the continued rehabilitation of the environment. • Continued update of the geological model and flow model, *inter alia* according to the well data.	Approx. 1,020,169 Approx. 2,093 Approx. 1,341 Approx. 220	Approx. 462,545 Approx. 949 Approx. 608 Approx. 98
2020[28]	• Costs in connection with completion of Phase 1A of the development of the Leviathan reservoir, including promotion of the running-in of the systems on	Approx. 94,872	Approx. 43,015

[26] The amounts for 2019-2021 are amounts actually expended and audited in the framework of the financial statements.
[27] The costs specified in 2019 do not include abandonment costs attributed to the asset on the books, G&A and insurance costs, costs in respect of construction of the Israeli transmission system up to the Israel-Jordan border (as specified in Section 7.11.2(c) below), costs in respect of Leviathan's Participation (as defined in Section 7.24.4(b) below) and costs in relation to the EMG transaction.
[28] The costs, budgets and operations specified in 2020 forth do not include costs and budgets for the adding of the Additional Compressor (as defined in Section 7.11.2(e) below) in the sum of approx. $39.9 million (100%, the Partnership's share approx. $27.6 million), the construction of the Combined Section (as defined in Section 7.11.2(e) below) in the sum of approx. $140 million (100%, the Partnership's share approx. $43.8 million), and the flow of gas to Egypt via Jordan (as specified in Section 7.11.2(e)5 below), as well as costs of abandonment of the reservoir and the G&A and insurance costs.

	the platform (including the turbo expanders) and completion of construction of the onshore condensate system, including completion of the Hagit site. • Continued production from the Leviathan reservoir, ongoing operation and maintenance. • Examination of various alternatives for natural gas export via a subsea pipeline and/or liquefaction (including an FLNG), *inter alia* through an engagement for receipt of engineering services for the performance of FEED and technical design.	Approx. 2,052	Approx. 930
	• Performance of monitoring activities in the vicinity of the Leviathan 2 well, with the aim of ensuring the continued rehabilitation of the environment.	Approx. 15	Approx. 7
	• Continued update of the geological model and the flow model, *inter alia* according to the production data and well data, and planning and preparations for drilling wells and additional completions, insofar as required. • Promotion of formulation of a deep target prospect in the Leviathan Leases and examination of the advisability of conducting an additional seismic survey for the purpose of improving the existing data, in order to substantiate the making of a decision on an exploration drilling to the new targets.	Approx. 99	Approx. 45
2021[29]	• Continued production from the Leviathan reservoir, ongoing operation and maintenance, including changes and upgrades for optimization of the production. • Costs in connection with the completion of Phase 1A of the development of the Leviathan reservoir, including acts related to Asset Integrity and the production and safety systems. In addition, the activation of the on-shore	Approx. 35,546	Approx. 16,117

[29] See Footnote 28 above.

	condensate system, including the activation of the Hagit site in full.	Approx. 19,092	Approx. 8,656
	• Planning and preliminary procurement of equipment for the "Leviathan-8" drilling in the I/14 Leviathan South lease area ("**Leviathan-8**")[30].	Approx. 6,480	Approx. 2,938
	• Planning maintenance work and improvements in the subsea electrical and control systems. • Formulation of a deep target prospect in the Leviathan Leases. The Partnership is exploring the possibility of bringing in a strategic partner with relevant experience and knowledge in specification, drilling and development of the exploration targets identified in the area of the lease (and specifically a carbonate buildup target).	Approx. 69	Approx. 31
	• Continued update of the geological model and the flow model, *inter alia* according to the production data and well data, and planning and preparations for drilling wells and additional completions, insofar as required.	Approx. 8,072	Approx. 3,660
	• (a) Examination of the development of Phase 1B for the development of the Leviathan reservoir and/or additional development alternatives, insofar as required; (b) Examination of additional alternatives for the transmission of condensate, as part of the preparation for Phase 1B for the development of the Leviathan reservoir; and (c) Formulation of an alternative for the export of natural gas via a subsea pipeline and/or liquefaction (including via an FLNG), *inter alia* through an engagement for receipt of engineering services for the performance of FEED and detailed technical design.	Approx. 142	Approx. 64
	• Performance of monitoring activities in the vicinity of the		

[30] On July 12, 2021, the Leviathan Partners adopted a resolution regarding the drilling development and production of Leviathan-8 on the area of lease I/15 Leviathan North. The budget is approx. $248 million (100%, including completion and connection to the Leviathan reservoir production system). The aforesaid drilling is scheduled to commence during Q2/2022.

	Leviathan 2 well, with the aim of ensuring the continued rehabilitation of the environment.		
2022[31]	• Continued production from the Leviathan reservoir, ongoing operation and maintenance. • Performance of surveys, tests and actions to maintain the integrity of production systems on the platform and subsea systems (Asset Integrity). • Continued improvement of the systems and production processes, *inter alia*, by the performance of the necessary actions to reduce the pressure drops in the process, as well as improvement of the monitoring and detection systems in environmental and safety aspects, in accordance with operational and regulatory requirements; • Performance of maintenance work and improvements in the subsea electrical and control systems • Performance of drilling, development and production "Leviathan 8" • Examination of the possibility of characterization, drilling and development of the deep exploration targets identified in the area of the lease (and specifically a carbonate buildup target). • Continued update of the geological model and the flow model, *inter alia* according to the production data and well data, and planning and preparations for drilling wells and additional completions, insofar as required. • Performance of monitoring activities in the vicinity of the Leviathan 2 well, with the aim of ensuring the continued rehabilitation of the environment. • Continued examination of development of Phase 1B for the	Approx. 25,940 Approx. 21,540 Approx. 201,250 Approx. 34,500	Approx. 11,761 Approx. 9,766 Approx. 91,245 Approx. 15,642

[31] See Footnote 28 above.

	development of the Leviathan reservoir and/or other development alternatives, insofar as required, including an alternative to exporting natural gas through subsea pipeline and/or liquefaction (including FLNG), *inter alia*, through preparation for performance of FEED, detailed technical design, and preparations for performance. • Continued development of additional alternatives for the transmission of condensate as part of the preparation for Phase 1B, preparation for the performance of FEED, detailed technical design, preparation for procurement and performance.	Approx. 21,565	Approx. 9,778
2023 forth[32]	• Continued production from the Leviathan reservoir, ongoing operation and maintenance. • Performance of surveys, tests and actions to maintain the integrity of production systems on the platform and subsea systems (Asset Integrity). • Continued improvement of the systems and production processes, *inter alia*, by the performance of the necessary actions to reduce the pressure drops in the process, as well as improvement of the monitoring and detection systems in environmental and safety aspects, in accordance with operational and regulatory requirements; • Continued performance of maintenance work and improvements in the subsea electrical and control systems • Completion of drilling Leviathan-8 and its connection to the existing production system. • Examination of the possibility of characterization, drilling and development of the deep	Approx. 9,160[33] Approx. 27,660 Approx. 1,800[34]	Approx. 4,150 Approx. 12,540 Approx. 815

[32] See Footnote 28 above.
[33] This budget has not yet been approved by the Leviathan Partners.
[34] This budget has not yet been approved by the Leviathan Partners.

	exploration targets identified in the area of the lease (and specifically a carbonate buildup target). • Continued examination of development of Phase 1B for the development and implementation of the Leviathan reservoir (insofar as a FID will be made) and/or examination of other development alternatives, insofar as required. • Continued promotion of the alternative for the export of natural gas via a subsea pipeline and/or liquefaction (including an FLNG), *inter alia* through continued detailed technical design and construction of the facilities. • Completion of the development of the alternative for the flow of condensate as part of the preparation for Phase 1B for the development of the Leviathan reservoir and operation thereof.	Approx. 47,925[35]	Approx. 21,730

7.2.5. Plan for development of the Leviathan reservoir

(a) On June 2, 2016, the Leviathan field development plan was approved by the Petroleum Commissioner. In the approval letter, the Petroleum Commissioner stated that according to the opinion of an international company that had been provided to his office, the total estimated recoverable quantity of natural gas, based on the submitted development plan, is approx. 17.6 TCF. The Petroleum Commissioner further noted that upon receipt of additional data regarding the reservoir, and data that shall be received during the production from the field, the recoverable quantity will be revised, *inter alia*, for the purpose of export permit calculations, insofar as required. It is noted that the Operator of the Leviathan project has transferred and transfers to the Petroleum Commissioner a full database, which is updated from time to time, which includes, *inter alia*, data of the Leviathan wells, the results of the reprocessing of seismic surveys, products of mapping and analysis of the scope of the reservoir based on the seismic inversion method, models of the reservoir and production data. It is further noted that the resource evaluation in the said opinion materially differs from the resource evaluation of the Operator and the resource evaluation provided to the Leviathan Partners by NSAI. As of the report approval date, the Partnership, together with the other Leviathan Partners, is continuing to hold discussions with the Ministry of Energy with respect to the possibility of updating the evaluation of the resources in the Leviathan reservoir. Nevertheless, it is emphasized that export licenses have been granted for the quantities in the current export agreements. In addition, in the Partnership's estimation, and given the

[35] This budget has not yet been approved by the Leviathan Partners.

Government's policy with respect to natural gas export, the quantity recoverable according to the Petroleum Commissioner is also sufficient for implementation of the Leviathan project Development Plan as specified in this section below.

(b) On February 23, 2017, the Leviathan Partners adopted a final investment decision (FID) for the development of Phase 1A of the Development Plan for the Leviathan reservoir, at a capacity of approx. 12 BCM per year, with a budget of approx. $3.75 billion (100%). During the development period, the Phase 1A development budget of the Leviathan Development Plan, as estimated when approved, decreased by approx. $217 million in total (100%). Total cost invested in the development of Phase 1A of the Leviathan Development Plan, as of December 31, 2021, is approx. $3.7 billion (100%). After a preliminary running-in period, on December 31, 2019, the piping of natural gas from the Leviathan reservoir commenced. On January 1, 2020 the sale of natural gas from the Leviathan reservoir to Jordan commenced under the NEPCO agreement (as specified in Section 7.10.3(c)1 below). On January 15, 2020, the piping of natural gas from the Leviathan reservoir to Egypt commenced under the agreement with Blue Ocean (as specified in Section 7.10.3(d) below).

(c) The plan for full development of Leviathan reservoir (Phase 1A and Phase 1B) includes the supply of natural gas to the domestic market and for export of a total volume of 21 BCM per year, and the supply of condensate to the domestic market (in this section: the "**Development Plan**" or the "**Plan**"), the main provisions of which are as follows:

1. A production system that includes 8 first wells that will be connected by a subsea pipeline to a permanent platform (in this section: the "**Platform**"), which is located in the territorial waters of Israel in accordance with the provisions of NOP 37/H and on which all gas and condensate treatment systems will be installed. Gas will flow from the Platform to the northern onshore entry point of the national transmission system of INGL as defined in NOP 37/H (the "**INGL Connection Point**"). Condensate will be piped to the shore via a separate pipeline parallel to the gas pipeline, and connected to an existing fuel pipeline of Europe Asia Pipeline Co. ("**EAPC**") that leads to the tank farm of Energy Infrastructure Ltd. ("**PEI**") and from there to the Oil Refineries Ltd. ("**ORL**"). Furthermore, a site will be constructed for storage and unloading of condensate, for the purpose of providing backup in the event that piping condensate to ORL is impossible[36]. For further details regarding the approval of NOP 37/H and the provisions thereof as aforesaid, see Section 7.22.11 below and for details with respect to the production system of the Leviathan project, see Section 7.15.1 below.

2. The Development Plan is implemented in two phases, according to the maturity of the relevant markets, as specified below:

[36] In the context of the laying of the pipeline to the Hagit site, the Partnership provided a guarantee in the sum of approx. ILS 2.3 million in favor of the Israel Land Authority (ILA).

a. Phase 1A – the current stage, in which 4 subsea production wells, a subsea production system was established, that connects the production wells to the Platform, and a system for transmission to the shore was established and related onshore facilities. At this point, the gas production capacity is at approx. 12 BCM per year. As aforesaid, on December 31, 2019, natural gas and condensate piping in the context of the development of Phase 1A has commenced.

b. Phase 1B – expected to include, at first, 4 additional production wells, related subsea systems and expansion of the Platform's processing facilities to increase the system's total gas production capacity by approx. 9 additional BCM per year (to a total of approx. 21 BCM per year). It is noted that as of the report approval date, the Leviathan Partners have not yet adopted a final investment decision (FID) for the development of Phase 1B.

(d) It is noted that additional production wells will be required during the life of the project to enable production of the required volume. Accordingly, on July 12, 2021, the Leviathan partners adopted a resolution regarding the development and production of Leviathan-8 well in the area of lease I/14 Leviathan South, with a total budget of approx. $248 million (100%, including completion and connection to the existing production system of the Leviathan reservoir). The aforesaid drilling is expected to commence during Q2/2022.

(e) As of the report approval date, and in accordance with the Development Plan, the gas supply capacity from the Leviathan project to INGL's transmission system is approx. 1.2 BCF per day at maximum production.

(f) As of the report approval date, the Leviathan partners are considering promoting various possibilities for the development of Phase 1B of the Leviathan reservoir and increase of the production rate to a volume of approx. 21 BCM per year, in order to make a final investment decision (FID). Development possibilities may include development and expansion of natural gas flow infrastructures from the Leviathan reservoir to additional consumers in the target markets, primarily to the Egyptian market, supply to existing liquefaction facilities in Egypt, and promotion of the possibility of liquefying natural gas through a floating liquefaction facility (FLNG) for its marketing to the global markets. For the purpose of examining the various expansion alternatives, the Leviathan partners approved a budget for the early stages of engineering design (FEED), as specified in Section 7.2.4 above.

Caution concerning forward-looking information – The above estimates in relation to the expected production capacity of the Leviathan reservoir, the amount of the budget and the timetables for additional development phases of the Leviathan reservoir, including with respect to the Leviathan-8 well and the drilling budget and receipt of the approvals for its performance based on assessments and estimates received, *inter alia*, from the Operator, constitute forward-looking information within the meaning thereof in Section 32A of the Securities Law. Such information is based on assessments and estimates by the Partnership and the Operator

in the Leviathan reservoir, based on a range of factors, including the Development Plan and the timetables for implementation thereof, receipt of regulatory approvals, estimated data of availability of equipment, services and costs, past experience and geological, geophysical, technical-engineering and other information accumulated, *inter alia*, from the scope of production from the Leviathan reservoir and from the seismic survey conducted in the area of the Leviathan leases. The estimates in this report may not materialize or may materialize in a materially different manner if changes and/or delays occur in the range of factors as specified above, and if the estimates and assessments received change, *inter alia*, as a result of geological conditions and/or operational and technical conditions and/or regulatory changes the market conditions change and/or due to a gamut of regulatory and/or geopolitical changes and/or due to operating and technical conditions in the Leviathan reservoir and/or due to unexpected factors relating to the exploration, production and marketing of oil and natural gas and/or as a result of the progress of development of the Leviathan reservoir until completion thereof.

7.2.6. The actual participation rate in the expenses and revenues under the Leviathan Leases

Participation Rate	Percentage Pre Investment-Recovery	Percentage Post Investment-Recovery	Rate grossed-up to 100% Pre Investment-Recovery	Rate grossed-up to 100% Post Investment-Recovery	Explanations
The rate actually attributed to the holders of the equity interests of the Partnership in the petroleum asset	45.34%	45.34%	100%	100%	See description of chain of holdings in Section 7.2.1 above.
The rate actually attributed to the holders of the equity interests of the Partnership in the **revenues** from the petroleum asset	37.63%	35.37%	83.00%	78.00%	See calculation in Section 7.2.7 below.
The actual participation rate of the holders of the equity interests of the Partnership in the **expenses** involved in the exploration, development and production activity at the petroleum asset.	45.79%-47.15%	45.79%-47.15%	101%-104%	101%-104%	See calculation in Section 7.2.8 below.

7.2.7. Participation rate of the holders of the equity interests of the Partnership in the revenues from the Leviathan Leases

Item	Percentage Pre Investment-Recovery	Percentage Post Investment-Recovery	Concise Explanation as to How Royalties or Payments are Calculated
Projected annual revenues of petroleum asset	100%	100%	
Specification of the royalties or payment (deriving from revenues post-finding) at the petroleum asset level:			
The State	(12.50%)	(12.50%)	As prescribed by the Petroleum Law, royalties are calculated according to market value at the wellhead. The actual royalty rate may be lower, as a result of the deduction of expenses in respect of the systems of gas processing and transmission up to the onshore gas delivery point. For further details, including with respect to the publication of directives on the method of calculation of the royalty value at the wellhead with respect to offshore petroleum interests, see Section 7.23.4(b) below.
Adjusted revenues at the petroleum asset level	87.5%	87.5%	
Share in the adjusted revenues deriving from the petroleum asset attributable to the holders of the equity interests of the Partnership (indirect holdings)	45.34%	45.34%	
Total rate of the holders of the equity interests of the Partnership in the actual amount of revenues, at the petroleum asset level (and before other payments at the Partnership level)	39.67%	39.67%	
Specification of royalties or payments (deriving from revenues post-finding) in connection with the petroleum asset at the Partnership level (the following percentage will be calculated according to the rate of the holders of the equity interests of the Partnership in the petroleum asset)			
The rate of the holders of the equity interests of the	(2.04%)	(4.30%)	Overriding royalty in respect of the Partnership's share at a 4.5% rate Pre Investment-Recovery and at a 9.5% rate Post

Partnership in payment to related and third parties			Investment-Recovery calculated according to market value at the wellhead[37]. The said rate was calculated according to the principles under which the State's royalties in respect of the project are calculated, and therefore such rate may change, insofar as the method of calculation of the State's royalties changes. For further details with respect to the method of calculation of the royalty rate, see Section 7.24.7 below.
Actual rate in revenues from the petroleum asset attributable to the holders of the equity interests of the Partnership	37.63%	35.37%	

7.2.8. Participation rate of the holders of the equity interests of the Partnership in the exploration, development and production expenses in the Leviathan Leases

Item	**Percentage**	**Summary explanation of how the royalties or payments are calculated**
Theoretical expenses within the framework of a petroleum asset (without the said royalties)	100%	
Specification of the payments (derived from the expenses) at the petroleum asset level:		
The Operator	1%-4%	Including a rate of 1% for the indirect expenses of the Operator out of the total direct expenses in relation to development and production activities, subject to certain exclusions, such as marketing activity. A rate of 1%-4% for exploration expenses, with the rate of payment to the Operator decreasing upon an increase in the exploration expenses. Such sums are for payment of the Operator's indirect expenses and are in addition to the reimbursement of direct expenses paid thereto.
Total actual expense rate on the petroleum asset level	101%	
The share of the holders of equity interests of the Partnership in the petroleum asset expenses (indirect holdings)	45.34%	
Total actual share of the holders of	45.79%-	

[37] The parties entitled to royalties are a wholly-owned subsidiary of Delek Energy and others which are not related parties.

the equity interests of the Partnership, in the expenses, on the petroleum asset level (and prior to other payments on the Partnership level)	47.15%	
Specification of payments (derived from the expenses) in respect of the petroleum asset and at the Partnership level (the following percentage will be calculated according to the share of the holders of the equity interests of the Partnership in the petroleum asset):		
The rate actually attributed to the holders of the equity interests of the Partnership in expenses involved in the exploration, development and production activity at the petroleum asset.	45.79%-47.15%	With respect to management fee arrangement between the General Partner and the Partnership, see Regulation 21(b)(7) of Chapter D of this report. Such amounts were not taken into account in this table.

7.2.9. Fees and payments paid during exploration activity at the petroleum asset (in Dollars in thousands)

Item	Total share of the holders of the equity interests of the Partnership in the investment in the petroleum asset in this period (including costs for which no payments are made to the Operator)	Out of which, the share of the holders of the equity interests of the Partnership in payments to the General Partner	Out of which, the share of the holders of the equity interests of the Partnership in payments to the Operator (in addition to the reimbursement of its direct expenses)
Budget actually invested in 2019	Approx. 567,259	-	Approx. 4,597
Budget actually invested in 2020	Approx. 101,468	-	Approx. 964
Budget actually invested in 2021	Approx. 114,614	-	Approx. 867

7.2.10. Reserves, con

7.2.10 Contingent resources and prospective resources in the Leviathan Leases

(a) For details regarding reserves and contingent resources in the area of the Leviathan Leases and the discounted cash flow that derives from the reserves and from part of the contingent resources in the Leviathan Leases as of December 31, 2021, see the Partnership's immediate report of February 20, 2022 (Ref. no.: 2022-01-020062), the information appearing in which is hereby included by way of reference. As of the report approval date, no change has occurred in the said details. Attached hereto as **Annex A** is NSAI's consent to the inclusion of the said report herein by way of reference, and a letter of lack of material changes from NSAI in the Leviathan Leases.

(b) For details regarding prospective resources in the area of the Leviathan Leases as of December 31, 2019, see Section 7.2.10 of the Partnership's 2019 periodic report (the "**2019 Periodic Report**"), as released on March 30, 2020 (Ref. no.: 2020-01-032010), the information appearing therein is hereby included by reference. As of December 31, 2021, no change has occurred in the said details. Attached hereto as **Annex A** is NSAI's consent to the inclusion of the said report herein, including by way of reference, and a letter of lack of material changes from NSAI in the Leviathan Leases.

Caution concerning forward-looking information – The Partnership's aforesaid estimations with respect to the planned activities, costs, timetables and actual performance of the planned activities, including the possible expansion of the supply capacity and production rates of the Leviathan Project, constitute forward-looking information within the meaning thereof in Section 32A of the Securities Law, which is based on the estimations of the Partnership with respect to the planned activities, costs, timetables and actual performance of the planned activities and the production rates, which are all based on estimations that the Partnership received from the Operator. In actuality, the planned activities, costs, timetables and production rates may materially differ from the aforesaid estimations and are contingent, *inter alia*, on adoption of the fitting decisions by the Leviathan Partners, receipt of the approvals required pursuant to any law, completion of the detailed planning of the components of the activities, receipt of proposals from contractors, changes in the global raw materials and suppliers market , in the applicable regulation, in technical abilities and in economic merit.

7.3 Interests in Cyprus

7.3.1 Background

On February 11, 2013 the authorities in Cyprus approved transfer to the Partnership of 30% of the rights of Chevron Cyprus in a production sharing contract dated October 24, 2008 (the "**Production Sharing Contract**" or the "**PSC**") conferring gas and/or oil exploration, evaluation, development and production rights in the EEZ of the Republic of Cyprus in an area known as Block 12 ("**Block 12**") and in an exploration license according to the PSC (in this Section, the "**Exploration License**").

On November 7, 2019, the right holders in the Production Sharing Contract and the Government of Cyprus signed an amendment to the Production Sharing Contract (the "**Amendment to the Production Sharing Contract**") and, at the same time, the right holders were given a production and exploitation license (in Section 7.3: the "**License**" or the "**Production License**" or the "**Block 12 License**"), and a production and development plan for the reservoir was approved (in Section 7.3: the "**Development Plan**"), as described in Section 7.3.11 below. The Production Sharing Contract and the Amendment to the

Production Sharing Contract shall hereinafter be referred to jointly as the: "**Production Sharing Contract**".

7.3.2 General details regarding Block 12

General details about the petroleum asset	
Name of Petroleum Asset:	Block 12.
Location:	An offshore area at the EEZ of Cyprus, located approx. 35 km north-west of the Leviathan reservoir[38].
Area	Approx. 386 square km.
Type of petroleum asset and description of actions permitted according to this type:	Exploitation license granted subject to the Production Sharing Contract.
Original grant date of the petroleum asset:	November 7, 2019
Original expiration date of the petroleum asset:	November 7, 2044
Dates on which an extension of the petroleum asset period was decided:	-
Current date for expiration of the petroleum asset:	November 7, 2044 (25 years from the date on which the license was granted).
Statement whether there is another option for the extension of the petroleum asset period; if such an option exists – please state the possible extension period:	Extendable by 10 more years.
Statement of Operator's Name:	Chevron Cyprus
Statement of the names of the direct partners in the petroleum asset, and their direct share in the petroleum asset, and, to the best of the Partnership's knowledge, the names of the controlling shareholders in the said partners:	▪ Chevron Cyprus (35%) ▪ BG Cyprus (35%). To the best of the Partnership's knowledge, BG Cyprus is a subsidiary (indirect holdings) of Royal Dutch Shell Plc. ("**Shell**"), an energy company engaged in all fields of activity of

[38] It is noted that the vast majority of the Aphrodite reservoir is in the area of the EEZ of Cyprus, and several percent in the area of the 370/Yishai license (the "**Yishai License**"), which is in the area of the EEZ of Israel. It is further noted that the partners in the Aphrodite reservoir were contacted by both the partners in the Yishai License and the Ministry of Energy with respect to the need to regulate the parties' rights as aforesaid prior to the adoption of a decision on the development of the Aphrodite reservoir. The position of the partners in the Aphrodite reservoir is that the matter is within the governments' authority and that they will act in accordance with such mechanism for regulation of the parties' rights as shall be determined by the governments and in accordance with international law. Moreover, further to contacts which took place between the governments of Israel and Cyprus to regulate the parties' rights in the Aphrodite reservoir, on March 9, 2021, the aforesaid governments signed a Memorandum of Understanding which gives the instruction to the partners in the Aphrodite reservoir and the holders of the rights in the Yishai License, to conduct direct negotiations to regulate the issue of the overflow of the Aphrodite reservoir, which includes principles and timetables for conducting the negotiations. On February 6 ,2022, the Minister of Energy of the State of Israel notified the partners in the Aphrodite reservoir and the companies holding the Yishai License, that if no profit distribution agreement is signed by March 4, 2022, negotiations on this matter will be transferred to the management of the governments of Israel and Cyprus. As of the report approval date, the date for signing the said agreement has passed without the parties reaching agreements.

	the gas and oil industry, which is active in more than 70 countries worldwide[39]. ▪ The Partnership (30%).

General details regarding the Partnership's share in the petroleum asset	
For a holding in a purchased petroleum asset – the purchase date:	January 22, 2009. On February 11, 2013, the approval of the authorities in Cyprus was granted for the transfer of the rights in the Production Sharing Agreement and in the exploration license to the Partnership.
Description of the nature and manner of holding of the petroleum asset by the Partnership:	The Partnership holds directly 30% of the license.
Statement of the actual share attributed to the holders of the equity interests of the Partnership in the revenues from the petroleum asset:	For details see Section 7.3.8 below.
The total share of the holders of the equity interests of the Partnership in the aggregate investment in the petroleum asset during the five years preceding the last day of the report year (whether recognized as an expense or as an asset in the financial statements):	Approx. $11,925 thousand.

7.3.3 Following are further details regarding the license in Block 12 and the Production Sharing Contract

(a) As part of the Production Sharing Contract, the partners undertook, *inter alia*, to comply with the key milestones for promotion of the reservoir's development, as follows:

1. Drilling a development/appraisal well in the area of the License in accordance with the Development Plan and completion thereof within 24 months of the date of receipt of the Production License, i.e., by November 2021. On October 13, 2021, approval was received from the government of Cyprus regarding the extension of the partners' commitment to perform the drilling by an additional 12 months, i.e., until November 2022.

2. Completion of the Front-End Engineering Design ("**FEED**"), transfer of the deliverables according to the Development Plan and adoption of a final investment decision (FID) for development of the reservoir within 48 months of the day of receipt of the Production License (i.e., by November 2023).

   The Production Sharing Contract determines certain conditions upon whose fulfillment the partners in the License shall be entitled to

[39] Further details about Shell are available on the website: https://www.shell.com/about-us/who-we-are.html.

receive an extension for the purpose of compliance with the aforesaid milestones, with the last date for the adoption of a final investment decision (FID) being the expiration of 6 years from the day of receipt of the Production License. It is noted that failure to comply with the milestones defined in the Production Sharing Contract is a cause for revocation of the PSC, unless resulting from a "*force majeure*" (as defined in the Production Sharing Contract).

(b) It is noted that additional changes and revisions were made as part of the Amendment to the Production Sharing Contract, *inter alia*, as pertains to the transfer of rights by the parties, the approval of a work plan and an annual budget, the manner of approval of changes of plans and budgets, the method of calculation of the various expenses, changes in relation to the causes for revocation of the PSC. Arrangements with respect to ensuring the plugging, decommissioning and disposal of wells and facilities at the end of the term of the PSC, etc.

(c) Payments to the Republic of Cyprus

1. The Republic of Cyprus is entitled to receive one-time bonuses from the holders of rights in Block 12 upon the fulfillment of milestones regarding the average daily production rate for a consecutive period of 30 days which can amount to a sum total of $9 million (100%).

2. The Production Sharing Contract specifies mechanisms for the distribution of natural gas and oil output, as specified below. It is noted that the Republic of Cyprus is entitled to receive its share of the produced natural gas or oil, in whole or in part, in kind.

a. Sharing of oil

The holders of the rights in Block 12 will share the oil produced (after setting off expenses as specified below) with the Republic of Cyprus according to the daily average production rate of oil, to the extent it shall be produced, as follows[40]:

Average daily production (in barrels)[41]	Price per barrel (in Dollar)		
	Up to 50	From 50.1 to 100	Above 100
	The share of the Republic of Cyprus (including corporate tax in Cyprus)		
For the share in the average daily production lower than 50,000 (inclusive)	60%	63%	65%
For the share in the average daily production from 50,001 to 100,000 (inclusive)	63%	67%	72%

[40] It is noted that the oil sharing mechanism was not amended in the amendment to the Production Sharing Contract.

[41] The calculation is made progressively according to the brackets specified in the table.

For the share in the average daily production from 100,001 to 150,000 (inclusive)	70%	75%	80%
For the share in the average daily production between 150,001 and 200,000 (inclusive)	77%	80%	83%
For the share in the average daily production higher than 200,000	83%	85%	85%

b. Sharing of natural gas

1. The Production Sharing Contract, prior to the amendment of November 7, 2019 thereto, provided a mechanism for the distribution of the natural gas to be produced in the area of the PSC, based on the average daily production rate, as described in detail in Section 7.8.3(f) of the Partnership's periodic report for 2018, as released on March 24, 2019 (Ref. No.: 2019-01-023982), the information appearing therein is hereby included by reference.

2. Following the Production Sharing Contract amendment, a new mechanism for the distribution of the natural gas output was determined, as noted, which is based on a factor of the R-Factor type. According to such mechanism, the partners will be entitled to 55% of the annual revenues to be derived from the natural gas output, up to the coverage of all of their recognized capital and current expenditures (the "**Expenditure Coverage Output**"), whereas the balance (the "**Distributable Output**") will be distributed among the partners and the Government of Cyprus according to the R-Factor, the numerator of which consists of the total of Net Accrued Revenues and the denominator of which consists of the total of Accrued Capital Investments. Under the new mechanism, the share of the Government of Cyprus in the Distributable Output linearly increases as a function of the factor and will reach the maximum rate when the R-Factor equals 2.5. For this purpose:

   - "**Net Accrued Revenues**" shall mean: The partners' share in revenues actually received from the gas output (including the Expenditure Coverage Output), net of the operating expenses borne by the partners in the area of the PSC, from the date of signing of the Production Sharing Contract (October 28, 2008) to the end of the quarter preceding the day of the calculation (the "**Calculation Period**").

   - "**Accrued Capital Investments**" shall mean: The development expenses, production expenses of a capital nature (excluding operating expenses) and all exploration expenses, in respect of the area to which the Production Sharing Contract pertains, which were actually expended during the Calculation Period.

For details regarding the participation rate of the holders of equity interests in the Partnership according to 4 theoretical scenarios only, according to which the R-Factor has been determined, see Section 7.3.8 below.

(d) The calculation of the share of the Republic of Cyprus in the natural gas and/or oil produced will be performed every year from the revenues from the sale of natural gas and/or oil which will remain after setting off the expenses of the holders of rights in the Block 12 project in respect of exploration, evaluation, development, production and operation ("**Block 12 Expenses**")[42] at a rate of up to 55% of the total revenues from the gas produced and up to 49% of the total revenues from the oil produced ("**Output Designated for Expense Reimbursement Coverage**"). In case that the expenses will be higher than the **Output** Designated for Expense Reimbursement Coverage, any surplus will be carried forward to the following year until full coverage of the expenses or until termination of the PSC. An expense not covered on the PSC termination date will not be recovered.

(e) The expenses recognized within the Output Designated for Expense Reimbursement Coverage according to the PSC as aforesaid, are subject to the approval of the Republic of Cyprus and include, *inter alia*, direct expenses in respect of exploration and evaluation, expenses in respect of the employment of workers and subcontractors, leasing offices, costs related to statutory requirements pertaining to environmental quality, material costs, insurance expenses, legal expenses, costs related to employee training, general and administrative costs of the Operator related to the project and any other reasonable expense which is required for reasonable and effective exploration activity. It shall be stated that expenses related to the construction and operation of an export facility are not recognized within the Output Designated for Expense Reimbursement Coverage.

(f) The bonuses as specified in Section 7.3.3(c) above are not included in the expenses which may be offset as aforesaid.

(g) The payment of the share of the Republic of Cyprus in the gas and/or oil produced engrosses also the payments of corporate tax which the holders of the rights should have paid the Republic of Cyprus.

(h) In addition, the Republic of Cyprus may, upon provision of a prior written notice, obligate the holders of rights in Block 12 to sell gas thereto from the production which is not designated for coverage of expense reimbursement subject to the compliance of the holders of rights in Block 12 with their commitments according to agreements for the supply of natural gas, if such will be executed.

[42] Recognition of the Block 12 Expenses is done every year according to reports filed by the operator of the project and is limited to a budget submitted to the Republic of Cyprus for approval thereby as part of the process for approval of the annual work plan under the Production Sharing Contract.

(i) According to the PSC, any change in control of the Delek Group or the Partnership, directly or indirectly, is subject to the advance approval of the Republic of Cyprus.

(j) Termination of the Production Sharing Contract

1. The Republic of Cyprus may terminate the PSC by giving an advance notice of 3 months or 6 months, as specified in the PSC, upon the fulfillment of one of the following conditions: (a) Violation of the provisions of the Cypriot law and regulations promulgated thereunder; (b) Arrearage in payment to the Republic of Cyprus for 3 consecutive months; (c) Breach of the development plan for 6 consecutive months except due to an event of "Force Majeure" as defined in the PSC; (d) Regarding the production period, a continuous cessation of production for two consecutive months or a disruption of production for 6 consecutive months due to a reason which was not approved by the Republic of Cyprus, except due to a "Justified Reason" or a "Force Majeure" event as defined in the PSC; (e) Financial or technical inability of the partners to comply with the undertakings pursuant to the PSC as a result of the occurrence of an event of bankruptcy, composition with creditors, receivership of any of the partners or its parent company or any other event the result of which is a material reduction of the financial or technical abilities of any of the partners relative to its condition at the time of execution of the PSC.

2. The holders of rights in the project may waive their rights regarding any oil and/or gas field in the license area after provision of a 6 months advance notice to the Republic of Cyprus.

(k) Grant of a performance guarantee to the Republic of Cyprus

For details regarding a performance guarantee in an unlimited amount provided by Delek Group in favor of the Republic of Cyprus to secure fulfillment of all of the undertakings of the Partnership under the PSC, see Section (e) of Regulation 22 of Chapter D of this report.

7.3.4 Activities within Block 12 which were performed before the Partnership held the petroleum asset

Performing Entity	Period in which the action was performed	Summary description of the action	Summary description of the action results
Chevron Cyprus	2011-2012	Preparation for drilling of the test well "Aphrodite A-1", drilling of the said well and an analysis of the well results and preparation for drilling of an appraisal well[43].	-

[43] On October 2, 2013, Aphrodite A-2 appraisal well, which was started on June 7, 2013, was completed.

7.3.5 Compliance with the binding Block 12 Work Plan

The binding Block 12 Work Plan has been fully complied with until the report approval date.

7.3.6 Actual and planned work plan for Block 12

Below is a concise description of the main activities actually carried out in the petroleum asset between January 1, 2019 and the report approval date, as well as a concise description of planned activities:

Block 12 Project			
Period	Summary description of actions actually carried out for the period or of the planned work plan	Estimated overall budget per action on the petroleum asset level (in Dollars in thousands)[44]	Scope of actual participation of the holders of the equity interests of the Partnership in the budget (in Dollars in thousands)
2019	• Continued examination of various alternatives for the development of the Aphrodite reservoir.	Approx. 3,190	Approx. 957
	• Submission of an updated plan for development of the Aphrodite reservoir to the Cypriot government.	Approx. 1,175	Approx. 353
	• Continued geological, geophysical and engineering analysis of database existing at the license, *inter alia*, while integrating data from adjacent fields, and updating the geological model and the flow model. • Continued examination of a possible location for an appraisal well and the scope and cost thereof. • Continued analysis of the prospectivity in the area of the license, *inter alia*, in view of findings from adjacent fields, and in particular, a technical and financial analysis of a deep prospect. • Preparation for the drilling of additional wells in the area of the license.	Approx. 296	Approx. 89
2020	• Continued geological, geophysical and engineering analysis of database existing at the license,	Approx. 2,056	Approx. 617

[44] The amounts for 2019-2021 are amounts actually expended and audited in the framework of the financial statements.

	inter alia, while integrating data from adjacent fields, and updating the geological model and the flow model. • Planning of an appraisal well that will be converted, insofar as required, into a production well. • Continued analysis of the prospectivity in the area of the production license, *inter alia*, in view of findings from adjacent fields, and in particular, a technical and financial analysis of a deep prospect. • Performance of detailed technical design ahead of adoption of a final investment decision. • Continued examination of options for commercialization of the natural gas from the Aphrodite reservoir.	Approx. 3,372 Approx. 2,131 Approx. 885	Approx. 1,012 Approx. 639 Approx. 266
2021	• Continued geological, geophysical and engineering analysis of database existing at the license, *inter alia*, while integrating data from adjacent fields, and updating the geological model and the flow model. • Planning and examination of the drilling of an appraisal well that will be converted, insofar as required, into a production well. • Continued analysis of the prospectivity in the area of the production license, *inter alia*, in view of findings from adjacent fields, and in particular, a technical and financial analysis of a deep prospect. • Continued examination of options for commercialization of the natural gas from the Aphrodite reservoir	Approx. 2,013 Approx. 7,156	Approx. 604 Approx. 2,147
2022 forth[45]	• Continued geological, geophysical and engineering analysis of database existing at the license, *inter alia*, while integrating data from adjacent fields, and updating the geological model and the flow		

[45] As of the report approval date, out of the said budgets, the partners in Block 12 have approved a budget for 2022 in the sum of approx. $32 million (100%), for which an approval of the government of Cyprus has yet to be received. It is noted that this budget does not include the cost of performance of the Appraisal Well A-3 (as defined in Section 7.3.11 below).

	model. • Drilling of an appraisal well that will be converted, insofar as required, into a production well. • Continued analysis of the prospectivity in the area of the production license, *inter alia*, in view of findings from adjacent fields, and in particular, a technical and financial analysis of a deep prospect. • Continued examination of options for commercialization of the natural gas from the Aphrodite reservoir, *inter alia* through the performance of pre-FEED and offshore surveys.	Approx. 122,672	Approx. 36,802
	• Promotion of an alternative for commercialization of the natural gas from the Aphrodite reservoir. Performance of FEED, detailed technical design and preparations for performance.	Approx. 26,770	Approx. 8,031
	• Examination of the possibility of adoption of an investment decision for the development of the Aphrodite reservoir in the format specified in Section 7.3.11 below.	Approx. 2,500,000 up to 3,000,000	Approx. 761,250 up to 913,500

Caution concerning forward-looking information – The Partnership's evaluation regarding the activities planned at Block 12 (including development of the Aphrodite reservoir) including in respect of costs, timetables and the actual performance thereof, is forward-looking information within the meaning thereof in Section 32A of the Securities Law, based on estimates of the General Partner regarding the components of the work plan, which are all based on evaluations received by the Partnership from the Operator. The actual performance of the work plan, including timetables and costs, is subject to the partners' approval and might be materially different from the aforesaid evaluations and it is contingent upon, *inter alia,* the applicable regulation, technical ability and economic merit.

7.3.7 Actual participation rate in the expenses and revenues at Block 12

Participation Rate	Percentage Pre Investment-Recovery	Percentage Post Investment - Recovery	Rate grossed-up to 100% Pre Investment-Recovery	Rate grossed-up to 100% Post Investment-Recovery	Explanations
The rate actually attributed to the	30%	30%	100%	100%	See description of the chain of holdings in

holders of the equity interests of the Partnership in the petroleum asset					Section 7.3.2 above.
The rate actually attributed to the holders of the equity interests of the Partnership in the **revenues** from the petroleum asset	For details see Section 7.3.8 below.				
The actual participation rate of the holders of the equity interests of the Partnership in the **expenses** involved in the exploration, development and production activity at the petroleum asset	30.3%-31.2%	30.3%-31.2%	101%-104%	101%-104%	For details see Section 7.3.9 below.

7.3.8 Participation rate of holders of the equity interests of the Partnership in the revenues from Block 12

The table below presents details with respect to the participation rate of the holders of equity interests in the Partnership out of revenues that will derive in respect of natural gas to be produced from the petroleum asset, if any, in accordance with the new distribution mechanism, according to 4 theoretical scenarios only, according to which the R-Factor has been set at 1, 1.5, 2 and 2.5. It is emphasized that the data in the following table are based on calculations made under various work assumptions and assessments, *inter alia*, with respect to the rate of production of the natural gas from the reservoir and sale thereof, the costs of development of the reservoir and the facilities, the current production costs, and more, which may in practice materially differ from the assumptions and assessments that have been taken into account.

	R-factor 1	R-factor 1.5	R-factor 2	R-factor 2.5	Notes
Total revenues from natural gas production	100%	100%	100%	100%	
Cypriot Republic's	15.75%	21.75%	50.75%	67.5%	The figures specified in the table are based on calculations that

share of the revenues from natural gas production					were made based on various working hypotheses, *inter alia*, with regard to the development and operating costs of the project, rate of the production and sale, gas prices, etc.
The partners' share of the revenues from natural gas production	84.25%	78.25%	49.25%	32.5%	
The Partnership's rate of holding of the oil asset	30.00%	30.00%	30.00%	30.00%	
The Partnership's share of the revenues from natural gas production, before payment of overriding royalties	25.28%	23.48%	.1478%	9.75%	
Payment of overriding royalties to various entities	1.14%	2.23%	.140%	0.93%	The parties entitled to royalties are Delek Energy, Delek Group and others that are not related parties. For further details see Section 7.24.7 below. It is noted that the figures specified in this table were calculated according to the Partnership's position, whereby the overriding royalties in respect of Block 12 apply to the Partnership's share in the natural gas output, i.e., after deduction of the State's share in the output (as opposed to the overriding royalties in respect of petroleum assets in Israel, which apply to the Partnership's share in the output before payment of the State's royalties under the Petroleum Law).
Rate of the effective participation of the holders of the equity	24.14%	21.25%	13.38%	8.82%	

interests in the Partnership, in the revenues from natural gas production					

Caution concerning forward-looking information – The aforesaid figures with respect to the rate of participation of the holders of the equity interests in the Partnership in the revenues that will derive from the petroleum asset, if any, constitute forward-looking information within the meaning thereof in Section 32A of the Securities Law. The aforesaid figures are largely based on various estimations and working hypotheses, *inter alia*, with regard to the rate of production of the natural gas from the reservoir, quantities and prices of sale of the natural gas, costs of development of the reservoir and the facilities, current production costs, etc. It is emphasized that such figures may materially differ from the aforesaid estimations and hypotheses, and are *inter alia*, affected by and contingent on completion of the detailed design of the development plan, actual performance of the project, and a gamut of additional factors over which the Partnership does not have full control or which it is unable to estimate in an adequate level of certainty.

7.3.9 Participation rate of the holders of the equity interests of the Partnership in the exploration, development and production expenses in Block 12

Item	Percentage	Summary explanation of how the royalties or payments are calculated
Theoretical expenses within the framework of a petroleum asset (without the said royalties)	100%	
Specification of the payments (derived from the expenses) on the petroleum asset level:		
The Operator	1%-4%	A rate of 1.5% in respect of the indirect expenses of the Operator out of all of the direct expenses in connection with development actions,[46] subject to certain exclusions, such as marketing activity. The 1%-4% rate pertains to exploration expenses. Such sums are for payment of the Operator's indirect expenses and are in addition to the reimbursement of direct expenses paid thereto.

[46] It is noted that as of the report approval date, such rate in connection with the production actions, has not yet been agreed.

		The rate of payment to the Operator decreases as exploration expenses increase.
Total actual expense rate on the petroleum asset level	101%-104%	
The share of the holders of equity interests of the Partnership in the petroleum asset expenses (indirect holdings)	30%	
Total actual share of the holders of the equity interests of the Partnership, in the expenses, on the petroleum asset level (and prior to other payments on the Partnership level)	30.3%-31.2%	
<u>Specification of payments (derived from the expenses) in respect of the petroleum asset and on the Partnership level (the following percentage will be calculated according to the share of the holders of the equity interests of the Partnership in the petroleum asset</u>):		
The rate actually attributed to the holders of the equity interests of the Partnership in expenses involved in the exploration, development or production activity at the petroleum asset.	30.3%-31.2%	With respect to the management fee arrangement between the General Partner and the Partnership, see Regulation 21(b)(7) of Chapter D of this report). Such amounts were not taken into account in this table.

7.3.10 <u>Fees and payments paid during exploration and development activity at Block 12 (in Dollars in thousands)</u>

<u>Item</u>	**<u>Total share of the holders of the equity interests of the Partnership in the investment in the petroleum asset in this period</u>**[47]	**<u>Out of which, the share of the holders of the equity interests of the Partnership in payments to the General Partner</u>**	**<u>Out of which, the share of the holders of the equity interests of the Partnership in payments to the Operator (beyond the reimbursement of its direct expenses)</u>**
Budget actually invested in 2019	Approx. 2,439	-	Approx. 77
Budget actually invested in 2020	Approx. 4,264	-	Approx. 57

[47] Including costs in respect of which no payments are made to the Operator.

Budget actually invested in 2021	Approx. 3,678	-	Approx. 55

7.3.11 Plan for the development of the Aphrodite reservoir

The development plan, which was approved by the Cypriot Government on November 7, 2019, is subject to updates in view of the results of the FEED, and the progress in the commercial and financial aspects of the project. The plan includes the construction of a floating production and processing facility in the area of the License, with an estimated maximum production capacity of approx. 800 MMCF per day, first through 5 production wells, and a subsea system for transmission to the Egyptian market. According to the Operator's current estimate, which was delivered to the Partnership and the Cypriot Government, and prior to completion of the technical-economic feasibility tests, including the performance of the FEED, the estimated cost of the development plan, excluding the cost of instillation of the pipelines to the target markets, is estimated at approx. $2.5 billion to approx. $3 billion (100%). The estimated budget for the work plan until the date of adoption of a final investment decision is approx. $150-200 million (100%). Formulating the development plan and reaching the stage of adoption of a final investment decision for development of the Aphrodite reservoir are subject, *inter alia*, to the drilling of an additional appraisal/development well A-3 (Aphrodite 3) ("**Appraisal Well A-3**") by November 2021 and the FEED, commercial arrangements for the development of the export pipelines, execution of agreements for the supply of natural gas and fulfillment of the conditions precedent in those agreements, regulatory approvals and the execution of finance arrangements. Insofar as the aforesaid conditions precedent are fulfilled, the date of commencement of natural gas supply from the Aphrodite reservoir may occur during 2026. It is noted that the aforesaid estimated costs do not include expenses in respect of the development and construction of a pipeline for the export of natural gas from the Aphrodite reservoir.

Further to the aforesaid, the partners in the Aphrodite reservoir contacted the government of Cyprus to approve changes to the work plan determined under the development plan of November 7, 2019, pertaining mainly to the request to postpone for a period of 12 months their commitment to drill Appraisal Well A-3 until November 2022. On October 13, 2021, approval has been received by the government of Cyprus for the postponement of the partners' commitment to drill the aforesaid well by an additional 12 months, i.e., until November 2022.

It is noted that the partners in the Aphrodite reservoir are considering additional development alternatives, including the possibility of combining the development of the reservoir with existing facilities and/or development plans for adjacent properties in Egypt, Cyprus and/or Israel, including those of the Leviathan reservoir.

Furthermore, the partners in the Aphrodite reservoir have submitted to the government of Cyprus a work plan and budget for 2022 in the sum of approx. $32 million (100%), for which approval of the government of Cyprus has not yet been received. It is noted that this budget does not include the cost of drilling of Appraisal Well A-3. As of the report approval date, there is no certainty as to the approval of such work plan and budget by the government of Cyprus.

NEWMEDENERGY

7.3.12 Contingent and prospective resources attributed to the Block 12 petroleum asset in Cyprus

According to a report the Partnership received from NSAI, which was prepared in accordance with the rules of the Petroleum Resources Management System (SPE-PRMS) (hereinafter in this section the "**Resource Report**"), as of December 31, 2020 part of the natural gas and condensate resources in the Aphrodite reservoir[48] in the Block 12 area, were proven by the "Aphrodite A-1" drilling and the "Aphrodite A-2" drilling (as well as the "Aphrodite 2" drilling in the area of the Yishai License), and therefore were classified as contingent resources, while part of the natural gas and condensate resources attributed to the petroleum asset, in fault blocks adjacent to the fault block where the said drilling was performed, were not proven and therefore remain classified as prospective resources. The Resource Report attributed to the Block 12 petroleum asset is included in the Partnership's periodic report for 2020, as released on March 17, 2021 (Ref. no. 2021-01-036588) (the "**2020 Periodic Report**"), the information appearing therein is included herein by reference. Attached as **Annex A** hereto is NSAI's consent to the inclusion of such report herein, including by way of reference, and a letter of lack of material changes from NSAI in Block 12.

Caution concerning forward-looking information – The details presented above, with respect to the possible date for adoption of a final investment decision for the Aphrodite reservoir, the estimated cost of the development plan, and the possible date for commencement of the natural gas supply, are forward-looking information within the meaning thereof in Section 32A of the Securities Law, which are largely based on various working assumptions and assessments, *inter alia*, the completion of the detailed planning of the development plan, the actual performance of the project, and a gamut of additional factors over which the Partnership does not have full control or which it is unable to estimate with an adequate level of certainty.

7.4 New Ofek License

On March 19, 2019, the Partnership entered into an agreement with S.O.A Energy Israel Ltd. ("**SOA**") for the purchase of interests at the rate of 25% (out of 100%) in the onshore 405/New Ofek license (the "**New Ofek License**"), which is situated in the *Shfela* region (the Judean Foothills) in central Israel (in this section: the "**Purchase Agreement**"). Upon fulfillment of the conditions precedent in the agreement, on October 10, 2019 the aforesaid transaction for the purchase of the interests was closed and on November 5, 2019 the Petroleum Commissioner announced that the transfer of the interests as aforesaid was recorded in the Petroleum Register. For additional details with respect to the Purchase Agreement, see Section 7.24.9 below.

The New Ofek License was classified by the Partnership as a negligible petroleum asset compared with all of the Partnership's operations and assets, and therefore a limited description thereof is presented below.

[48] It is noted that the vast majority of the Aphrodite reservoir is in the area of the EEZ of Cyprus, and the minority thereof is in the area of the Yishai license, which is in the area of the EEZ of Israel.

7.4.1 General details

General Details about the Petroleum Asset	
Name of the petroleum asset:	405/New Ofek.
Location:	Onshore license in the Shfela region in central Israel.
Area:	Approx. 344 km^2.
Type of petroleum asset:	Oil exploration license.
Original grant date of the petroleum asset:	June 21, 2017
Original expiration date of the petroleum asset:	June 20, 2020
Dates on which an extension of the petroleum asset period was decided:	April 5, 2020, May 4, 2021 and July 27, 2021
Current expiration date of the petroleum asset:	June 20, 2022
State whether there is another option to extend the petroleum asset period; if such an option exists – state the possible extension period:	According to the Petroleum Law, the license may be extended for another 2 years, with an option, in the case of a discovery, to extend by an additional two years.
The operator's name:	SOA
The names of the direct partners in the petroleum asset, and their direct share in the petroleum asset and, to the best of the Partnership's knowledge, the names of the control holders of the said partners:	▪ SOA[49] (45%), to the best of the Partnership's knowledge, the control holder of SOA is Mr. Saed Sarsur (a businessman, Israeli citizen and resident of England). ▪ The Partnership (25%). ▪ Globe Exploration (Y.C.D.), Limited Partnership ("**Globe**") (20%). To the best of the Partnership's knowledge, the control holder of Globe is Globe Exploration, which serves as Globe's general partner.[50] ▪ Capital Point Ltd. ("**Capital**") (10%). To the best of the Partnership's knowledge, Capital has no controlling shareholder.

[49] As of the report approval date, Globe reported the fulfillment of the closing conditions under an agreement it made with SOA, for the transfer to SOA of 10% of its rights in the New Ofek license. It is noted that the Partnership has given its consent for the transfer of such rights to SOA and for waiving its right to participate in their acquisition, in accordance with the provisions of the joint operating agreement applicable to the New Ofek license. As of the report approval date, the said transfer of rights has not yet been completed.
[50] As of the report approval date, the voting shares in Globe Exploration are held by Griffin Exploration Ltd., a private company controlled (indirectly) by: (a) Messrs. Menachem and Gil Sternberg – 17.21%; (b) C.P.H Investments Ltd., a private company controlled (indirectly) by Yaakov OBM and Margaret Chai – 34.68%; (c) Derin Holdings Ltd., a private company controlled by Dr. Baruch OBM and Zvi Derin – 23.12%; (d) The estate of Zvika Boroditzky OBM – 17.5%; and (e) L.I.A. Pure Capital Ltd., a private company controlled by Kfir Zilberman – 7.49%.

7.4.2 The Partnership's share in the petroleum asset

General details regarding the Partnership's share in the Petroleum Asset	
For a holding in a purchased petroleum asset – the purchase date:	March 19, 2019.
Description of the nature and manner of the Partnership's holding in the petroleum asset:	The Partnership directly holds 25% of the interests in the license.
State the actual share attributed to the holders of the equity interests of the Partnership in the revenues from the petroleum asset:	Pre Investment-Recovery – 20.50%. Post Investment-Recovery – 19.25%.
The total share of the holders of the Partnership's equity interests in the aggregate investment in the petroleum asset in the five years preceding the last day of the reporting year (whether recognized as an expense or as an asset in the financial statements):	Approx. $8,955 thousand[51].

7.4.3 Actual and planned work plan

The main activity performed in the New Ofek License is re-entry into the existing "Ofek 2-ST" well, and the completion of production tests therein.

Further to the resolution of the partners in the license from September 2020 regarding participation in the performance of the production tests that will be performed during 2021-2022, and further to the approval of the Petroleum Commissioner to update the work plan of the license and postpone the date of commencement of the production tests on the license area to August 15, 2021, SOA, the operator of the license has apprised the Partnership that entry into the "Ofek-2" toward the performance of production tests therein commenced on August 25, 2021. As of the report approval date, in view of the Covid Crisis, various delays in the commencement of the work, and the increase in the cost of transporting equipment from overseas, the partners in the New Ofek License approved and updated budget for the production tests, in the sum total of approx. $21 million (100%). The Partnership's share in the aforesaid budget is approx. $10 million[52]. Insofar as the results of the first-stage production tests are positive, the Partnership shall contribute its proportionate share also to a contingent budget of approx. $2.5 million (100%), which will be used for up to 4 additional production tests.

[51] The Partnership paid $500 thousand out of this amount, in accordance with the Purchase Agreement (for details, see Section 7.24.9 below), and bore the costs of the production tests, as specified in Footnote 52 below.
[52] It is noted that in the Purchase Agreement, the Partnership undertook that it would bear the costs of production tests in the New Ofek License up to a sum total of no more than $6.5 million, and that insofar as the cost of the production tests would exceed the said amount, each one of the partners in the New Ofek License, including the Partnership, would pay its proportionate share in such additional cost, according to the provisions of the Joint Operating Agreement (JOA).

As of the report approval date, the production tests have not yet ended.

Below is a concise description of the main activities actually carried out in the New Ofek License between January 1, 2019 and the report approval date, as well as a concise description of the planned activities in the license, in accordance with the updated work plan approved by the Petroleum Commissioner on May 4, 2021:

New Ofek			
Period	Concise description of actions actually performed for the period or of the planned work plan	Total estimated budget for activity at the petroleum asset level (dollars in thousands)	Amount of actual participation in the budget by the holders of the Partnership's equity interests (dollars in thousands)
2019	• Submission of a plan for re-entry into the well and for the performance of production tests to the Petroleum Commissioner on May 15, 2019. • Receipt of all of the necessary permits and approvals for breaking ground and performing the production tests, including approval by the landowner and approval by the Local Committee.	Approx. 60 Approx. 351	Approx. 15 Approx. 8
2020	• Planning and preparation for performance of production tests in the Ofek-2 well. • Submission of a signed agreement with a contractor for the performance of the production tests in the area of the license and an engineering plan to the Petroleum Commissioner.	Approx. 4,691	Approx. 4,691[53]
2021	• Receipt of all of the approvals required for performance of production tests in the Ofek-2 well. • Performance of acts ahead of the execution of production tests in the Ofek-2 well.	Approx. 9,413	Approx. 2,137
2022 forth	• Performance of production tests in Ofek-2 well. • Submission of a summary report on the production tests to the Petroleum Commissioner three months after the date of completion of performance of the production tests.	Approx. 6,896	Approx. 1,724

Caution concerning forward-looking information – The Partnership's aforesaid estimations with respect to the planned activities, costs, timetables and actual

[53] See Footnote 52 above.

performance of the planned activities in the New Ofek License, including, *inter alia*, the planned duration of the production tests and the operations involved therewith, their cost and other aspects relating to the New Ofek License and the production tests, constitute forward-looking information within the meaning thereof in Section 32A of the Securities Law, which is based on the estimations and forecasts with respect to the planned activities, costs, timetables and actual performance of the planned activities, which are all based on estimations (that the Partnership received from SOA, the operator. The planned activities, costs, timetables and production rates may materially differ from the aforesaid estimations and are contingent, *inter alia*, on the adoption of fitting decisions by the partners in the New Ofek License, receipt of the approvals required pursuant to any law, completion of the detailed planning of the components of the activities, receipt of proposals from contractors, changes in the raw material and the suppliers market around the world, the applicable regulation, technical abilities, economic merit, operational conditions and at market prices.

7.5 New Yahel License

On March 19, 2019, the Partnership entered into an agreement with SOA for the purchase of a 25% interest (out of 100%) in the onshore 406/"New Yahel" license (the "**New Yahel License**"), which is situated in northern Israel (in this section, the "**Purchase Agreement**" and the "**Transaction**"). Upon fulfillment of the conditions precedent in the agreement, on October 10, 2019 the aforesaid Transaction for the purchase of the interests was closed and on November 5, 2019 the Petroleum Commissioner announced that the transfer of the interests as aforesaid was recorded in the Petroleum Register. For additional details on the Purchase Agreement, see Section 7.24.9 below.

The New Yahel License was classified by the Partnership as a negligible petroleum asset compared with all of the Partnership's operations and assets, and therefore a limited description thereof is presented below.

7.5.1 General details

General Details about the Petroleum Asset	
Name of the petroleum asset:	406/New Yahel.
Location:	Onshore license in the Haifa Bay area, south of the Akko-Safed highway and north of Yokneam.
Area:	397.5 km^2.
Type of petroleum asset:	Oil exploration license.
Original grant date of the petroleum asset:	June 21, 2017
Original expiration date of the petroleum asset:	June 20, 2020
Dates on which an extension of the petroleum asset period was decided:	April 5, 2020 and May 4, 2021
Current expiration date of the petroleum asset:	June 20, 2022
State whether there is another option to	Subject to the Petroleum Law, it may be

extend the petroleum asset period; if such an option exists – state the possible extension period:	extended for another 2 years, with an option, in the case of a discovery, to extend by an additional two years.
The operator's name:	SOA
The names of the direct partners in the petroleum asset, and their direct share in the petroleum asset and, to the best of the Partnership's knowledge, the names of the control holders of the said partners:[54]	▪ SOA (45%); ▪ The Partnership (25%); ▪ Globe (20%); ▪ Capital (10%).

7.5.2 The Partnership's share in the petroleum asset

General details regarding the Partnership's share in the Petroleum Asset	
For a holding in a purchased petroleum asset – the purchase date:	March 19, 2019.
Description of the nature and manner of the Partnership's holding in the petroleum asset:	The Partnership directly holds 25% of the interests in the license.
State the actual share attributed to the holders of the equity interests of the Partnership in the revenues from the petroleum asset:	Pre Investment-Recovery – 20.50%. Post Investment-Recovery – 19.25%.
The total share of the holders of the Partnership's equity interests in the aggregate investment in the petroleum asset in the five years preceding the last day of the reporting year (whether recognized as an expense or as an asset in the financial statements):	Approx. $546 thousand[55].

7.5.3 Actual and planned work plan

Below is a concise description of the main activities actually carried out in the New Yahel License between January 1, 2019 and the report approval date, as well as a concise description of the planned activities in the license, in accordance with the updated work plan approved by the Petroleum Commissioner on January 11, 2021:

New Yahel			
Period	Concise description of actions actually performed for the period or of the planned work plan	Total estimated budget for activity at the	Amount of actual participation in the budget by

[54] For details with respect to the control holders of the partners, see Section 7.4.1 above.

[55] The Partnership paid $500 thousand out of this amount, in accordance with the Purchase Agreement (for details, see Section 7.24.9 below).

		petroleum asset level (dollars in thousands)	the holders of the Partnership's equity interests (dollars in thousands)
2019	• Completion of an environmental document according to the Petroleum Regulations (Authorization for Deviation from the Provisions of the Planning and Building Law), 5772-2012. • Submission of an application according to the Uniform Plan Structure Procedure together with the environmental document on June 11, 2019. • A discussion at the North District Planning and Building Committee on August 15, 2019, and in this context, addressing the Committee's conditions.	Approx. 27 Approx. 12	Approx. 7 Approx. 3
2020	• Planning and preparation ahead of exploration drilling in the area of the license, including obtainment of all required approvals.		
2021	• Discussion and receipt of the District Committee's decision to approve drilling application by September 1, 2021. • Submission of an application for approval of drilling and a signed agreement with a drilling contractor for the commissioner's approval by October 3, 2021.		
2022 forth [56]	• Commencement of drilling of well by February 1, 2022.[57] • Submission of a summary report within 3 months from the date of completion of the drilling.	Approx. 20,000	Approx. 5,000

Caution concerning forward-looking information – The Partnership's aforesaid estimations with respect to the planned activities, costs, timetables and actual performance of the planned activities in the New Yahel License, constitute forward-looking information within the meaning thereof in Section 32A of the Securities Law, which is based on the estimations of the General Partner with respect to the planned activities, costs, timetables and actual performance of the planned activities, which are all based on estimations that the General Partner of the Partnership received from SOA, the operator. The planned activities, costs and timetables may materially differ from the aforesaid estimations and are contingent, *inter alia*, on the adoption of fitting decisions by the New Yahel partners, receipt of the approvals required pursuant to any law, completion of

[56] As of the report approval date, the budget for 2022 forth has not yet been approved by the partners.
[57] It is noted that the drilling work on the New Yahel License has not yet begun, and that an updated work plan was submitted on January 20, 2022 for approval by the Petroleum Commissioner. As of the report approval date, the approval of the Petroleum Commissioner for the update of the said work plan has not yet been received.

the detailed planning of the components of the activities, receipt of proposals from contractors, changes in the raw material and the suppliers market around the world, the applicable regulation, technical abilities and economic merit.

7.6 The Yam Tethys project

The Yam Tethys project includes the Noa lease, in the area of which the Noa natural gas reservoir was discovered in 1999, and the Ashkelon lease, in the area of which the Mari B and Pinnacles reservoirs were discovered in 2000 and 2012 respectively. The production of natural gas in the Yam Tethys project began in March 2004 and was discontinued in May 2019 due to a depletion of the reservoirs. As of the report approval date, the project's assets serve mainly for the provision of infrastructure services to the Tamar Reservoir[58]. In view of the aforesaid, the Partnership deems the Yam Tethys project as a negligible petroleum asset.

The Operator began the decommissioning and abandonment of the project's facilities, other than the platform, including the production wells and the subsea equipment, in accordance with a decommissioning plan that was approved by the Petroleum Commissioner. At the same time, there is a discussion on possible future uses and/or decommissioning and abandonment of the Yam Tethys platform, considering the existing link between the facilities of the Yam Tethys project and production from the Tamar Project. The budget for abandonment of the drilling and subsea equipment which was approved by the Yam Tethys partners is in the sum of approx. $196 million (100%). It is noted that in accordance with initial information received from the Operator, a deviation of approx. $40 million (100%) may be expected from this budget. It is further noted that this budget does not include a budget for abandonment of the Yam Tethys platform and the terminal, which is scheduled to take place at the end of the production period from the Tamar Project.

It is noted that on May 3, 2020, an agreement was signed between the Partnership, Chevron, Delek Group and Ratio, in which the manner of supply of natural gas to the customers of the holders of the rights in the Yam Tethys reservoir (Chevron, the Partnership and Delek Group) from the Leviathan Reservoir was regulated.

In view of the project being classified as a negligible petroleum asset, a limited description thereof is presented below:

7.6.1 General

General Details with respect to the Petroleum Asset	
Name of the petroleum assets:	Noa Lease. Ashkelon Lease.
Location:	Ashkelon Lease – approx. 25 km west of the shores of Ashkelon. Noa Lease – approx. 40 km west of the shores of Ashkelon.
Area:	The overall area of the leases is approx. 500 km^2.
Type of petroleum asset and description of the activities permitted for such type:	Lease; Permitted activities under the Petroleum Law – exploration and production.
Original granting date of the petroleum asset:	Ashkelon Lease – June 11, 2002. Noa Lease – February 10, 2000.

[58] The Gas Framework provides that the holders of the interests in the Tamar Lease will be entitled to use the Mari B platform for the entire term of the Tamar Lease, for the purpose of export or supply of natural gas to the domestic market from the Tamar reservoir, subject to the conditions stipulated in the Gas Framework.

Original expiration date of the petroleum asset:	Ashkelon Lease – June 10, 2032. Noa Lease – January 31, 2030.
Dates on which an extension of the term of the petroleum asset was decided:	-
Current expiration date of the petroleum asset:	Ashkelon Lease – June 10, 2032. Noa Lease – January 31, 2030.
Note on whether there is an additional option to extend the term of the petroleum asset; if such option exists – the optional extension term should be noted:	Subject to the Petroleum Law, by 20 additional years.
The name of the operator:	Chevron
The names of the direct partners in the petroleum asset and their direct share in the petroleum asset, and, to the best of the Partnership's knowledge, the names of the controlling shareholders of such partners:	▪ The Partnership (48.50%). ▪ Chevron (47.059%). ▪ Delek Group (4.441%).

7.6.2 Work plan for the Yam Tethys project – actual and planned

Below is a concise description of the main activities actually carried in the Noa Lease and the Ashkelon Lease between January 1, 2019 and the report approval date, as well as a concise description of planned activities:

Yam Tethys project			
Period	Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan	Total Estimated Budget for Activity at the Petroleum Asset Level (Dollars in thousands)	Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Partnership (Dollars in thousands)
2019	• Production from the Mari B reservoir, ongoing operation and maintenance. • Examination of uses of existing infrastructures and preservation or increase of the production capacity. • Preparation ahead of future abandonment of wells and facilities in the reservoirs of the Yam Tethys project. • Preparation of the cold stacking platform including air gapping of the gas pipelines from the production wells to the processing and production facilities on the platform. • Continued update of the geological model and the flow model, *inter alia* according to the well and production data. • Mapping out and definition of additional prospects in the area of the petroleum asset, including a deep target prospect in the area of the petroleum asset.	Approx. 1,497 Approx. 299.7	Approx. 726.3 Approx. 145.3
2020	• Ongoing operation and maintenance. • Preparation of the cold stacking platform including air gapping of the gas pipelines from the production wells to the processing and production facilities on the platform. • Examination of uses of existing infrastructures and preservation or increase of the production capacity. • Preparation ahead of future abandonment of wells and facilities in the reservoirs of the Yam Tethys project.	Approx. 2,342 Approx. 7,962	Approx. 1,135 Approx. 3,862
2021	• Ongoing operation and maintenance. • Examination of uses of existing infrastructures of the project. • Refurbishment of the platform for acts of abandonment of Marri-B wells and acts associated with dismantling of subsea equipment and pipeline of the Yam Tethys		

	project, including the receipt of environmental permits, instillation of designated facilities, etc. • Commencement of plugging and abandonment of the project's production wells, of subsea facilities, in accordance with standards and the directives of the Petroleum Commissioner.	Approx. 141,465	Approx. 68,611
2022 forth	• Concluding of plugging and abandonment of the project's production wells, of subsea facilities, in accordance with standards and the directives of the Petroleum Commissioner • Examination of uses of existing infrastructures of the project. • Decommissioning and abandonment of the platform at the end of use thereof, in accordance with standards and the directives of the Petroleum Commissioner.	Approx. 236,000[59]	Approx. 114.4

Caution concerning forward-looking information – The Partnership's assessment with respect to the activities planned in the Yam Tethys project, including as pertains to costs, timetables and the actual performance thereof, constitutes forward-looking information within the meaning thereof in Section 32A of the Securities Law, which is based on the estimations of the Partnership with respect to the components of the work plan, which are all based on estimations received by the Partnership from the Operator. The actual performance of the work plan, including timetables and costs, may materially differ from the aforesaid estimations and is conditioned, *inter alia*, on applicable regulation, technical ability and economic merit.

7.7 Right to overriding royalties from the Tanin and Karish Leases

As specified below, the Partnership has rights to receive overriding royalties from the Tanin and Karish Leases which are owned by Energean Israel Ltd. ("**Energean Israel**"). It is clarified that the description presented below in relation to the Tanin and Karish Leases is based mainly on public reports of Energean Oil & Gas Plc. ("**Energean**"), a foreign public company whose shares are traded on the TASE and the London Stock Exchange, which is, to the best of the Partnership's knowledge, the controlling shareholder of Energean Israel. It is further clarified that the Partnership is unable to independently corroborate the veracity of the details presented in these reports.

7.7.1 General

Following the Government's decision to ratify the Gas Framework, on August 16, 2016, an agreement was signed between the Partnership, Chevron and Avner and Energean Israel, for the sale of all of the interests of the Partnership, Avner and Chevron in the I/16 Tanin and I/17 Karish leases (the "**Tanin Lease**" and the **"Karish Lease"**, respectively), in consideration for a payment, which constitutes reimbursement of past expenses invested in the leases by the Partnership, Avner and Chevron plus royalties in connection with natural gas

[59] Out of the said amount, a budget of approx. 196 (100%) was approved by the partners in Yam Tethys project.

and condensate that shall be produced from the leases. After fulfillment of all of the conditions precedent on December 26, 2016, the transaction was closed and all of the interests in the leases were transferred to Energean Israel. For details regarding the aforesaid agreement, see Section 7.24.10 below.

As of December 31, 2021, the Partnership deems the overriding royalty from the Tanin Lease and the overriding royalty from the Karish Lease as petroleum assets that are negligible to the results of the Partnership's operations and its business, after quantitative examination was conducted by the Partnership, whereby it transpires, *inter alia*, that: (a) the Partnership's share in reserves and contingent resources in the Karish Lease and the Tanin Lease constitutes, respectively, less than 0.51% and 1.58% of the total reserves and contingent resources attributed to all of the Partnership's petroleum assets; and (b) the current value of cash flow attributed to the overriding royalty in the Tanin Lease and the overriding royalty in the Karish Lease constitutes, respectively, less than 0.79% and 4.31% of the total net current value attributed to all of the Partnership's petroleum assets including reserves or contingent resources.[60] In addition, also in qualitative terms the asset should be deemed as negligible, in view of the fact that the Partnership's rights in the Tanin and Karish Leases are passive, and that it has no ability to influence the activity therein.

In view of the classification of the benefit in the leases as a negligible petroleum asset, a limited description of the Tanin and Karish Leases is presented below.

General details about the Petroleum Asset	
Name of Petroleum Asset:	Tanin lease. Karish lease.
Location:	Offshore assets located approx. 80-130 km west of the shores of Nahariya.
Area:	The total area of both leases collectively is approx. 500 square km.
Type of petroleum asset and description of actions permitted according to this type:	Lease; Actions permitted under the Petroleum Law – exploration and production.
Original grant date of the petroleum asset:	December 24, 2015, valid since August 11, 2014 (amended on April 25, 2017)
Original expiration date of the petroleum asset:	August 10, 2044
Dates on which an extension of the petroleum asset period was decided:	-
Current date for expiration of the petroleum asset:	August 10, 2044
Statement of whether there is another option for the extension of the petroleum asset period; if such an option exists – please state the possible extension period:	By 20 additional years, subject to the Petroleum Law.
Statement of Operator's Name:	Energean Israel.

[60] For the purpose of calculating the net current value of the cash flows from the petroleum assets, the following cap rates (after tax) were taken into account: the Leviathan Project – 10%; Aphrodite Project – 10%; overriding royalty from the Tanin and Karish Leases – 8.2%.

Statement of the names of the direct partners in the petroleum asset, and their direct share in the petroleum asset, and, to the best of the Partnership's knowledge, the names of the controlling shareholders in the said partners:	Energean Israel (100%).

General details regarding the Partnership's share in the petroleum asset	
For a holding in a purchased petroleum asset – the purchase date:	-
Description of the nature and manner of holding of the petroleum asset by the Partnership:	The Partnership is entitled to royalties in connection with natural gas and condensate that shall be produced from the leases.
Statement of the actual share attributed to the holders of the equity interests of the Partnership in the revenues from the petroleum asset:	Approx. 5.12% before payment of a petroleum profit levy under the Taxation of Profits from Natural Resources Law, 5771-2011 (the "**Levy**") and before the Investment Recovery Date; Approx. 2.47% before payment of the Levy and after the Investment Recovery Date; and Approx. 3.22% upon commencement of payment of the Levy and after the Investment Recovery Date.
The total share of the holders of the equity interests of the Partnership in the aggregate investment in the petroleum asset during the five years preceding the last day of the report year (whether recognized as an expense or as an asset in the financial statements):	-

7.7.2 The development plans of the Tanin and Karish Leases and the resources attributed thereto

To the best of the Partnership's knowledge, the original development plan for the Karish and Tanin Leases that was submitted to the Petroleum Commissioner by Energean Israel, was approved by the Ministry of Energy in August 2017 (in this section: the "**Original Development Plan**"), which specifies that the Karish reservoir will be developed first and the Tanin reservoir will be developed further down the line.[61]

In 2018, Energean adopted a Final Investment Decision for development of the Karish reservoir. On November 17, 2020 Energean released a notice that included an estimation whereby the gas flow from the Karish reservoir will commence in Q4/2021, however, such estimation was updated several times in subsequent notices. According to a publication made by Energean on January 18, 2022, production from the Karish reservoir is expected to commence, in its estimation, in Q3/2022[62].

[61] https://www.gov.il/he/Departments/news/spokesperson_development.
[62] Link to Energean's notice: https://mayafiles.tase.co.il/rpdf/1426001-1427000/P1426330-00.pdf

It is noted that due to the delays in the commencement of flow from the Karish reservoir and the uncertainty regarding the date of commencement of commercial production from this reservoir, excess demand for natural gas may arise in the domestic and export markets during the peak months relative to the production capacity from the Leviathan and Tamar reservoirs. In such a case, the Leviathan Partners may be required to supply the domestic demand at the expense of quantities designated for export. For details on the amendment to the Export to Egypt Agreement, see Section 7.10.3(d) below.

On April 15, 2019 Energean released a notice[63] about a natural gas discovery at the Karish North well. According to Energean's reports, the plan for development of the Karish North reservoir filed thereby to the Petroleum Commissioner, had been approved by the Ministry of Energy in August 2020, and a FID for development of the Karish North reservoir had been adopted on January 14, 2021.[64] To the best of the Partnership's knowledge, based on Energean's publications, commencement of production from the Karish North reservoir is scheduled in 2023.

Furthermore, to the best of the Partnership's knowledge, the current data on the resources attributed to the Tanin, Karish and Karish North reservoirs (in this section: the "**Reservoirs**"), were reported by Energean in March 2022[65]. According to this report, the Reservoirs contain natural gas reserves (2P) of approx. 100.2 BCM and hydrocarbon liquids of approx. 101.3 million barrels.

For details with respect to a highly material valuation of the Partnership's royalty interest in the Tanin and Karish Leases, see Note 8B to the financial statements (Chapter C of this report), which are attached below, and Annex B of the Board of Directors' Report (Chapter B of this report).

It is emphasized that the Partnership, as the holder of a right to royalties, does not bear the development plan expenses of the Karish, Tanin and Karish North reservoirs.

7.7.3 Dispute with Energean regarding payment of the balance of consideration under the agreement

In the agreement for the sale of the rights to Energean, it was agreed that the balance of the cash consideration in the amount of $108.5 million (the "**Balance of the Consideration**") will be paid to the sellers in 10 equal annual installments plus interest in the mechanism and at the rate determined in the agreement. The agreement further stipulates that once Energean obtains financing ("**Financial Closing**") for the costs of the first phase of the approved Development Plan in Karish and Tanin plus the full (100%) monetary consideration for the sale as stipulated in the sale agreement ($148.5 million), Energean will be required to immediately pay the Balance of the Consideration.

[63] Link to Energean's notice: https://maya.tase.co.il/reports/details/1224643
[64] Link to Energean's notice: https://www.energean.com/media/4647/20210113-karish-north-fid.pdf
[65] Link to Energean's notice: https://www.energean.com/media/5159/024343-energean-israel-2021ye-cpr.pdf

By the report approval date, Energean Israel paid the Partnership, as required by the agreement, 4 of the 10 annual installments, on account of the Balance of the Consideration.

On April 30, 2021, Energean announced the issuance of bonds in the total amount of $2.5 billion and the release of the issue funds to the company's accounts. Following the aforesaid, the Partnership applied to Energean with a demand for immediate payment of the Balance of the Consideration, in accordance with the provisions of the agreement, however, the Partnership's demand was rejected on the grounds that the condition for immediate payment of the Balance of the Consideration was not fulfilled. As of the report approval date, the Partnership is considering taking legal action in this matter against Energean.

It is noted that in a correspondence between the parties, in May 2021, Energean informed the Partnership that in its view it was operating under the terms of a "force majeure" event (as defined in the agreement) resulting from the Covid-19 Crisis and which is expected to last more than 90 days. To the best of the Partnership's knowledge, Energean may delay the execution of the fifth annual installment scheduled for March 2022 on the pretext of the existence of such force majeure event. According to the Partnership's position, Energean has no grounds for the delay of such installment, especially since the conditions set forth in the agreement for the immediate payment of the full Balance of the Consideration as detailed above, have been met.

7.7.4 Dispute with Energean regarding the applicability of the right to royalties

Letters have been exchanged between Energean and the Partnership regarding claims raised by Energean with respect to the Partnership's right to receive royalties from the Tanin and Karish Leases. Energean claimed that: (a) The Partnership's overriding royalty does not apply to the Karish North reservoir (as opposed to the Karish reservoir); and (b) not all hydrocarbon liquids to be produced from the Karish Lease are deemed as Condensate according to the sale agreement which is subject to the duty to pay royalties. It is the Partnership's position, based on its external counsel, that Energean's duty to pay royalties applies to all natural gas and condensate to be produced from the leases, including from the Karish North reservoir, and that any and all hydrocarbon liquids to be produced from the reservoirs in the area of the leases constitute Condensate, as defined in the agreement, which is subject to royalties.

Caution concerning forward-looking information – The above description regarding the activities planned in the Karish lease, including the timetables for performance thereof and the date of commencement of gas piping from the Karish reservoir, constitutes forward-looking information, within the meaning thereof in Section 32A of the Securities Law, and is based only on public releases by Energean. Actual performance of the work plan, including the timetables, may materially differ from the foregoing and is contingent, *inter alia*, on applicable regulation, technical abilities and economic merit.

7.7.5 Below is a concise description of the main activities actually carried out in the Tanin and Karish Leases between January 1, 2019 and the report approval date, and a concise description of planned activities, to the best of the Partnership's knowledge. Since the Partnership does not bear the development and production costs in the Tanin and Karish Leases, the table below does not present data regarding the budget for the activities and the actual scope of the participation of the holders of the equity interests of the Partnership in the budget:

Karish and Tanin Leases			
Period	Concise description of actions actually taken for the period or of the planned work plan	Estimated overall budget per action on the petroleum asset level (in Dollars in thousands)	Scope of actual participation of the holders of the equity interests of the Partnership in the budget (in Dollars in thousands)
2019	• Continued planning and manufacture of the FPSO. • Drilling of an exploration well in the Karish North prospect. On April 15, 2019, Energean released a notice[66] about a natural gas discovery in the Karish North well. • Drilling of 3 production wells in the Karish reservoir, beginning in Q2/2019, and commencement of completion thereof. • Continued planning, manufacture and commencement of installation of the subsea transmission system that will connect the production wells of the Karish reservoir to the FPSO.		
2020	• Finalization of completion of three production wells in the Karish reservoir. • Continuation of manufacture and placement of the subsea transmission system that will connect the production wells to the FPSO and to the shore. • On April 4, 2020, the FPSO hull has departed, which was manufactured by a shipyard in China to Singapore, for the purpose of installation of the gas and condensate production and		

[66] Link to Energean's notice: https://maya.tase.co.il/reports/details/1224643.

	processing systems (the topsides). • Submission and receipt of approval of the development plan for the Karish North reservoir.		
2021	Adoption of a FID for the development of the Karish North reservoir and for the production and installation of second export razor, and second oil train system in liquids. • Continuation of work for installation of the gas and condensate production and processing systems on the FPSO hull in Singapore.		
2022	• Completion of installation and running-in of gas and condensate production and treatment systems on the FPSO body in Singapore. • Departure of the FPSO, including its systems, to Israel. • Completion of connection of the systems and the running-in thereof. • Commencement of commercial production from the Karish reservoir, current operation and maintenance. • Drilling of appraisal and development well at the Karish lease and completion of Karish North 1 drilling.		
2023 forth	• Installation of a second export razor, and installation and running-in of a second oil train system in liquids. • Continuation of commercial production from the Karish reservoir, current operation and maintenance. • Connection of the production well in Karish North to the FPSO and commencement of commercial production from the Karish North reservoir. • Drilling of additional production wells in the Karish and Karish North reservoirs, insofar as required.		

	• Development of the Tanin reservoir, including the drilling of production wells, manufacture and installation of a subsea system and connection thereof to the FPSO. Commencement of production from the Tanin reservoir is expected, according to the publications of Energean, in 2027.		

7.8 Discontinued operations

Below are details regarding petroleum assets, the activity in which was discontinued in recent years:

7.8.1 Eran License

The Eran License expired on June 14, 2013. Following the decision of the Petroleum Commissioner not to extend the Eran License, on October 3, 2013, the holders of the interests in the Eran License (including the Partnership) submitted an appeal to the Minister of Energy from the decision of the Petroleum Commissioner as aforesaid. On August 10, 2014, the Minister of Energy denied the appeal. On November 17, 2014, the holders of the interests in the Eran License (including the Partnership) filed a petition on this decision with the High Court of Justice. On June 2, 2016, the High Court of Justice entered a decision on the parties' agreement to defer to a mediation proceeding as proposed thereby. With the parties' consent, (Ret.) Chief Justice of the Supreme Court, A. Groins, was appointed as mediator. At the end of the mediation proceeding, the parties reached agreements that were established in a mediation arrangement. On March 20, 2019, this mediation arrangement was filed with the court, which was moved to enter a judgment on the arrangement. In the mediation arrangement, the parties to the mediation agreed (with the consent of the Tamar Partners) on the division of the Tamar SW reservoir between the area of the Tamar Lease (78%) and the area of the Eran License (22%). It was further agreed that the interest in the area of the Eran License would be divided at a ratio of 76% to the State and 24% to the holders of the interests in the Eran License prior to its expiration. On April 11, 2019, a judgment was entered on the mediation arrangement agreed to by the parties, as aforesaid. Negotiations were held between the partners in the Eran License, the Tamar Partners and the State of Israel regarding the regulation of the State's rights in additional related matters, but as of the report approval date, the parties have not yet reached agreements on how to implement the mediation arrangement, as specified above.

7.8.2 Alon D license

The Alon D license expired on June 21, 2020, after applications for the extension thereof have been denied by the Petroleum Commissioner.

See Section 7.25.10 below for details regarding a petition to the Supreme Court sitting as the High Court of Justice, in connection with the non-extension of the license.

Against the background of the expiration of the Alon D license, the Partnership and Chevron, which were the partners in the license submitted a bid in the competitive process declared by the Ministry of Energy on June 23, 2020 for the granting of a natural gas and oil exploration license in Block 72, over whose area the Alon D license extended ("**Block 72**").

Following the aforesaid, on October 21, 2020, a demand was received at the Partnership's offices from the Competition Authority for the provision of information and documents in connection with Block 72. As of the report approval date, the winner of the competitive process regarding Block 72 has not yet been declared. On September 30, 2020, the Petroleum Commissioner approached the Concentration Committee to hold a consultation on the decision on the winners of the said competitive process. On January 10, 2021 the Concentration Committee announced its recommendation not to allow the Partnership to win the competitive process, irrespective of its meeting the terms and conditions of the process. On January 14, 2021 the Partnership delivered a letter to the Petroleum Commissioner, whereby he should disregard the recommendation of the Concentration Committee as it is lacking and inaccurate and disregards material facts. It is noted that, to the best of the Partnership's understanding, on the same day the Petroleum Commissioner delivered a request to the Concentration Committee to hold another consultation on the matter. To the best of the Partnership's knowledge, its offer (together with Chevron) is superior to other offers submitted in the process, considering the conditions that were determined therein in advance. Therefore, the Partnership believes that it has the full right to win the License and intends to take any and all legal measures available thereto to defend its rights.

7.8.3 Tamar Project (Tamar Lease (I/12) and Dalit Lease (I/13))

On December 9, 2021, the transaction for the sale of the Partnership's remaining rights in the Tamar and Dalit Leases was closed, in accordance with the sale agreement described in Section 7.24.12 below and as of the report approval date, the sale consideration was transferred by the buyers in the sum of approx. $965 million. Following the closing of the transaction, liens that were created to secure the bonds of Tamar Bond were removed, and funds accumulated in pledged accounts in the amount of approx. $170 million were released.[67] The Partnership also received back various guarantees that it was required to provide as part of the Tamar project in the total amount of approx. ILS 60 million.

The sale proceeds together with the funds released as part of the closing of the transaction, served the Partnership, *inter alia*, for repayment of the bonds of Tamar Bond and Series A bonds of the Partnership. The Partnership also

[67] It is noted that the aforesaid amount does not include (net) income of the Partnership in respect of sales from the Tamar project made in November 2021, for which payment was transferred to the Partnership after the closing of the transaction.

paid capital gain tax on the aforesaid sale in the amount of approx. NIS 470 million.

For further details regarding the closing of the transaction, see the Partnership's immediate reports dated December 6, 2021 and December 9, 2021 (Ref. no.: 2021-01-176682 and 2021-01-178137, respectively), the information in which is incorporated herein by reference. Also, see Notes 7C1 and 10D to the financial statements (Chapter C hereof).

7.9 Products

7.9.1 Natural Gas

The vast majority of the natural gas discovered in the reservoirs held by the Partnership is comprised of methane gas and is therefore defined as "dry", even though upon production and processing, small quantities of non-corrosive liquid separate therefrom. Therefore, the required treatment of the gas for the purpose of supply to customers is relatively minimal.

As a rule, natural gas is transportable in three main ways: (a) through pipelines; (b) through the liquefaction thereof (i.e., the turning thereof into liquid, LNG) by the cooling thereof to a temperature of 161 degrees Celsius below zero, which decreases its volume by a factor of 600 and allows the transportation and storage thereof in large quantities; and (c) through the compression thereof (CNG), which decreases its volume by a factor of 100-300, depending on the compression pressure.

Liquefied gas and compressed gas may be transported in large quantities over great distances by means of specifically-designated tankers.

For details regarding the domestic gas market, including developments and changes therein, see Section 6 above, and for details regarding the natural gas export and sale on the international market, see Section 7.11.2 below.

7.9.2 Condensate

In the course of the process of production and treatment of natural gas, condensate is also produced. Condensate is a product of condensation of various hydrocarbon components of natural gas, which is caused as a result of temperature and pressure differences between the reservoir and the surface. The condensate produced from the Leviathan project requires minimal treatment, and mainly stabilization, to enable transportation thereof to the customers, and it mainly serves as feedstock in the production of refined oil products. The amount of condensate produced compared with the quantity of gas produced from the Leviathan project is relatively small, and is a few barrels per million cubic feet of natural gas (MMCF). For details regarding the engagement of the Partnership, together with its partners, in an agreement for the supply of condensate from the Leviathan project and regarding the examination of alternatives for the transmission and sale of the condensate, see Section 7.10.4 below.

7.10 Customers

7.10.1 General

As of the report approval date, the Partnership, together with its partners in the Leviathan project, supplies natural gas produced from the Leviathan reservoir, to independent power producers, marketing companies and industrial customers in the domestic market, and exports natural gas to customers in Jordan and in Egypt. At the same time, the Partnership continues to conduct various stages of negotiations with other potential customers in the domestic market and in the export markets.

It is noted that in 2021, in addition to the Partnership's revenues from the Leviathan reservoir, the Partnership also had revenues from sales of natural gas produced from the Tamar reservoir. According to the terms of the sale transaction, effective from August 1, 2021, natural gas sales from the Tamar reservoir were attributed to the buyers.

As of the report approval date, the Partnership, together with its partners in the Leviathan reservoir and third parties, are conducting a negotiation in relation to the examination of options for construction of a gas pipeline from Israel to Egypt.

As of the report approval date, as part of the promotion of the development of Phase 1B of the Leviathan reservoir, the Partnership is promoting negotiations with owners of natural gas liquefaction facilities in Egypt, mainly in relation to the LNG liquefaction facility operated by Shell and located close to the city of Idku[68]. The arrangements that are being examined include, *inter alia*, the possibility of entering into an agreement for the supply of natural gas as feed gas for the production of LNG, with the gas being priced according to a price formula that is affected by LNG prices in the global target markets. It is noted that, according to the conditions of the plan for development of the Aphrodite reservoir (as specified in Section 7.3.11 above), the Partnership is examining, *inter alia*, the possibility of supplying natural gas through a pipeline shared by the two reservoirs to the liquefaction facility in Idku.

7.10.2 Key customers

In 2021, NEPCO in Jordan and Blue Ocean in Egypt were the largest customers of the Leviathan reservoir. The Partnership's revenues from the sale of gas from the Leviathan project in 2021 to NEPCO and Blue Ocean were approx. 30% and 34%, respectively, of the Partnership's total revenues from the Leviathan project. The agreements signed between the Leviathan Partners and NEPCO and Blue Ocean are long-term agreements and termination or non-performance of the agreements may materially affect the Partnership's business and future revenues. The Partnership's other revenues from the Leviathan reservoir in 2021 originated from IEC (the agreement with which ended at the end of H1/2021 and constituted approx. 10% of the Partnership's revenues from the sale of gas from the Leviathan

[68] It is noted that, to the best of the Partnership's knowledge, the maximum annual feed gas capacity of the ELNG liquefaction facility in Egypt is approx. 11 BCM per year.

reservoir in 2021), independent power producers, industrial customers and natural gas marketing companies.

To the best of the Partnership's knowledge, the key customers of the partners in the Tamar reservoir in 2021 were IEC, Blue Ocean and Dalia Power Energies Ltd.

7.10.3 Engagements for supply of natural gas from the Leviathan project

Below are concise details regarding the agreements for the supply of natural gas from the Leviathan project which were signed by the Partnership, together with the other Leviathan Partners, that are valid as of the report approval date[69].

[69] Note that the figures in the table do not include agreements for the supply of natural gas from the Leviathan project on an interruptible basis, and agreements that have expired, including the agreement with IEC, as specified in Section 7.10.3(b) below.

Customer	Supply commencement year	Agreement period[70]	Total maximum contract quantity for supply (100%) (BCM) [71]	Quantity supplied until December 31, 2021 (100%) (BCM)	Main linkage basis of the gas price
Independent power producers[72]	2020, or the date of commencement of the commercial operation of the purchasers' power plant (whichever is later).	Some of the agreements are for a short period of up to approximately two and a half years, and the rest are for a long term of 14 to 25 years. Some of the agreements grant each of the parties an option for extension of the agreement in the event that the total quantity determined in the agreement is not purchased.	Approx. 40	Approx. 3.2	In most of the agreements the linkage formula of the gas price is based on the Electricity Production Tariff and includes a "floor price". Several short-term agreements determine a fixed price without linkage.
Industrial customers	2020	Some of the agreements are for a period of 5 to 15 years, and the rest are for a shorter period of up to	Approx. 5	Approx. 0.7	The linkage formula in most of the agreements is based in part on linkage to the Brent prices and in part to

[70] In most of the agreements, the gas supply period may end on the date of supply to the customers of the maximum contract quantity set forth in the agreement.
[71] This quantity is the maximum quantity which the Leviathan Partners have undertaken to supply to the customers during the term of the agreements. The quantity which the customers undertook to purchase is lower than this quantity (for details regarding the order backlog, see Section 7.12 below). It is noted that there are agreements in which a mechanism is determined whereby the purchaser will be entitled to increase/reduce the purchased quantities (including the total maximum quantity) until the date set forth in the agreement, according to its needs and the provisions determined in the agreement. It is further noted that several agreements do not state a maximum supply quantity.
[72] The data in the table include agreements, in which not all closing conditions have been fulfilled

		approximately two years. In most of the agreements the parties are not granted an option to extend the agreement period.			the Electricity Production Tariff, and includes a "floor price". There is partial linkage also to the refining margin index and to the general TAOZ index published by the Electricity Authority.
NEPCO export agreement (described in Subsection (d) below)	2020	15 years. The agreement stipulates that in the event that the purchaser does not buy the total contract quantity during the base period, the basic supply period will be extended by another two years.	Approx. 45	Approx. 4.6	The linkage formula is based on linkage to the Brent prices and includes a "floor price".
Blue Ocean export agreement (described in Subsection (e) below)	2020	15 years. The agreement stipulates that in the event that the purchaser does not buy the total contract quantity, the period of the supply will be extended by another two years.	Approx. 60	Approx. 5.3	The linkage formula is based on linkage to the Brent prices, and includes a "floor price". The agreement includes a mechanism for updating the price by up to 10% (up or down) after the fifth year and after the tenth year of the agreement, upon fulfillment

					of certain conditions determined in the agreement.
Total			**Approx. 150**	**Approx. 14**[73]	

Caution regarding forward-looking information – the information specified in the table above in relation to the overall financial scope of the supply agreements, natural gas quantities and supply periods, constitutes forward-looking information within the meaning thereof in Section 32A of the Securities Law, which there is no certainty will materialize, in whole or in part and which may materialize in a materially different manner, due to different factors that are beyond the Partnership's control, including due to the non-fulfillment of conditions precedent in the supply agreements (to the extent that such are yet to be fulfilled), non-obtainment of regulatory approvals, changes in scope, rate and timing of the consumption of natural gas by the gas consumers, exercise of options granted to customers in the supply agreements and the date of exercise thereof, and additional factors that are beyond the control of the Leviathan Partners.

The following table includes a breakdown of the Partnership's revenues from the Leviathan reservoir in 2020-2021:

	Year 2021		Year 2020	
Name of Customer	Total Revenues ($ in million)	% of Total Revenues	Total Revenues ($ in million)	% of Total Revenues
Independent Power Producers				
IEC	Approx. 91	Approx. 10	Approx. 183	Approx. 31
Other	Approx. 192	Approx. 22	Approx. 48	Approx. 8
Industrial Customers and Marketing Companies				
Other	Approx. 39	Approx. 4	Approx. 32	Approx. 5
Natural Gas Export				
NEPCO	Approx. 264	Approx. 30	179	30
Blue Ocean	Approx. 298	Approx. 34	145	25

[73] It is noted that the aggregate quantity supplied from the Leviathan project by December 31, 2021 (100%) (under the agreements specified in the table, under SPOT agreements and under agreements that have expired) is approx. 18 BCM.

(a) Further details regarding the agreements for the sale of natural gas from the Leviathan reservoir to independent power producers and industrial customers in the domestic market

1. In most of the agreements for sale of natural gas to independent power producers and industrial customers (in this section: the "**Agreements**"), the customers have undertaken to buy or pay for ("Take or Pay") a minimal annual quantity of natural gas at the scope and according to the mechanism determined in the supply agreement (the "**Minimum Quantity**"). It is noted that provisions and mechanisms have been established in the Agreements to allow each of such buyers, after it pays for natural gas not consumed thereby under the Agreement by operation of the aforesaid Minimum Quantity mechanism, to receive gas for no additional payment, up to the unconsumed quantity of gas for which it paid, in the years subsequent to the year in which the payment was made. The Agreements further establish a mechanism for accrual of a balance in respect of surplus quantities (over and above the "Take or Pay") consumed by the buyers in any given year and use thereof to reduce the buyers' obligation to purchase the Minimum Quantity as aforesaid for several years later.

2. The Agreements provide for additional provisions, *inter alia*, on the following issues: The right to terminate the Agreement in the case of breach of a material undertaking, the Leviathan Partners' right to supply gas to the said buyers from other natural gas sources, compensation mechanisms in the case of failure to supply the quantities set forth in the Agreement, limits on the liability of the parties in the Agreement, and in relation to the relationship between the sellers amongst themselves with respect to the supply of gas to the said buyers.

3. In accordance with the terms and conditions of the Gas Framework, each of the buyers under Agreements signed by June 13, 2017 for a term exceeding 8 years, was given an option to reduce the Minimum Quantity to a quantity equal to 50% of the average annual quantity that it actually consumed in the three years preceding the date of the option exercise notice, subject to adjustments as determined in the supply agreement. Upon reduction of the Minimum Quantity, the other quantities determined in the supply agreement will be reduced accordingly. Each of the said buyers may exercise such option by giving the sellers a notice during the 3-year period commencing 5 years after the date of commencement of the piping of the gas from the Leviathan project to the buyer. If the buyer gives such option exercise notice, the quantity shall be reduced 12 months after the date of the giving of the notice.

4. Various conditions precedent were determined in most of the supply agreements, including, *inter alia*, receipt of the approvals required on the part of the buyers in connection with the Agreement. As of the report approval date, such conditions precedent have been fulfilled in most of the Agreements.

(b) Details regarding supply of natural gas from the Leviathan reservoir to the IEC

The Partnership and its partners in the Leviathan project supplied natural gas from the Leviathan reservoir to the IEC until June 30, 2021, in accordance with an agreement signed in June 2019, as subsequently amended under a settlement agreement dated January 30, 2021 following various disputes which erupted between the parties and between the parties and the Tamar Partners (for additional details about the aforesaid disputes and agreements signed with the IEC, see Section 7.11.4(b)2 of Chapter A of the 2020 Periodic Report, which is included herein by reference). The aggregate supply from the sale of natural gas to the IEC from the Leviathan reservoir (100%), both as part of the aforesaid agreement and as part of the agreement for the supply of natural gas on an interruptible (Spot) basis until December 31, 2021, amounted to approx. 3.6 BCM totaling approx. U.S. $600 million. For further details, see Section 7.22.2(e) below.

(c) Agreement for export of gas from the Leviathan reservoir to NEPCO in Jordan

1. On September 26, 2016, an agreement was signed for the supply of natural gas between NBL Jordan Marketing Limited (the "**Marketing Company**") and the national electric company of Jordan (NEPCO) (the "**Export Agreement**"). The Marketing Company is a wholly owned subsidiary of the partners in the Leviathan project, including the Partnership, which hold it proportionately to the rate of their holdings in the Leviathan project.

   According to the Export Agreement, the Marketing Company undertook to supply to NEPCO natural gas for a period of approx. 15 years from the date of commencement of the commercial supply or until the total supply volume would be approx. 45 BCM. The supply according to the Export Agreement began on January 1, 2020.

   The gas delivery point according to the Export Agreement is at the connection between the Israeli transmission system and the Jordanian transmission system at the border between Israel and Jordan. In December 2019, INGL completed the construction of the Israeli transmission system up to the border between Israel and Jordan at a cost of approx. $121 million (100%).

   NEPCO has undertaken to take-or-pay for a minimum annual quantity of gas, at the scope and according to the mechanism as determined in the Export Agreement.

   The gas price determined in the agreement is based on a price that is linked to the Brent oil barrel prices, and includes a "floor price" plus a marketing fee, a transmission fee and NEPCO's bearing the cost of the transmission payments to INGL. On the signing date, the Leviathan Partners estimated that the aggregate scope of the revenues from the sale of natural gas to NEPCO may amount to approx. $10 billion, assuming that NEPCO consumes the total contract quantity, and based on the

Partnership's estimate with respect to the natural gas price during the term of the agreement.

2. On November 9, 2016, the Leviathan Partners and the Marketing Company signed a back-to-back GSPA (the "**Back-to-Back GSPA**"), whereby the amounts that shall be received, the liabilities, the risks and the costs relating to the Export Agreement will be endorsed to the Leviathan Partners under the same terms (back-to-back), as if the Leviathan Partners were a party to the Export Agreement instead of the Marketing Company.

On April 14, 2020, an Offtake Intercreditor and Security Trust Deed was signed between the Marketing Company, the Leviathan Partners and HSBC Corporate Trustee Company (UK) Limited ("**HSBC**"), which deed is intended to secure the Marketing Company's undertakings vis-à-vis the Leviathan Partners under the Back-to-Back GSPA, according to which HSBC was appointed as trustee for the collateral and undertakings by virtue of the Export Agreement.

Caution regarding forward-looking information – the information specified above regarding the total financial scope of the engagement for supply of natural gas to NEPCO and the quantity of natural gas that may be purchased under such engagement, constitutes forward-looking information within the meaning thereof in Section 32A of the Securities Law, which there is no certainty will materialize, in whole or in part, in the manner specified above or in any other manner, and may materialize in a materially different manner than described above, due to various factors including changes in the scope, pace or timing of the natural gas consumption by NEPCO, a change in the gas price as a result of a change in the Brent oil barrel price, etc.

(d) <u>Agreement for export of gas from the Leviathan reservoir to Blue Ocean in Egypt</u>

1. Further to previous engagements with Blue Ocean, on September 26, 2019 an agreement for supply of natural gas to Egypt was signed between the Leviathan Partners and Blue Ocean (the "**Export-to-Egypt Agreement**"), and at the same time, an agreement was signed between the Leviathan Partners and the Tamar Partners in connection with the allocation of the available capacity in the Israel to Egypt transmission system (for further details, see Section 7.24.4(b) below). The supply of natural gas to Egypt from the Leviathan reservoir according to the agreement began on January 15, 2020.

2. It is noted that in a tax decision that was issued to the Leviathan Partners by the Tax Authority on December 9, 2019, and according to the terms and conditions of the Gas Framework, the Leviathan Partners undertook to offer new customers (as defined in the Gas Framework) with which they

engaged or shall engage from February 19, 2018 until 3 years after the date of the signing of the tax decision, i.e. December 9, 2022, to enter into agreements for the sale of natural gas at a price that shall be calculated according to the formula determined in Export-to-Egypt Agreement, which is based on the Brent Price, while performing several adjustments as specified in the tax decision, including in view of the location of the delivery point determined in the Export-to-Egypt Agreement.

3. Below is a concise description of the main parts of the terms and conditions of the Export-to-Egypt Agreement

   a. The total contract gas quantity the Leviathan Partners undertook to supply the buyer, on a firm basis, is approx. 60 BCM (the "**Total Contract Quantity**").

   b. The gas supply, which began on January 15, 2020, will continue until December 31, 2034 or until the supply of the full total contract quantity, whichever is earlier (the "**Supply Period**"). In the event that the Buyer does not purchase the total contract quantity, each party will be entitled to extend the Supply Period by two additional years.

   c. The Leviathan Partners undertook to supply the Buyer with annual gas quantities as follows: (a) in the period that began January 15, 2020 and ended June 30, 2020 – approx. 2.1 BCM per year; (b) in the period that began July 1, 2020 and ends on June 30, 2020 – approx. 3.6 BCM per year, through a compressor that was installed at the EMG terminal in Ashkelon; and (c) in the period commencing July 1, 2022 and ending upon the conclusion of the Supply Period – approx. 4.7 BCM per year. It is noted that such increase of supply will be made by means of upgrading the systems at the EMG terminal in Ashkelon, including the installation of another compressor (the "**Additional Compressor**"), and by means of increasing the transmission capacity in the INGL system and/or piping natural gas from Israel to Egypt through Jordan, as specified in Section 7.11.2(e) below.

   d. The buyer undertook to buy or pay for (Take or Pay, TOP) quarterly and annual quantities, in accordance with the mechanisms set forth in the Export-to-Egypt Agreement, which, *inter alia*, allow the buyer to reduce the TOP quantity in a year in which the average daily Brent price (as defined in the agreement) shall have fallen below $50 per barrel, such that it will be 50% of the annual contract quantity. Insofar as the contract quantity is reduced in case of failure to agree on the gas price update, as stated in Subsection (e) below, the buyer's aforesaid right to reduce the TOP quantity will be revoked. In this context, it is noted that following the steep drop in energy prices in H1/2020, the average daily Brent price (as defined in the agreement) fell below $50 per barrel.[74] However, as of H2/2020, the average daily Brent price (as defined in the agreement) increased, and as of the report approval date, the price of a Brent barrel exceeds $115.

e. The price of the gas that shall be supplied to the buyer will be determined according to a formula that is based on the Brent oil barrel price, and includes a "floor price". The Export-to-Egypt Agreement includes a mechanism for a price update of up to 10% (up or down) after the fifth year and after the tenth year of the agreement, upon fulfillment of certain conditions which were specified in the agreement. In a case where the parties fail to reach an agreement regarding the price update as described above, the Buyer will be entitled to reduce the contract quantity by up to 50% on the First Adjustment Date and by up to 30% on the Second Adjustment Date. It is noted that the agreement includes an incentive mechanism that is quantity-contingent and subject to the oil barrel price.

f. The Export-to-Egypt Agreement includes standard provisions pertaining to termination thereof, as well as provisions in case of termination of the export agreement signed between the Tamar Partners and Blue Ocean as a result of breach thereof, and the lack of consent of the Leviathan Partners to additionally supply the quantities under the aforesaid Tamar agreement, and also includes compensation mechanisms in such a case.

4. By December 31, 2021, the Leviathan Partners supplied the buyer approx. 5.35 BCM for the total monetary consideration of approx. $980 million. At the date of signing of the Export-to-Egypt Agreement, the Partnership estimated that the aggregate amount of the contract (with respect to all of the Leviathan Partners) may total approx. $12.5 billion. Such estimate is based, *inter alia*, on the assumption that the buyer would consume the Total Contract Quantity set forth in the agreement, as well as on various estimates regarding the prices of natural gas during the Supply Period. It is emphasized that the actual revenues will be derived from a gamut of factors, the majority of which are beyond the Partnership's control.

5. It is noted that, as part of the series of agreements, as specified in Section 7.11.2(e)5 below, the Leviathan Partners and Blue Ocean signed an amendment to the Egypt Export Agreement, in which agreements were reached, *inter alia*, on defining the delivery point in Aqaba, Jordan, as an additional point of delivery under the Egypt Export Agreement, an arrangement whereby calculation of the quantities nominated by Blue Ocean but not supplied thereto shall be made in 2022 on an annual basis, such that at the end of the year the parties will review the quantities of gas not supplied, which will be offset against the quantities of gas to be

[74] For details regarding an action and a motion for certification thereof as a class action, filed against the Partnership in connection with the said clause, see Section 7.25.8 below, and for details regarding the administrative inquiry conducted by the Israel Securities Authority (ISA) in this matter, see Section 7.25.9 below.

supplied to Blue Ocean on a Spot basis during the year, as well as adjustments to the price of the natural gas to be supplied at the additional point of delivery as aforesaid, in accordance with the additional costs entailed by the transmission of the gas from the additional point of delivery, to be borne by Blue Ocean.

Caution regarding forward-looking information – the above information regarding the amount of projected revenues under the Export-to-Egypt Agreement, and the natural gas quantities that may be sold to the Buyer, is based on various estimations, forecasts and assumptions made by the Partnership. These estimations constitute forward-looking information, within the meaning thereof in Section 32A of the Securities Law, which there is no certainty will materialize, in whole or in part, and may materialize in a materially different manner, due to various factors that are beyond the Partnership's control, including due to changes in the scope, rate and timing of the natural gas consumption by the Buyer, changes in the gas price in accordance with the terms and conditions of the engagement and other factors that are not foreseeable at this time and over which the Partnership has no control.

7.10.4 Agreement for the supply of condensate from the Leviathan reservoir

(a) General

As described in Section 7.9.2 above, condensate is a liquid which is produced as a result of natural gas condensation. Since condensate is a byproduct of the production and processing of natural gas, the processes of production of the natural gas from the Leviathan reservoir require processing of the condensate and its transfer to shore.

(b) Agreement for the supply of condensate to ORL

On December 15, 2019, an agreement was signed whereby condensate produced from the Leviathan reservoir will be piped via EAPC's existing fuel pipeline to a container site of PEI in Kiryat Haim, and then piped from there to ORL's facilities, *inter alia*, according to regulatory directives.

The agreement signed with ORL is on an interruptible basis, for a term of 15 years from the date of commencement of condensate piping in commercial quantities, with each party having the right to terminate the agreement by giving notice, no less than 360 days in advance, to the other party. In addition, each party may terminate the agreement on a shorter notice upon the occurrence of various events, including upon the occurrence of a breach event by the other party, and upon the occurrence of regulatory and other changes which will not allow the piping of condensate according to the provisions of the agreement.

The piping of condensate to ORL shall be made as aforesaid on an interruptible basis, up to a maximum quantity that was agreed by the parties.

The parties may update the maximum quantity from time to time, subject to compliance with the terms determined by the authorities in this respect, including the Ministry of Energy and the Ministry of Environmental Protection.

Pursuant to the agreement, the Leviathan Partners are not entitled to consideration for the supply of condensate to ORL, and the Leviathan Partners are obligated to bear any and all expenses, including the tax exposures, with respect to the condensate supply.

As part of correspondence between the Leviathan Partners and ORL in Q1/2022, the Leviathan Partners communicated to ORL their claim that the absence of payment for the condensate supplied to ORL as noted above, constitutes prohibited abuse, in violation of the law, of ORL's power as a monopsony in the purchase of condensate. In such communication, the Leviathan Partners invited ORL to commence discussions for the purpose of remedying the aforesaid breach immediately and retroactively. ORL replied with a letter that rejected the claims of the Leviathan Partners, whereas the Leviathan Partners reiterated their position whereby ORL's failure to pay for the condensate supplied thereto, as noted, constitutes a violation of the law that inflicts material damage on the Leviathan Partners. As of the report approval date, the Leviathan Partners are considering legal action against ORL.

(c) MOU with PEI

On June 14, 2021, Chevron, the operator of the Leviathan project, signed a non-binding MOU with PEI regarding the promotion of the possibility of a joint project for construction and operation of designated infrastructure for piping condensate from the Leviathan platform to storage containers located at the "Orot Rabin" power plant, which containers shall be leased for such purpose, and loading the condensate onto tankers. It is clarified that the execution of the aforementioned project is subject to the signing of a binding agreement between the parties, the signing of an agreement between ORL and IEC regarding the use of the power plant premises, and receipt of regulatory approvals insofar as required.

It is noted that as of the report approval date, the Leviathan Partners are considering, together with PEI, another possibility for piping condensate from the Leviathan platform through the existing PEI systems.

7.11 Marketing and Distribution

7.11.1 Supply to the domestic market

The Partnership, together with its partners in the Leviathan project, supplies natural gas and condensate to its customers in Israel, in accordance with the engagements described in Section 7.10.3 above. At the same time, the Leviathan Partners are conducting negotiations at various stages with other potential customers in the domestic market, including independent power producers and industrial consumers, subject, *inter alia*, to the supply capacity of the Leviathan project. Piping of natural gas to some of the potential customers may also be contingent upon the continued development of the natural gas national transmission system by INGL, and the completion of the regional distribution systems. As of the report approval date, the marketing of natural gas produced from the Leviathan reservoir to the customers is performed by way of joint marketing, in accordance with an exemption from certain provisions of the Economic Competition Law, 5748-1988 (the "**Economic Competition Law**"), which as signed on December 17, 2015 by the former Prime Minister in his capacity as Minister of the Economy, and according to supply agreements that were signed between the customers and all of the Leviathan Partners.

7.11.2 Export

(a) General

The Partnership, together with the Leviathan Partners exports natural gas to customers in Jordan and Egypt, in accordance with the engagements described in Section 7.10.3 above. At the same time, the Leviathan Partners are acting to identify additional potential customers and markets outside of Israel for the marketing of the natural gas. The Partnership estimates that the potential markets include the countries that are close to Israel (including the Palestinian market which currently purchases electricity from Israel, although, to the best of the Partnership's knowledge, there are also plans to build, on areas of the Palestinian Authority, power plants for the production of electricity), chiefly Egypt and Jordan, to which natural gas is exported via pipelines from the Leviathan reservoir and from the Tamar reservoir, and the more distant global markets to which it is possible to export natural gas via LNG (liquefied natural gas) and/or CNG (compressed natural gas). It is noted in this context that the Leviathan Partners are looking into the economic viability of potential projects for the export of natural gas via LNG (including liquefaction of natural gas in a floating facility - FLNG) and CNG, as specified below.

(b) Export via pipeline

The Partnership is acting for the promotion of possibilities of use of preexisting and/or new pipelines to regional markets, in addition to the export agreements into which it has entered as specified in Sections 7.10.3(c) and 7.10.3(d) above. For details about the piping of natural gas pursuant to the Export-to-Egypt Agreement, through Jordan, see Section (e) below.

On July 19, 2020, Government Resolution No. 235 was adopted, in which the government ratified an agreement of January 2020 between Israel, Cyprus, Greece and Italy with respect to the construction of a pipeline for the transport of natural gas ("East-Med") from natural gas reservoirs in Israel and Cyprus to the European markets, in which the parties undertook to cooperate with one another in connection with the construction of the project.[75] In January 2022 Reuters News Agency reported that President Biden's administration communicated a message to the Greek government whereby it is concerned about the promotion of the East Med pipeline project due to economic and environmental reasons.[76]

(c) The natural gas market in Jordan[77]

To the best of the Partnership's understanding and based on information and analysis received from independent consulting firms, Jordan's gas consumption for domestic use was approx. 4 BCM in 2021, similar to the consumption in 2020. Natural gas is the main energy source for electricity production in Jordan. It is estimated that in 2021, approx. 77% of the electricity in Jordan was produced by using natural gas, and approx. 16% was produced by using renewable energies. In the Partnership's estimation, natural gas consumption in Jordan is expected to remain at approx. 4 BCM in 2022 and range between 3.8 and 4.2 BCM in the coming decade. The stability in the forecast for natural gas consumption in Jordan, despite the projected increase in the demand for energy in general and for electricity in particular, is related to the accelerated penetration of renewable energies into the electricity production sector in Jordan as a result of government policy, and due to the generation of electricity by a Jordanian power plant (Attarat Power Plant), which is fired by oil shale. As of the report approval date, Leviathan is the primary source of the natural gas imported into Jordan for electricity generation purposes, along with marginal import (approx. 0.5 BCM in 2021) from Egypt via the Arab Gas Pipeline. Furthermore, there is natural gas production in Jordan in negligible quantities. In 2021, Jordan imported, under past agreements, approx. 1.1 BCM of LNG via a floating regasification facility in Aqaba. To the best of the Partnership's knowledge, such facility is still operating and Jordan is able to continue importing LNG, by seizing opportunities on LNG spot markets. With respect to the export of gas from the Leviathan project to Jordan, it is noted that December 2019 saw the completion of the work that allows for connection of the Israeli and Jordanian transmission systems by: (a) laying down a pipeline parallel to the existing pipeline from the area of Tel Kashish to Dovrat; (b) construction of a new natural gas pipeline from Dovrat to the border with Jordan; (c) construction of a sequential pipeline on the Jordanian side that connects the Israeli transmission system to the existing transmission pipeline in Jordan (connection to the Arab Gas Pipeline that is operated by FAJR) (the "**Northern**

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[75] For information regarding the agreement for the "East-Med" gas pipeline that will run from Israel through Cyprus and Greece to Europe, see the notice of the Energy Ministry of January 1, 2020:
https://www.gov.il/he/departments/news/ng_021220
and of March 9, 2021: https://www.gov.il/he/departments/news/east_med_080321.
For information regarding an MOU for the laying of the EuroAsia subsea power cable, see the notice of the Energy Ministry of March 9, 2021:
https://www.gov.il/he/departments/topics/exploration_and_production_of_oil_and_natural_gas.

[76] https://www.reuters.com/business/energy/us-voices-misgivings-eastmed-gas-pipeline-greek-officials-2022-01-11.

[77] The aforesaid information regarding the natural gas market in Jordan and Egypt is based, *inter alia*, on reports published by external consulting companies.

Pipeline"). With respect to the budget for construction of the Northern Pipeline, as approved by the Leviathan Partners, see Section 7.2.4 above. Based on the information known to the Partnership, the Northern Pipeline's capacity may enable the flow of natural gas to Jordan and transmission to Egypt through Jordan in an annual amount of up to approx. 10 BCM.

(d) The natural gas market in Egypt

Natural gas plays a key role in the Egyptian energy market, with consumption thereof mainly used for electricity production, but also for energy-intensive industry and households. In 2021, approx. 80% of the electricity in Egypt was produced by using natural gas. In 2021, local production in Egypt was approx. 70 BCM, an increase of approx. 16% compared with 2020, and domestic demand for natural gas was approx. 64 BCM, an increase of approx. 9% compared with 2020. Egypt has two facilities for the liquefaction of natural gas for the production of LNG for the purpose of export of LNG, with a total liquefaction capacity of approx. 12.2 million tons of liquefied gas per year, operation of which at full capacity requires approx. 18-19 BCM of natural gas per year, in addition to the domestic demand. As of the report approval date, gas production in Egypt is sufficient to fulfill the needs of the domestic market, but not sufficient for operation of the two liquefaction facilities at full capacity. In these circumstances, one or both of the two facilities operate with partial output. According to the reports of independent consulting firms, demand forecasts for the domestic Egyptian market (excluding the liquefaction facilities) for 2022, 2023 and 2024 are approx. 65 BCM, approx. 67 BCM and approx. 69 BCM, respectively, whereas domestic production from producing fields, either at development stages or with high probability of production commencement, is expected to remain at approx. 65 BCM per year. The difference between the forecasts of the domestic market's demand and projected domestic production is expected to even increase in the future. The Egyptian Government is acting to promote projects for the supply of natural gas from discoveries in Israel and Cyprus, with the aim of turning Egypt into a natural gas hub, in order to supply the needs of the domestic market alongside use of the existing export facilities and promotion of investments in new export facilities. At the same time, the Egyptian Government is encouraging natural gas exploration, development and production activities in Egypt. As a result of these activities, new discoveries may be found in Egypt and/or the development of existing fields will be accelerated, such that the aforesaid production forecasts change.

For details regarding the EMG Transaction, which allows for piping natural gas to Egypt, see Section 7.24.4 below, and for details about agreements for piping gas to Egypt through Jordan, see Section (e)5 below.

Caution regarding forward-looking information – The forecasts and estimates regarding the natural gas market in Jordan and in Egypt are forward-looking information within the meaning thereof in Section 32A of the Securities Law. This information is based, *inter alia*, on information received from independent advisory companies and constitutes estimated projections and assumptions

which are naturally subject to uncertainty. Such projections and estimations may not materialize, in whole or in part, or may materialize in a materially different manner, due to various factors that are beyond the Partnership's control, including changes in the demand for natural gas, changes in the supply of natural gas – including local production, discovery of new reservoirs and commencement of production therefrom, changes in the energy mix – including accelerated penetration of additional energy sources including renewable energy, changes due to macro-economic effects which influence the economic activity in these markets, including acceleration or deceleration in the economic activity, etc.

(e) Engagement with INGL in transmission agreements in relation to the export to Egypt

1. On May 28, 2019, an agreement was signed between Chevron and INGL with respect to the provision of interruptible transmission services in connection with the piping of natural gas from the Leviathan reservoir and the Tamar reservoir to the EMG terminal in Ashkelon, for purposes of export to Egypt (in this section: the "**2019 Agreement**"). The payment pursuant to the 2019 Agreement will be made based on the gas quantity which will actually be piped in the transmission system, subject to Chevron's undertaking to pay for specific minimum quantities.

2. In July 2020, with the operation of a compressor at the entry to the ENG system in Ashkelon, the capacity of the EMG pipeline, under the limitations of INGL's existing transmission system infrastructure, increased to approx. 500 MMCF per day (approx. 5 BCM per year). Under the Export-to-Egypt Agreement, as described in Section 7.10.3(d) above, the Additional Compressor is installed in Ashkelon, such that, coupled with the construction of the Ashdod-Ashkelon combined section by INGL, the EMG's system piping capacity will be able to be increased to approx. 650 MMCF per day, and given certain conditions in the Israeli and Egyptian transmission systems, even more.

3. On January 18, 2021, Chevron engaged with INGL in an agreement for the provision of transmission services on a firm basis for the piping of natural gas from the Leviathan and Tamar reservoirs to the EMG terminal in Ashkelon and for the transmission thereof to Egypt, which took effect on February 14, 2021 (the "**Transmission Agreement**" or, in this section: the "**Agreement**"). Below is a concise description of the main principles of the Agreement:

   a. In the Transmission Agreement, INGL undertook to provide transmission services for the natural gas that shall be supplied from the Leviathan and Tamar reservoirs, including maintaining an annual base capacity in the transmission system of approx. 5.5 BCM (the "**Base Capacity**"). For the transmission services in relation to the Base Capacity, Chevron will pay capacity fees and a payment for the gas quantity that shall actually be piped (throughput), in accordance with the accepted transmission rates in Israel, as shall be updated from time to time.[78] In addition, INGL undertook to provide non-continuous transmission services, on an interruptible basis, of additional gas quantities over and above the Base Capacity, subject to the capacity that shall be available in the transmission system. For transmission of the additional quantities as aforesaid, Chevron will pay a transmission rate for non-continuous transmission services in relation to the quantities that shall actually be piped. To the best of the Partnership's knowledge, the transmission system was planned to allow the transmission of the full contract quantity set forth in the export agreements.

b. In the Transmission Agreement, Chevron committed to payment for the piping of a gas quantity that shall be no less than 44 BCM throughout the term of the Agreement. If the parties agree on an increase in the Base Capacity, the minimum quantity for piping as aforesaid will be increased accordingly.

c. The gas flow according to the Transmission Agreement will begin on the date on which INGL shall complete the construction of the Ashdod-Ashkelon offshore transmission system section (the "**Combined Section**"), in accordance with the provisions of the decision of the Natural Gas Council in connection with the financing of projects for export via the Israeli transmission system, and division of the costs of the construction of the Combined Section, as described in Section 7.22.5(d) below (the "**Council's Decision**"), in a manner which will allow the piping of the full quantities under the Transmission Agreement (the "**Piping Commencement Date**").

d. The Transmission Agreement will end upon the earlier of: (a) the date on which the total quantity that is piped is 44 BCM; (b) 8 years after the Piping Commencement Date; or (c) upon expiration of INGL's transmission license. In the Partnership's estimation, upon expiration of the term of the Agreement, no difficulty is expected with extending it at the capacity and transmission rates of the transmission license holder at such time.

e. In accordance with the principles determined in the Council's Decision, Chevron undertook to pay the amount for the share of the partners in the Leviathan and Tamar projects (56.5%) out of the total cost of construction of the Ashdod-Ashkelon Combined Section, which is estimated at ILS 738 million. Chevron also undertook to pay ILS 27 million for such partners' share of the total cost of bringing forward the construction of doubling the Sorek-Nesher and Dor-Hagit sections, which is estimated as of the report approval date at approx. ILS 48 million.

[78] As of the report approval date, the capacity and throughput fees that INGL charges its customers amount to approx. ILS 0.86 per MMBTU.

f. In accordance with the Council's Decision, the Leviathan Partners and the Tamar Partners provided a bank guarantee to secure INGL's share in the cost of construction of the foregoing infrastructure, and to cover Chevron's commitment to pay the capacity and transmission fees. Accordingly, in February 2021, the Partnership provided such guarantees in respect of its rights in the Leviathan project, in the sum of approx. ILS 142 million, and also pledged in favor of the facility for the guarantees a deposit in the sum of approx. $13 million.

g. The Leviathan Partners and the Tamar Partners will bear the costs stated in Subsection (e) above and provide the guarantees stated in Subsection (f) above at the rates of 69% and 31%, respectively.

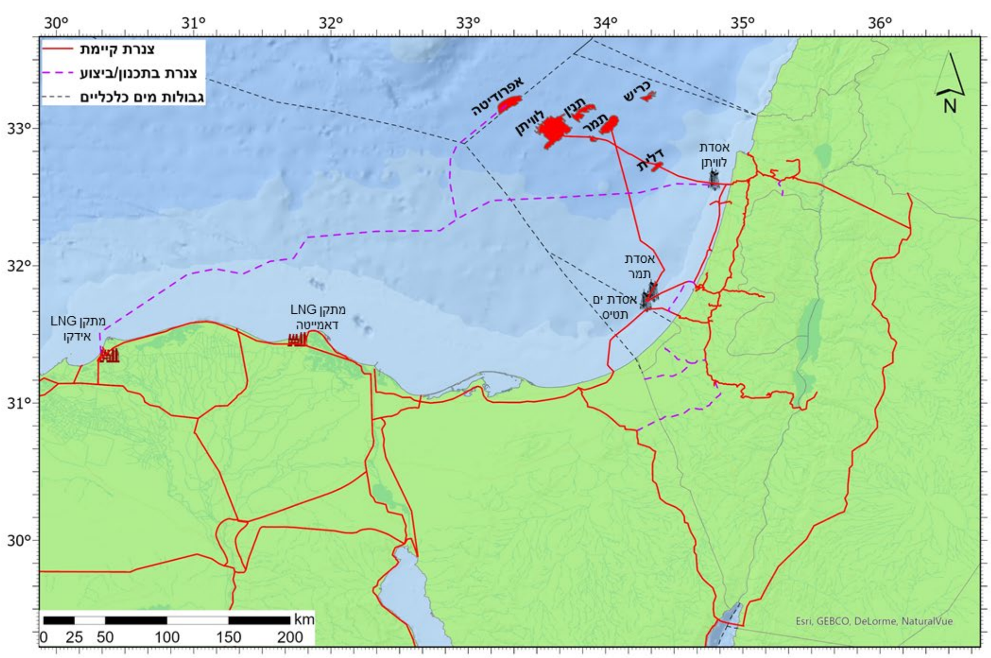
h. The Transmission Agreement stipulates that in case of cessation of the export of natural gas from the Tamar and Leviathan projects to Egypt, Chevron will be entitled to terminate the Transmission Agreement subject to payment of compensation to INGL due to the early termination, in an amount equal to 120% of the costs of construction of the Ashdod-Ashkelon combined section, plus the costs of accelerating the doubling of the Sorek-Nesher and Dor-Hagit sections, net of the amounts Chevron paid until the date of the termination in respect of such construction and acceleration costs and in respect of the piping of the gas under the Transmission Agreement. If, after the termination of the Transmission Agreement, export to Egypt resumes, the Transmission Agreement will be renewed subject to and in accordance with the capacity that shall be available in the transmission system at such time.

i. It was further determined that the transmission period under the 2019 Agreement will be extended until January 1, 2024 or until the Piping Commencement Date pursuant to the Transmission Agreement, whichever is earlier.

4. Concurrently with the signing of the Transmission Agreement, Chevron, the Partnership and the other Leviathan Partners and Tamar Partners signed a back-to-back services agreement (in this section: the "**Services Agreement**"), which determined that the Leviathan Partners and Tamar partners will be entitled to transmit natural gas (through Chevron) under the Transmission Agreement, and will be responsible for fulfillment of Chevron's undertakings under the Transmission Agreement (back-to-back), as if the Leviathan Partners and the Tamar Partners were a party to the Transmission Agreement in Chevron's stead, each according to its share, as determined in the Capacity Allocation Agreement between the Leviathan Partners and the Tamar Partners, as specified in Section 7.24.4 below. The Services Agreement further determined that the Base Capacity that is kept in the transmission system for Chevron will be allocated between the Leviathan Partners and the Tamar Partners according to the specified rates, and according to the order set forth in the Capacity Allocation Agreement. The Leviathan Partners and the Tamar

Partners will bear capacity fees at a fixed ratio of 69% (the Leviathan Partners) and 31% (the Tamar Partners), except in a case where a party (the Leviathan Partners or the Tamar Partners, as the case may be) used the available share in the capacity of the other party.

5. According to current updates received from INGL about the completion of the Combined Section, the Piping Commencement Date is expected to be feasible in April 2023. Therefore, the Leviathan Partners have signed a set of agreements, aimed to allow for the piping of natural gas under the Export-to-Egypt Agreement, through Jordan, using the Israeli transmission system to Jordan and the transmission system that connects Jordan to Egypt in the Aqaba-Taba area (the Arab Gas Pipeline). Under such set of agreements, natural gas piping through Jordan to Egypt has commenced, which allows for maximizing production from the Leviathan reservoir and transmitting natural gas surpluses that are not consumed in Israel and Jordan and/or piped to Egypt via the EMG pipeline, to the Egyptian market, via the Jordanian transmission system, mainly until the Ashdod-Ashkelon offshore transmission system section is completed by INGL. As of the report approval date, and as the Partnership was informed by the operator, using the existing transmission infrastructure and current operating conditions, natural gas can be flowed to Egypt, via Jordan, in an average daily amount of up to approx. 650 MMCF (approx. 6.5 BCM per year). As part of the said series of agreements, the Leviathan Partners and Blue Ocean signed an amendment to the Egypt Export Agreement, as specified in Section 7.10.3(d)5 above. It is noted in this context that the Ministry of Energy has granted the Leviathan Partners its approval for an additional delivery point of natural gas to Egypt, which shall be located in Aqaba, Jordan. For further details, see the Partnership's immediate reports of February 17, 2022 and March 1, 2022 (Ref. 2022-01-019438 and 2022-01-023718), the information included in which is incorporated herein by reference.



Caution regarding forward-looking information – The above estimations in relation to the costs of construction of the Ashdod-Ashkelon combined section, the costs of accelerating the doubling of the Sorek-Nesher and Dor-Hagit sections, the gas transmission costs, the Piping Commencement Date, the quantities that it will be possible to pipe under the Transmission Agreement, the estimate regarding the possibility of extending the Transmission Agreement, and the quantities that may be flowed to Egypt through Jordan, constitute forward-looking information, within the meaning thereof in the Securities Law, 5728-1968, which is partly based on estimations the Partnership received from INGL through Chevron, which there is no certainty will materialize, in whole or in part, and may materialize in a materially different manner, due to various factors, including delays and malfunctions in the construction of the transmission system sections, actual construction costs that are different to the estimated costs, non-receipt of the required regulatory approvals, changes in the transmission rates that apply in Israel, and other factors beyond the Partnership's control.

(f) The natural gas market in Judea and Samaria (the West Bank) and the Gaza Strip

Israel is the main source of electricity for the West Bank and the Gaza Strip. In recent years, the Palestinian Authority has been developing the ability to independently generate electricity, *inter alia*, by promoting the construction of a new power plant for the generation of electricity in Jenin.

In the Partnership's estimation, the demand for natural gas for operation of the future power plant in Jenin will be approx. 0.2 BCM per year, and the demand for natural gas for operation of Gaza's existing power plant will be approx. 0.25 BCM per year.

As of the report approval date, the Partnership, together with its partners in the various projects, is conducting negotiations, *inter alia*, in relation to the possibility of supplying natural gas to the aforesaid power plants.

(g) The natural gas market in Cyprus

As of the report approval date, 90% of electricity production in Cyprus which is based on the use of imported petroleum-based products, such as diesel oil. In addition, Cyprus has difficulties in connecting to the energy infrastructures in Europe due to its geographical location and its being an island. However, to the best of the Partnership's knowledge, the Government of Cyprus and the Cypriot electricity company are acting to replace the petroleum-based products used for electricity generation with natural gas. In 2007, the Cypriot government established the public gas company ("**DEFA**"), which is solely responsible for the import, storage, marketing, transportation, supply and trade of natural gas in Cyprus, including management of the natural gas transmission and distribution system in Cyprus. According to regulations promulgated in Cyprus in 2007 with regards to the natural gas market in

Cyprus, the said gas company has exclusivity for the import and marketing of natural gas in Cyprus. As of the report approval date, Cyprus does not consume any natural gas. For further details pertaining to the Cypriot market, see Section 7.13.6(b) below. The Partnership is continuing to promote, together with its partners in the Aphrodite reservoir, discussions and/or negotiations, at various stages, in relation to the export of natural gas from the Aphrodite reservoir to regional markets, including the Egyptian market, including connection to existing infrastructures in the Mediterranean Basin and negotiations for the supply of natural gas for feeding the existing liquefaction facility in Idku, Egypt, at a scope of approx. 6 BCM per year for a period of approx. 10-15 years.

Caution regarding forward-looking information – the information specified above with respect to the said discussions and/or negotiations, constitutes forward-looking information, within the meaning thereof in Section 32A of the Securities Law, the materialization of which, in whole or in part, is completely uncertain, either in the manner specified or otherwise, and which may materialize in a manner that materially differs from the aforesaid description, and in particular there is no certainty that such discussions and/or negotiations will result in binding gas sale agreements and that the conditions required by any law for such agreements, if signed, to take effect, will be fulfilled.

(h) Natural gas market in Turkey

IN 2021, natural gas consumption in Turkey increased by 22% compared with the previous year, from 48 BCM to 59 BCM. As of the report approval date, Turkey is nearly completely dependent on natural gas import by pipeline and as LNG in the supply of its domestic demand for natural gas. In general, Turkey is acting to diversify its supply sources and to become a country through which gas is transmitted by pipeline to Europe, including by means of increasing the quantities of natural gas piped to and through Turkey from countries that presently supply natural gas thereto. In recent years, the Partnership has had talks with various parties in the Turkish market regarding the supply of natural gas from the Leviathan reservoir, and has also conducted talks with Turkish Government officials regarding a project that would include the construction of an offshore pipeline from Israel to Turkey for the sale of natural gas to the Turkish market and to Europe through the Turkish market. As of the report approval date, in view of the changes to the European natural gas sector, the Partnership was contacted by various governmental and private factors, in a request to reexamine the possibility of promoting this option.

Since 2020, Turkey's national oil company, TPAO, has discovered several significant natural gas reservoirs in the Black Sea, which, according to its reports, amount to approx. 19 TCF. Production from these reservoirs is reportedly expected to commence in 2023-2024, first at a rate of approx. 3.2 BCM per year, increasing to approx. 14.5 BCM per year after about 5 years. At the same time, TPAO is continuing to promote exploration activities in the region and in elsewhere, and further discoveries are possible.

(i) Natural gas market in Morocco

According to various reports, natural gas production in Morocco presently amounts to approx. 0.1 BCM per year. In general, Morocco has gas resources of approx. 800 BCF, which originate from 3 different onshore and offshore ventures and are operated by international oil and gas companies. Electricity production in Morocco is currently mostly based on coal, with only approx. 10% based on natural gas. However, Morocco strives to reduce greenhouse gas emissions, *inter alia*, by replacing coal with natural gas. As of the report approval date, domestic demand for natural gas in Morocco is approx. 1 BCM per year, most of which (approx. 90%) has until recently been supplied by the import of gas from Algeria via the GME pipeline. On November 1, 2021, gas transmission through the GME pipeline came to a stop following the expiration of the supply agreement between the countries, and to the best of the Partnership's knowledge, given the increasing political tensions between Morocco and Algeria, entry into a new agreement is not expected. Consequently, Morocco has issued a tender for construction of an LNG regasification facility, and according to media reports, Morocco is expected to import LNG in the quantities of approx. 1.1 BCM, 1.7. BCM and 3.1 BCM in 2025, 2030 and 2040, respectively. It is noted that, as of the report approval date, there are no LNG regasification or production facilities in Morocco. To the best of the Partnership's knowledge, there are currently about 4 power plants in Morocco with the ability to produce electricity based on natural gas, which may create demands amounting up to approx. 150 MMCF per day, and there is a plan to build additional power plants that will allow for increase of the natural gas-based electricity generation capacity.

To date, exploration in Morocco has not yielded significant oil or gas discoveries, despite substantial activity by various companies such as Eni, Shell, BP, Chevron, Total and Repsol, which held offshore and onshore licenses. There is presently onshore and offshore exploration activity of insignificant scope.

In December 2020, a normalization agreement was signed between Israel and Morocco, under which, *inter alia*, Israel and the United States recognized Morocco's sovereignty over Western Sahara. To the best of the Partnership's knowledge, exploration in Western Sahara was previously focused on its offshore area. As of the report approval date, the only company operating in Western Sahara is Ratio Petroleum Energy – Limited Partnership, which, to the best of the Partnership's knowledge, signed the Dakhla Atlantique research license agreement on September 24, 2021.

(j) Liquefied Natural Gas (LNG)

The Partnership is examining the possibility of liquefying the gas and transporting it in a liquefied state (LNG) in designated tankers to various countries where there is demand for LNG. The construction of a natural gas liquefaction facility is a highly complex project, *inter alia* due to the tremendous scope of the investment of liquefaction facilities whose liquefaction capacity is millions of tons of LNG per year, and due to design, engineering, environmental, regulatory and commercial challenges that are entailed by such a project.

As of the report approval date, the Partnership, together with its partners in the Leviathan reservoir and third parties, is conducting negotiations in relation to examination of the options for export of natural gas to the liquefaction facilities in Egypt, liquefaction thereof and sale thereof in the LNG target markets. This will require the construction of a specifically-designated gas pipeline from Israel to Egypt, in addition to expansion of the Leviathan reservoir's production capacity. For further details see Section 7.10.1 below.

In addition, the Partnership is examining the construction of a floating liquefaction facility (FLNG) to be located offshore on a designated vessel, which is used for the production and storage of LNG. Such a facility, insofar as constructed, will receive processed gas from the Leviathan platform on the one hand, and produce liquefied gas that will be offloaded by designated vessels on the other hand.

As of the report approval date, the Leviathan Partners are continuing to promote the construction of the FLNG facility for the Leviathan project, including receipt of the required regulatory approvals. In this context, the Leviathan Partners have engaged in an interim agreement with Exmar NV ("**Exmar**")[79] for the performance of FEED.

It is noted, in this context, that in March 2020, the Ministry of Energy released a request for public comment regarding the alternatives proposed by the Ministry of Energy for an offshore FLNG facility for export of liquefied natural gas in Israel's EEZ[80]. The Association of Oil and Gas Exploration Industries in Israel, of which the Partnership is a member, submitted its comments on the said document on May 17, 2020.

(k) Compressed Natural Gas (CNG) – the Partnership is examining the possibility of exporting gas to countries in the Mediterranean Basin, through natural gas compression (CNG) and transportation thereof in designated ships or using portable designated containers. Export of natural gas in this manner may allow access to new and additional export markets, including Greece, the Mediterranean Islands, Italy and other countries. The Partnership held preliminary discussions with customers interested in purchasing Israeli natural gas in such a manner. It is noted that to the Partnership's best knowledge, there are currently no existing projects in the world for the supply of CNG through maritime transportation at large scopes.

[79] Exmar is a public company that is traded on Euronext in Belgium and specializes in the entire LNG value chain, including gas liquefaction, transportation and regasification, and in the transportation of liquefied petroleum gas (LPG). Exmar serves, *inter alia*, as the operator of the regasification vessel to the west of Hadera coast.
[80] For further details, see the Ministry of Energy's announcement at:
https://www.gov.il/he/departments/publications/Call_for_bids/flng_public.

7.12 **Order backlog**

7.12.1 Following are data regarding the Partnership's order backlog calculated on the basis of the minimum gas quantities (according to the Take or Pay quantity) determined in binding agreements (agreements on a firm basis in which all of the conditions precedent were fulfilled) for the supply of natural gas from the Leviathan project, which the customers have undertaken to consume or pay for, also taking into account quantities actually consumed in January-February 2022 under supply agreements on a SPOT and on an interruptible basis. The calculation of the order backlog was performed based on the following main assumptions: (a) all of the options conferred on the customers in Israel to reduce the contract quantity, as specified in Section 7.10 above shall be exercised; (b) the possible reduction of the take or pay quantities due to the exercise of carry forward, was not taken into account; (c) the gas prices are based on the assumptions taken into account for the purpose of the discounted cash flows in the Leviathan project which were included in the resources report released by the Partnership on February 20, 2022 (Ref. 2022-01-020062), the information appearing in which is included herein by reference; and (d) no change shall occur in the minimal annual quantities in the export to Egypt agreement, as specified in Section 7.10 above:

Period	Order Backlog (dollars in millions) as of Dec. 31, 2021[81]
Q1/2022*	Approx. 194
Q2/2022*	Approx. 190
Q3/2022*	Approx. 190
Q4/2022*	Approx. 190
2023	Approx. 647
2024	Approx. 667
2025	Approx. 670
2026	Approx. 651
2027	Approx. 661
2028	Approx. 679
2029	Approx. 682
2030	Approx. 684
2031	Approx. 690

* The division between the quarters was made on a linear basis and in accordance with the terms and conditions of the gas sale agreements (insofar as determined) in relation to the gas quantities that shall be supplied and the Partnership's assumptions.

Caution regarding forward-looking information – the Partnership's estimations regarding the timing and amount of the revenues expected from the order backlog

[81] As of the report approval date, no material change has occurred in the order backlog, despite the fact that it does not include quantities under agreements signed between January 1, 2022 and the report approval date.

constitute forward-looking information within the meaning thereof in Section 32A of the Securities Law, which are based on the minimum gas quantities specified in the binding agreements for natural gas supply from the Leviathan project, and based on various assumptions regarding the natural gas quantities and prices, the materialization of which is completely uncertain, *inter alia*, due to the possible effect of the risk factors entailed by the Partnership's operations, as detailed in Section 7.28 below.

7.12.2 The order backlog from the Leviathan project for 2021, as included in the 2020 Periodic Report, was approx. $670 million. The Partnership's actual revenues from the Leviathan project in 2021 amounted to approx. $883 million. The difference between the figures of the order backlog for 2021 and the actual revenues in this period primarily derives from the fact that the actual gas quantities supplied to customers exceeded the minimum gas quantities determined in the supply agreements.

7.13 Competition

7.13.1 Natural gas discoveries in Israel

The supply of natural gas from the Leviathan project is currently performed via pipeline and is mainly designated for the domestic market, and markets in adjacent countries. As of the report approval date, the Partnership's main competition in the domestic natural gas market is with the partners in the Tamar project and with Energean, the owner of the Tanin and Karish reservoirs, and with owners of natural gas and oil assets that operate in neighboring countries and LNG importers.

The vast majority of the natural gas currently supplied to the Israeli market originates from the Leviathan and Tamar reservoirs, which are the only producing reservoirs, as of the report approval date, in the area of the State of Israel. In addition, small quantities of liquefied natural gas (LNG) are occasionally supplied to the IEC via an LNG regasification vessel through the offshore buoy set up by INGL, according to supply conditions in the market, the need for backup and considering the global price environment.

According to the provisions of the Gas Framework, the Tanin and Karish reservoirs owned by Energean are intended solely for supply of gas to the domestic market. To the best of the Partnership's knowledge and based on Energean's reports, production from the Karish reservoir is expected to begin in Q3/2022. In addition, Energean is currently starting a drilling campaign in Israel's EEZ, using the Stena Icemax drilling ship, which includes 3 wells on a firm basis (2 in the Karish lease, and 1 in Israeli exploration license no. 12, that is located between the Karish and Tanin leases) and 2 possible additional exploration wells in Israeli exploration licenses no. 21, 23 and 31. To the best of the Partnership's knowledge, as of the report approval date, such drilling ship is located in the area of Israeli exploration license no. 12.

The Tamar Partners signed an agreement designed to enable separate marketing of natural gas, which agreement took effect in May 2021. To the Partnership's best knowledge, as of the report approval date, no separate gas sale agreements were signed by any of the Tamar Partners. It is noted that the implementation of this agreement by the Tamar Partners may increase competition. As of the report approval date, the gas produced from the Leviathan reservoir is marketed jointly by the Leviathan Partners, and no arrangements have been determined for separate marketing of the gas. According to the joint operating agreement in the Leviathan project, each partner is entitled, under certain conditions, to take its share of the gas and market it separately. Should arrangements be determined for separate marketing of the gas produced in the Leviathan project, competition may increase.

7.13.2 Oil and gas exploration in recent years

On November 15, 2016, the Minister of Energy declared the opening of Israel's EEZ for oil and natural gas exploration, in a competitive process. In the framework of the first competitive process, the Ministry of Energy granted the Greek company Energean 5 licenses for exploration in Israel's EEZ on January 15, 2018, and granted a consortium of Indian companies an oil exploration license in one block on April 9, 2018. As of the report approval date, the consortium of Indian companies waived rights to continue exploration in the area of the license. In addition, on November 10, 2020, Energean announced the waiver of rights to continue exploration in the area of the "Block 22" license, thus retaining 4 exploration licenses that were granted thereto in the context of the competitive process. See Section 7.13.1 above for further details.

On November 4, 2018, the Minister of Energy announced a second competitive process, offering 19 exploration licenses (blocks) offered in 5 clusters the size of which was approx. 1,600 km^2 each, As part of this process, on October 28, 2019, the Minister of Energy granted a consortium consisting of two British companies, Pharos Energy Plc., Capricorn Energy Plc. (the operator) and Ratio, 8 petroleum licenses in two clusters, and Energean (the operator) and Israeli Opportunity 4 petroleum licenses in one cluster.

It is noted that the Partnership and Chevron were barred from participating in the first two competitive processes.

On June 23, 2020, the Minister of Energy announced the launch of a third competitive process, offering a single license, Block 72, which covers extensive parts of the Alon D license and which until expiry thereof, had been owned by Chevron and the Partnership. For details about this process, see Section 7.8.2 above). As of the report approval date, no answer was received from the Ministry of Energy in relation to winning the third competitive process. Note that block 72 borders with the offshore, unregulated border between Israel and Lebanon. Note further that Lebanon gave TotalEnergies an exploration license in block 9 which partially overlaps block 72. To the best of the Partnership's knowledge, in the past year talks were held between the countries, brokered by the United States, in relation to the regulation of the border as aforesaid, however, no final agreements were reached in the matter.

On January 7, 2021, the Minister of Energy announced the launch of a fourth competitive process for natural gas and oil exploration in the EEZ of Israel (in this section: the "**Fourth Competitive Process**"), in the framework of which approx. 25 exploration licenses (blocks) will be offered in 6 clusters the maximum size of which is up to 1,600 km^2 each. On December 15, 2021 the Minister of Energy announced that, despite the announcement of the Fourth Competitive Process, the Ministry of Energy would not be promoting in 2022 the fourth process for issuance of natural gas exploration licenses and that most of the attention and resources will be devoted to the establishment of a renewable energies department at the Ministry of Energy.[82]

Insofar as wells that shall be drilled in the areas of existing and/or new licenses as aforesaid lead to significant natural gas discoveries, and insofar as these discoveries (if any) will be developed, these reservoirs shall also constitute competition in the Partnership's field of business.

It is further noted that, to the Partnership's best knowledge, the British Gas Group (currently owned by Shell) discovered, over 15 years ago, off the Gaza coast, a natural gas reservoir called Gaza Marine, the scope of the resources in which is estimated at approx. 1 TCF, and this reservoir may in the future be developed and natural gas be marketed to the domestic market and/or to the Palestinian Authority.

7.13.3 LNG import

In January 2013, LNG import began to the domestic market using the LNG import buoy and the regasification vessel off the shores of Hadera. The LNG import buoy is intended to connect to a LNG tanker, which converts LNG into gas via the regasification vessel, in an amount of up to approx. 0.5 BCF per day.

Note in such context that, on December 29, 2020, the Ministry of Energy reported that the regasification vessel, which operates since 2013 and was used over the years as backup for the energy sector in Israel for cases of shortage of natural gas in the peak hours or malfunctions, will discontinue its activity in 2022.[83] The decision will probably be implemented after the commencement of regular commercial production from the Karish reservoir. However, the existing infrastructure for the regasification vessel will remain ready for operation and will serve the sector if needed.

7.13.4 Coal and other alternative energy products

Coal and other alternative energy products also constitute competition for the natural gas suppliers. In relation to the consumption of natural gas by the IEC, the natural gas suppliers are in competition with the use of coal for electricity production, and therefore the level of the consumption and the price of the

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82 Ministry of Energy website, spokesmanship notice dated December 15, 2021: https://www.gov.il/he/departments/news/press_151221.

83 Additional information is available on the Ministry of Energy's website at: https://www.gov.il/he/departments/news/press_291220.

natural gas may be affected by the price of coal worldwide and by the tax policy thereon in Israel. For details about the Israeli Government Resolutions regarding the reduction of coal use, see Section 7.22.10(a) below.

In addition, the natural gas supplied by the Partnership to industrial customers, replaces the use of liquid fuels, such as diesel oil and mazut. The price of the liquid fuels is usually higher than the price of the natural gas supplied by the Partnership. However, despite their being polluting, a drop in the oil prices worldwide may render these fuels competitive relative to the natural gas which is supplied to these consumers. However, it is noted that the Ministry of Environmental Protection institutes policy measures designed to ensure that plants with infrastructure for connection that enables usage of natural gas refrain from using polluting liquid fuels.

In addition to the foregoing, it is expected that hydrogen will gradually enter the mix of energy sources. Hydrogen may be used as a fuel or as an energy carrier, and may be produced through various methods, including cracking from natural gas (gray hydrogen), cracking from natural gas concurrently with the processing of the carbon dioxide generated in the process (blue hydrogen), and production in a process of water electrolysis using power from renewable sources (green hydrogen). Hydrogen itself does not leave a carbon footprint and use thereof for the production of energy, does not produce greenhouse gas emissions, a clear advantage in view of the growing trend in the global energy market to reduce as much as possible the greenhouse gas emissions in general, and carbon dioxide emissions in particular. To the Partnership's best knowledge, the only producer of hydrogen in Israel as of the report date is ORL, which produces gray hydrogen. However, several companies in Israel, as well as energy and technology companies, are examining hydrogen production using different methods, and some are even in advanced development stages. For example, according to media reports, the first hydrogen fueling station in Israel is scheduled to be built in 2022, in a collaboration between Sonol Israel and the ORL group.

7.13.5 Renewable energy sources

(a) According to the review report of November 2021 published by the Ministry of Energy (for details see Section 7.1.3 above), the dramatic changes in the global energy market that transpired in 2021 derived, *inter alia*, from an increase in the relative weight of renewable energies over the past decade, from approx. 8% to approx. 12% of the entire primary energy consumed globally, which is mainly the result of two simultaneous processes: (a) the declared policies of governments, mainly in developed markets, on dealing the climate crisis; and (b) technological improvements in the field of renewable energies, storage and demand management. According to the International Energy Agency (IEA), the projected demand for all types of fossil-based fuels is declining, given that production goals for renewable energy undertaken by governments shall be met. Against this background, investments made by the business sector in fossil fuels and related technologies have decreased, due to a significant concern regarding long-term demand for fossil fuels.

However, in view of the upsurge in the prices of natural gas in Europe in 2021 (which also continued in the first months of 2022), the report authors stress that in order to meet the demand for energy in the next few years, significant investments in the natural gas and oil sectors should currently continue, to ensure ongoing and reliable supply of energy until renewable energy goals are achieved.

(b) Like other developed countries, the Israeli Government has adopted a policy that promotes the transition to a low-carbon economy, and in such context, significant incentives are presently being offered for the development of renewable energy sources, such as solar energy and wind energy, which compete with the natural gas sold by the Partnership for electricity generation purposes. For additional details on the Government's targets in this regard, see Section 7.22.10 below. To the best of the Partnership's knowledge, in 2021 actual rate of consumption of renewable energy sources was approx. 8.1% of all energy consumed in the State of Israel in that year. According to the Government's targets, as specified in Section 7.22.10(c) below, the rate of electricity generation from renewable energy sources is intended to reach approx. 30% of all electricity generated in 2030, *inter alia*, by means of regulatory support, tax incentives to renewable energy-fired power plants, the formulation of various action plans and the removal of barriers. It is noted that the generation of electricity from renewable energy sources holds many advantages, particularly in the environmental aspect; however, the generation of electricity from renewable energy sources in Israel chiefly refers to solar energy, which employs a technology that is partly and limitedly available, is still considered relatively expensive and requires extensive areas. As such technology develops, along with the development of electricity storage technology which will allow for inexpensive and stable generation of power from solar energy, the share of renewable energy in the electricity generation mix in Israel is expected to grow.

7.13.6 Natural gas Discoveries and exploration activity in neighboring countries

Natural gas discoveries in neighboring countries, if developed, and exploration activity resulting in discoveries of new reservoirs, if developed, will also compete with the Leviathan reservoir. The Partnership is following up on activity and trends of exploration, development and production in the countries of the region, including Egypt, Cyprus, Lebanon and Jordan. Below are details regarding discoveries and exploration activity in Israel's neighboring countries[84].

(a) Egypt

1. Resources: Approx. 30 TCF in reserves and approx. 25 TCF in contingent resources.

[84] The reader of the report should take into account that the information in this section, which originates from public releases of information providers and data obtained from external consulting firms, in whole or in part, is information which the Partnership has no ability to independently check or verify.

2. Current gas production capacity: Present infrastructure facilitates production of approx. 70 BCM.

3. Domestic demand: Domestic demand in 2021 totaled approx. 64 BCM, compared with approx. 59 BCM in 2020. For details about the amount of domestic demand in 2020 and 2021 and forecasts of the domestic demand in Egypt in the coming years, see Section 7.11.2(d) above.

4. Prominent facilities: Egypt has two LNG facilities: (a) ELNG in Idku, which is primarily owned by Shell with a production capacity of approx. 7.2 million tons of LNG per year; and (b) SEGAS in Damietta, which is primarily owned by Eni, with a production capacity of approx. 5 million tons of LNG per year. In the past decade, 2021 was the best year in terms of the amount of LNG exported by Egypt, which is estimated at approx. 7 million tons. For further details about the LNG market in Egypt, see Section 7.11.2(d) above.

5. Production situation: In 2021 gas production in Egypt amounted to approx. 72 BCM, with approx. 73% of such gas produced from natural gas fields in the Mediterranean. At the same time, the most prominent reservoir is Zohr, which represents approx. 40% of the total domestic gas production in Egypt. in 2021, production from the Zohr reservoir was approx. 27 BCM, representing approx. 86% of the maximum production capacity of the field.

6. Exploration activity situation: In recent years, particularly in 2021, Egypt has offered exploration licenses of vast scope, *inter alia*, in tenders. Most of the licenses in the Mediterranean area have been granted to the leading companies in the industry, including, Shell, Chevron, BP, Eni, ExxonMobil and TotalEnergies.

7. Import/export balance: Since the commencement of production from the Zohr reservoir in 2017, the total of gas quantities produced usually exceeds the total domestic demand. According to various forecasts, domestic demand, *inter alia*, as a result of the expected population growth, will be greater than the projected local production capacity. Moreover, in order to feed the liquefaction facilities through which Egypt aspires to export natural gas, an additional amount of natural gas of up to approx. 18 BCM is required.

(b) Cyprus

1. Resources: Other than the Aphrodite reservoir, two significant discoveries were announced in 2018 and 2019 in Cyprus's EEZ ("Glaucus" and "Calypso"), which each contain, as reported by the operating companies, approx. 5-8 TCF in place.[85] Such discoveries require confirmation wells for the purpose of resource appraisal and economic analysis. As of the

[85] "In place" means the quantity of gas in the reservoir. The quantity that can actually be produced is significantly lower.

report approval date, the results of an appraisal well drilled by ExxonMobil in the Glaucus discovery have not been reported yet, and an appraisal well is planned to be drilled by Eni in the Calypso discovery in 2022. To the best of the Partnership's understanding, among the possibilities for development of these discoveries, the possibility of export to Egypt may be examined. Given the foregoing, the development of these discoveries, to the extent carried out, may have an effect on the Partnership's activity in Cyprus and/or in Egypt.

2. <u>Current gas production capacity</u>: None.

3. <u>Domestic demand</u>: As of the report approval date, Cyprus does not consume natural gas. For further details about the Cypriot market, see Section 7.11.2(g) above.

4. <u>Prominent facilities</u>: None. A floating regasification facility (FSRU) for LNG import in Vasilikos in the south of Cyprus is in stages of construction by a consortium led by China Petroleum Pipeline Engineering Co. Ltd. The facility is expected to commence operations in H1/2023.

5. <u>Production situation</u>: None.

6. <u>Exploration activity situation</u>: Cyprus has granted licenses for most of its offshore territory to leading oil and gas companies, including Eni, TotalEnergies, and ExxonMobil. The dispute between Cyprus and Turkey in relation to the rights in the EEZ of Cyprus is causing delays in the work plans in the licenses situated within the disputed areas.

7. <u>Import/export balance</u>: As of the report approval date, the construction of an FSRU facility for LNG import has commenced. In December 2020, the Government of Cyprus apprised that a tender issued thereby had generated 25 different bids for the import of gas, with the aim of signing future agreements. As pertains to future export, in the absence of relevant regulation of natural gas export facilities in Cyprus, it cannot be estimated what effect, if any, additional discoveries, if any, may have on the manner of export of natural gas from Cyprus and on the competition, to the extent it develops, as pertains to the domestic market and to access to export infrastructures.

(c) <u>Lebanon</u>

1. <u>Resources</u>: Not discovered yet.

2. <u>Current gas production capacity</u>: None.

3. <u>Domestic demand</u>: As of the report approval date, the existing electricity generation infrastructure in Lebanon totals approx. 2 GW (less than one tenth that of Israel), of which approx. 25% MW can be produced by means of natural gas in the power plant in Dir Ammar in the north of the country.

4. Prominent facilities: None.

5. Production situation: None.

6. Exploration activity situation: As of the report approval date, Lebanon has granted two licenses only to a consortium headed by TotalEnergies, in which licenses drilling may be carried out in the next two years. the rest of the areas in Lebanon's EEZ are offered under a tender which is expected to be closed during the 2022 summer months. Exploration in the south of Lebanon's EEZ is affected by the dispute in relation to the marine borders with Israel. At the same time, Block 9 in particular, partly overlaps with Block 72, which is offered in the tender for gas and oil exploration in Israel's EEZ and touches on the borders of the Alon D license.

7. Import/export balance: As of the report approval date, Lebanon relies exclusively on gas import, although it is under an energy crisis following the absence of an active agreement for gas import. According to media reports, Lebanon has agreed with Egypt on the import of gas to the Dir Ammar power plant in the estimated amount of approx. 60 MMCF per day.

(d) Jordan

1. Resources: All of Jordan's gas resources amount to approx. 70 BCF in the Risha field. In addition, there is an accumulation of oil shale that is developed in the context of the Attarat power plant project.

2. Current gas production capacity: The Risha filed produces approx. 0.1 BCM per year.

3. Domestic demand: Domestic demand in Jordan totals approx. 4 BCM per year and is affected by the extent of the demand for electricity and from the generation of electricity by means of gas substitutes, which include renewable energy sources and refined oil products. Natural gas represents approx. 80% of all electricity generation sources of NEPCO, the Jordanian electricity company.

4. Prominent facilities: As of the report approval date, there is an LNG import facility in the Gulf of Aqaba in Jordan, Golar Eskimo FSRU, which is leased until 2025. In 2020, Jordan imported 0.8 million tons of LNG and in 2021 it imported no LNG whatsoever.

5. Production situation: As of the report approval date, the Risha gas field is the only producing gas field. Furthermore, drilling is planned for increasing the rate of production from this field to approx. 0.2 BCM over the next 5 years.

6. Exploration activity situation: In April 2021, Jordan announced an exploration tender under which some 9 different blocks were offered.

Although the names of the winners in the tender have not yet been released, NPC, the Jordanian oil company, has reported about exploration wells that it is expected to drill in one of these blocks.

7. Import/export balance: As of the report approval date, Jordan relies on the import of natural gas and energy, mostly from Israel and a little from Egypt. For further details about the Jordanian natural gas market, see Section 7.11.2(c) above.

7.14 **Seasonality**

7.14.1 In Israel, Egypt and Jordan, the consumption of natural gas for electricity production is affected, *inter alia*, by seasonal fluctuations in the demand for electricity and by the maintenance plans of the electricity producers. Generally, in the first and third quarter of the year (the winter and summer months) electricity consumption will be highest. In Egypt, gas consumption is significantly affected by the demand for electricity and for energy for cooling purposes, and therefore the summer months are the peak months in demand for natural gas. See Section 7.7.2 above for details about such possible affect.

7.14.2 Following is data on the breakdown of natural gas sales (in 100% terms) from the Leviathan project in the past two years:[86]

Period	Q1 (in BCM)	Q2 (in BCM)	Q3 (in BCM)	Q4 (in BCM)
2020	1.6	1.4.	2.3	1.9
2021	2.7	2.8	2.8	2.4

7.15 **Facilities and production capacity in the Leviathan project**

7.15.1 Phase 1A of the Leviathan project development plan

The production system of Phase 1A of the development plan comprises 5 main segments, as follows:

(a) Production wells: 4 subsea production wells, each with a production capacity of up to approx. 400 MMCF per day. Natural gas from the Leviathan reservoir, which is at a depth of approx. 3 km below the seabed, is piped from such production wells to the subsea production system. Another production well, Leviathan-8, is expected to be drilled in 2022 and expected to be connected to the production system in 2023.

(b) Subsea production system: The subsea production system connects between the production wells and the production platform, and is on the seabed. The subsea system comprises 14-inch pipes through which the natural gas and the condensate are transported from the wells to the subsea manifold; two

[86] The data relate to the total sales of natural gas produced from the Leviathan reservoir and are rounded off to one tenth of a BCM.

pipes, 18 inch in diameter and approx. 120 km long, come out of the manifold, transmitting gas and condensate to the production platform. In addition, the subsea system includes two pipes, 6 inch in diameter and approx. 120 km long, for the transmission of MEG from the production platform to the wells. Furthermore, a command and control (umbilical) cable, approx. 120 km long connects the production platform to the wells and enables the control and command of the production of the natural gas from the wells.

(c) Processing and production platform: The Leviathan platform is situated approx. 10 km from the shore. The entire gas and liquid treatment process is performed on the platform. The platform is attached to the seabed at a water depth of approx. 86 meters via a jacket. On the upper part of the jacket, which protrudes above sea level, the topsides of the platform are assembled, which are divided at this stage into 2 main modules: (a) the domestic supply module which contains, *inter alia*, the natural gas and condensate production and processing facilities, including facilities to separate out water from the gas, facilities for treatment of MEG, a facility for reduction of emissions (FGRU), generators, tanks, pumps, air compressors, a helipad, workers' living quarters, firefighting facilities, lifeboats, security facilities, gas dehydration facilities, auxiliary facilities and services, etc.; (b) the liquids supply module which stores condensate and MEG. The platform processes approx. 1,200 MMCF of gas per day and approx. 5,400 barrels of condensate per day. It is noted that under certain operating conditions, production capacity can slightly exceed such quantity.

(d) Transmission system to the shore: The pipeline that comes out of the Leviathan platform to the shore comprises a 32-inch pipe for the transmission of natural gas[87] and a 6-inch pipe for the transmission of condensate. These pipes run under the shoreline, via a designated 52-inch pipe which serves as a sleeve, reach the coastal valve station and from there, the Dor valve station, which is situated near the INGL valve station, to which the natural gas is transferred. The condensate pipe connects to EAPC's buried onshore oil pipeline at the Nahsholim Valve Station.

(e) Hagit site: The Hagit site includes a condensate storage tank and the pipes, apparatus, equipment, pumps, command, control and operating systems, a tanker-filling facility, auxiliary facilities and services, insofar as required for safe and environmentally-friendly operation. The condensate reaches the Hagit site via a buried 6-inch pipe. With no ability to transport to ORL, the condensate will be transported and stored at the Hagit site, and transported to ORL when made possible, or insofar as necessary, will be removed therefrom using tankers, to the customers. Note that the works for the construction of the condensate storage system at the Hagit site has been completed in 2020 and in February 2021, all of the permits required for the operation thereof have been obtained.

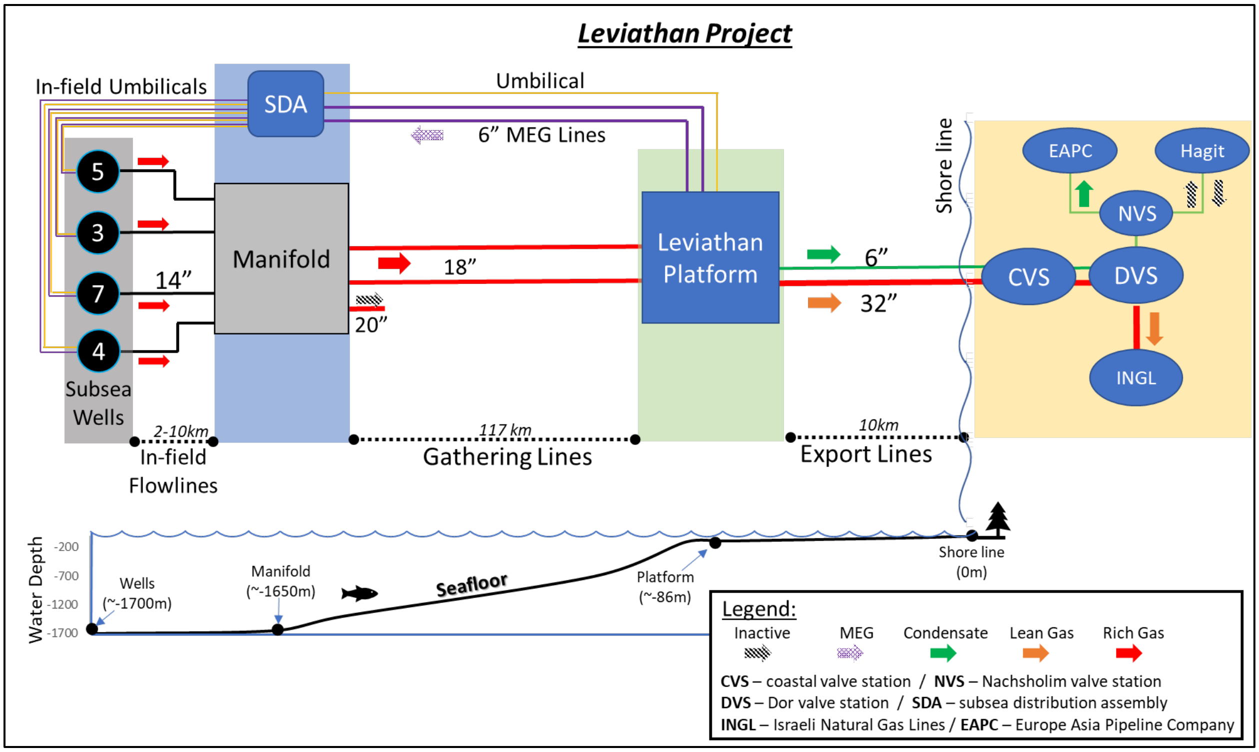
[87] For details regarding a license for the construction and operation of a transmission system, see Section 7.22.12 below.

7.15.2 Phase 1B of the Leviathan project development plan

The facilities planned in the Leviathan project in accordance with Phase 1B of the development plan, if and when a decision to approve it shall be adopted, may include, *inter alia*: 4 additional production wells, each with a production capacity of up to approx. 400 MMCF per day, which shall be connected via a subsea pipeline to the existing production system; another subsea pipe, 20 inch in diameter and approx. 120 km long, for the transmission of gas from the manifold to the platform; a unit will be added to the platform, to enable direct regional export (Regional Export Module) with a processing system similar to that of Phase 1A of the development plan, plus compressors. These facilities are planned to have a processing capacity of approx. 900 MMCF per day, which are mainly intended for regional export, such that together with the processing facilities of Phase 1A of the development plan, the total daily production capacity of the platform shall be approx. 2,100 MMCF. Transmission of the gas from the platform to the export markets shall be carried out, *inter alia*, via a designated pipeline, as specified in Section 7.11.2(b) above.

7.15.3 For details about the possibilities for increasing the daily production capacity in the Leviathan project and the various alternatives explored by the Leviathan Partners in relation thereto, see Section 7.2.5 above.

7.15.4 Below is a diagram of the Leviathan project facilities for Phase 1A of the development plan:



7.16 **Raw materials and suppliers**

In general, the Partnership does not directly engage with suppliers or professional contractors, which engage with the operator of the project. It is noted that, in Israel, at this point in time, there are no contractors that perform drilling, seismic surveys and some of the offshore infrastructure and development work of the type performed by the Partnership, together with its partners in the various projects, and therefore the operator engages with contractors from overseas for the purpose of performance of such work, which are instructed to integrate into their activity, insofar as possible, local services and consultants. The offshore drilling facilities and other designated equipment are leased and brought in from all over the world in accordance with their availability, the work type and the project requirements. An additional important parameter that affects this matter is the crude oil price, an increase in which generally affects the scope of the activity in the industry and consequently the availability of contractors and the required equipment.

7.17 **Human capital**

7.17.1 In accordance with the provisions of the Partnerships Ordinance and the Partnership Agreement, the Partnership is managed by the board of directors of the General Partner. In general, the Partnership's workers are employed under personal employment agreements. The officers and senior executives of the Partnership are employed according to terms and conditions that are agreed with each one of them in accordance with the Partnership's compensation policy. For further details see Regulations 21, 26 and 26A of Chapter D of this report.

7.17.2 As of December 31, 2020 and December 31, 2021, the Partnership employed employees as follows:

Department	Number of Employees as of December 31, 2020	Number of Employees as of December 31, 2021[88]
Management, Headquarters and Finance	9 (4 of whom are officers)	7 (3 of whom are officers)
Professional	7 (2 of whom are officers)	7 (2 of whom are officers)
Total	**16**	**14**

7.17.3 In addition to the managers of the General Partner and the Partnerships' workers above, the Partnership uses various consultants, including geological and professional consultants, lawyers and financial consultants) to the extent that such counsel is required. In addition, in the framework of operational agreements in various projects, the operator of the projects employs manpower for the purpose of management and operation of the projects.

7.18 Working capital

The Partnership's working capital comprises, on the assets side, primarily the cash balances, short-term investments, various receivables, and trade and other receivables deriving from the joint ventures, whereas, on the liabilities side, it primarily comprises payables deriving from the joint ventures, profits declared and not yet distributed, and short-term liabilities for retirement of oil and gas assets. For further details, see the statements of financial position in the financial statements (Chapter C of this report).

7.19 Financing

7.19.1 General

As of the report approval date, the Partnership finances its activity mainly from income from the sale of natural gas to customers of the Leviathan project and from the issue of bonds to the institutional market in Israel and overseas.

Further to the sale of the Partnership's remaining interests in the Tamar and Dalit leases, in December 2021, the Partnership fully repaid the bonds issued by Delek & Avner (Tamar Bond) Ltd., a wholly owned company of the Partnership, which were secured by pledges on the Partnership's rights in the Tamar project.

In addition, in December 2021, the Partnership made final repayment of the Series A bonds issued by the Partnership.

7.19.2 Bonds of Leviathan Bond

On August 18, 2020, Leviathan Bond, a special-purpose subsidiary (SPC) wholly (100%) owned by the Partnership, completed an issuance of bonds to foreign and

[88] As of the report approval date, the number of management, head office and finance employees is 8 (of whom 4 are officers).

Israeli institutional investors, in accordance with Rule 144A and Regulation S, in the overall amount of $2.25 billion, in 4 different bond series, as follows (in this section: the "**Bonds**" and the "**Leviathan Bond Issuance**", respectively):

(a) Bonds in the overall amount of $500 million par value, payable on June 30, 2023 (in one installment), bearing fixed annual interest of 5.75%.

(b) Bonds in the overall amount of $600 million par value, payable on June 30, 2025 (in one installment), bearing fixed annual interest of 6.125%.

(c) Bonds in the overall amount of $600 million par value, payable on June 30, 2027 (in one installment), bearing fixed annual interest of 6.5%.

(d) Bonds in the overall amount of $550 million par value, payable on June 30, 2030 (in one installment) bearing fixed annual interest of 6.75%.

The principal and interest of the Bonds are in dollars. The interest on the Bonds of each series shall be paid twice per year, on June 30 and on December 30. The Bonds were listed on TASE's "TACT-Institutional" system. For additional information on the Leviathan Bond Issuance see the Partnership's Immediate Report of August 5, 2020 (Ref. 2020-01-084006), the information appearing in which is included herein by reference.

The issue proceeds were provided as a loan to the Partnership by the subsidiary, as noted, under terms and conditions that are identical to the terms and conditions of the Bonds (back-to-back). The balance of the loan as of December 31, 2021 (net of capital raising costs) was approx. $2,224.8 million. It is noted that, upon completion of the Leviathan Bond Issuance on August 18, 2020, the loan that had been provided to the Partnership for financing its share in the balance of the investment in the development of the Leviathan project in the total amount of $1.67 billion, was fully repaid, as were the loans provided to the Partnership in the total amount of $300 million. For additional details, see Sections 7.21.1(a) and 7.21.1(b) of the 2019 Periodic Report, and see Note 10B to the financial statements (Chapter C of this report) and Part Five of the Board of Directors' Report (Chapter B of this report).

7.19.3 On December 5, 2021, the Partnership signed documents for a bank credit facility received from an Israeli bank, designated to serve the Partnership in its ongoing operations. According to the terms and conditions of the credit facility, the Partnership may, for a period commencing on December 6 , 2021 and ending on December 6, 2022, withdraw from time to time dollar loans up to a total amount of U.S, $100 million, which will be due by December 6, 2023. For further details, see Note 10C to the financial statements (Chapter C of this report).

7.20 Taxation

7.20.1 General

On August 3, 2021 the Finance Committee of the Knesset approved an amendment to the Income Tax Regulations, whereby the tax regime that applies to the

Partnership will change as of the 2022 tax year, such that it will be taxed as a company. As a result of this change, as of the 2022 tax year, the holders of Participation Units in the Partnership will be subject to taxation for profit distributions made by the Partnership, similarly to the tax regime applicable to shareholders of a company in respect of dividend distributions (i.e., according to the two-stage method).[89] For additional details in this regard, see Note 20A to the financial statements (Chapter C of this report).

7.20.2 Section 19 of the Taxation of Profits from Natural Resources Law

Until the entry into effect of the change in the tax regime applicable to the Partnership, in the 2022 tax year, as determined in the amendment to the Income Tax Regulations described in Section 7.20.1 above, the Partnership was a "transparent" entity for tax purposes, such that the taxable income as well as the losses of the Partnership were attributed to the unit holders which are "Entitled Holders" as this term is defined in the Income Tax Regulations (Participation Units) according to the ratio of their holdings in the Partnership. An "Entitled Holder" is the holder of participation units at the end of December 31 of the tax year.

In the context of the previous tax regime, pursuant to the provisions of Section 19 of the Taxation of Profits from Natural Resources Law ("**Section 19**"), the General Partner was obligated to submit to the assessing officer a report on the Partnership's taxable income and pay the tax deriving therefrom, on account of the tax payable by the partners in the Partnership in the tax year in respect of which the report was filed (i.e. on account of the tax owed by the holders of participation units, as being on December 31 of each tax year), according to the holding rate in the Partnership of the Entitled Holders who are a body corporate and the holding rate in the Partnership of individual Entitled Holders. The implementation of the provisions of Section 19 raised difficulties and questions of interpretation, which were deliberated in the framework of several legal proceedings, in which context the Tel Aviv District Court issued a judgment on June 28, 2021 (in this section: the "**Judgement**"). Under the Judgment, the Partnership was ordered to pay corporate unit holders, for the 2015 and 2016 tax years, a total sum of approx. $14.9 million, for which there is a sufficient provision in the Partnership's financial statements. The Judgment further ruled, for the years 2017 forth, that the Partnership will be the one that bears tax assessment differentials, if any, but no balancing payments will be made in respect thereof.

For further details about the Judgment, see the Partnership's immediate report of June 26, 2021 (Ref. 2021-01-108555), the information included in which is incorporated herein by reference.

In addition, on July 1, 2021, several holders of Participation Units filed a motion for clarification to the court, in which the court was moved to instruct how payment should be made according to the "out-of-pocket set-off" alternative determined in the Judgment regarding the payment of interest and linkage (the "**Motion for Clarification**"), and on August 9, 2021, the Court determined that interest and

[89] See link to the Tax Regulations as published in the Official Gazette on September 14, 2021: [tak-9627.pdf (nevo.co.il)]

linkage differentials will be added to such payment according to the law, pursuant to the provisions of the Adjudication of Interest and Linkage Law, 5721-1961. For further details see Notes 9 and 20A5 to the financial statements (Chapter C of this report). For details about additional legal proceedings that took place prior to the issuance of the Judgment, see Section 7.21.3 of Chapter A of the 2020 Periodic Report, which is incorporated herein by reference.

On December 19, 2021, the Partnership filed a motion for appointment of a trustee and approval of an outline for payment of the funds to entitled holders in accordance with the Judgment, and after the Court granted the above motion on February 14, 2022, the Court ordered, on March 22, 2022, the appointment of Reznik Paz Nevo Trusts Ltd. as trustee of the payment according to the Judgement.

7.20.3 Oil and gas profit levy

(a) The Taxation of Profits from Natural Resources Law (in this section: the "**Law**"), enacted by the Knesset in April 2011, determined, *inter alia*, provisions which apply to the Partnership regarding a duty to pay an oil and gas profit levy pursuant to an R-Factor mechanism ("**Oil Profit Levy**" or the "**Levy**"). For details regarding the Levy and its calculation mechanism, see Note 20C to the financial statements (Chapter C of this report).

(b) On December 2, 2020, the Taxation of Profits from Natural Resources Regulations (Advances due to the Oil Profit Levy), 5781-2020 were published (in this section: the "**Regulations**")[90] by virtue of Sections 10(b) and 51 of the Law, which were designed to regulate the payment of the advances for the Oil Profit Levy that shall be paid by holders of petroleum interests in a petroleum project, including the method of calculation of the advances, the dates of payment thereof, and the reporting thereon. Below is the essence of the main provisions included in the Regulations:

1. The Regulations determine that a holder of a petroleum interest in a petroleum project (in this section: the "**Holder of a Petroleum Interest**") shall pay advances on account of the Levy for that tax year, the payment starting from the tax year following the tax year in which the Levy coefficient is 1 or more, plus interest and linkage differentials from the date set for the payment until the payment of the advance amount.

2. In addition, formulae were determined for the calculation of the advance amount, rate, payment date and manner of reporting of the amount paid. According to the Regulations, anyone who is a Holder of a Petroleum Interest shall be liable for payment of the advances according to its proportionate share of the petroleum interest (in the case of joint marketing), or the current revenues of the Holder of a Petroleum Interest (in the case of separate oil sale). Additionally, it was determined that in the first 3 tax years starting from the tax year following the tax year in

[90] https://www.gov.il/BlobFolder/legalinfo/law8957/he/LegalInformation_kesher_8957.pdf

which the Levy coefficient is 1 or more, or starting from the 2021 tax year, whichever is later, the rate of the advance shall be: in the first tax year-21%; in the second tax year-30%; and in the third tax year, 37%.

3. Pursuant to Section 9(b)(1) of the Law, a "derivative payment" is a payment calculated as a rate of the petroleum produced in the petroleum project area, from the project revenues or from the oil profits of the project, and the recipient of a derivative payment is liable for payment of a levy known as the "participation amount". The section determines that the participation amount shall be subtracted from the Levy for which the Holder of a Petroleum Interest is liable, and therefore, the Regulations determine that a Holder of a Petroleum Interest is entitled to offset against its advance payments a sum withheld thereby from the recipient of a derivative payment, pursuant to the provisions of Section 9(b)(1) of the Law, provided that all of the following are satisfied: (a) The Holder of a Petroleum Interest transferred the amount of the Levy withheld thereby to the assessing officer, no later than the date of payment of the advance for the effective month; (b) The transferred withheld amount was not previously offset; and (c) The effective month due to which the setoff was required falls in the same tax year as that in which the derivative payment was received.

4. The assessing officer may decrease or increase the rate of the advance for a specific tax year if it shall have been proven to his satisfaction that the Levy for the tax year in which the advance is paid is higher or lower than the total advances calculated for that tax year.

(c) On November 10, 2021 the Knesset approved Amendment No. 3 to the Law, 5782-2021 which includes, *inter alia*, an amendment whereby according to the decision of an assessing officer, payment of 75% of the balance of the contested Levy which was appealed may be charged (even before the dispute is heard), and other amendments designed to confer powers on the assessing office to streamline the Levy collection.

7.20.4 <u>The 2015-2016 tax years</u>

(a) On December 3, 2017, the Partnership released an immediate report , attached to which were temporary tax certificates for Entitled Holders in respect of holding participation units of the Partnership and of the Avner Partnership (in this section: "**Entitled Holders**") for the 2015 and 2016 tax years (Ref. 2017-01-116190), the information included in which is incorporated herein by reference.

(b) On October 20, 2021 the Partnership issued an immediate report, attached to which were final tax certificates for Entitled Holders for the 2015 tax year (Ref. 2021-1-158139), the information included in which is incorporated herein by reference.

In view of the disputes between the Partnership and the Tax Authority regarding the amount of the Partnerships' taxable income in 2016, assessments to the best of judgment were received from the Tax Authority on November 22, 2018, pursuant to Section 145(a)(2)(b) of the Income Tax Ordinance, 5721-1961 (the "**Income Tax Ordinance**" and, in this section: the "**Tax Assessment**"), whereby the taxable income from a business of the Partnership and the Avner Partnership for 2016 is approx. $154.9 million and approx. $140.2 million, respectively (rather than approx. $128.3 million and approx. $113.8 million, respectively, as included in the Partnerships' tax reports which were filed with the Tax Authority), and the capital gain of the Partnership and the Avner Partnership for 2016 is approx. $55.8 million and approx. $74.3 million, respectively (rather than approx. $7.6 million and approx. $17.6 million, respectively, as included in the Partnerships' tax reports which were filed with the Tax Authority). It is noted that the aforesaid amounts were translated from ILS to $ according to the dollar exchange rate known as of December 31, 2021.

Further to the administrative objection filed by the Partnership to the Tax Assessments, the Tax Authority issued to the Partnership an order for tax assessments pursuant to Section 152(b) of the Income Tax Ordinance (the "**Orders**"), which primarily pertain, as aforesaid, to the manner of recognition of financing expenses and other expenses actually incurred by the partnerships and the manner of calculation of the capital gain from the sale of the Tanin and Karish leases.

According to the tax assessments, and if all of the Tax Authority's arguments are accepted, the Partnership shall be liable to pay additional tax (including interest and linkage differentials) on account of the tax owed by holders of participation units in the Partnerships of approx. U.S. $49.7 million.

On September 15, 2020, the Partnership filed an appeal from the Orders with the Tel Aviv District Court. The grounds for the assessment in the appeal were submitted by the assessing officer on December 9, 2020, and according to the Court's decision, the notice of the grounds for the appeal on behalf of the Partnership was filed on May 3, 2021. A pretrial hearing on the appeal was held on November 25, 2021, and another pretrial hearing has been scheduled for September 15, 2022.

It is noted that in view of the aforesaid, the issue of final tax certificates for Entitled Holders, in respect of the holding of a participation unit of the Partnership and the Avner Partnership for the tax year 2016, may be delayed until the completion of the proceeding required for the determination of a final assessment. In the Partnership's estimation, based on the opinion of its legal counsel and past experience, the chances that the main arguments of the Partnership are accepted are higher than 50%.

(c) Upon determination of the taxable income of an Entitled Holder for tax year 2016, a final certificate will be issued for purposes of calculating the taxable income of an Entitled Holder for tax year 2016, according to the Income Tax Regulations.

7.20.5 <u>The 2017 tax year</u>

(a) For details regarding an agreement on tax collection for the tax year 2017, which was signed between the Partnership and the Assessing Officer for Large Enterprises (the "**2017 Arrangement**"), an estimate of the Partnership's taxable income for 2017, and payments made by the Partnership on January 18, 2017 pursuant to the 2017 Arrangement, see the Partnership's immediate reports of December 21, 2017, December 24, 2017, December 28, 2017 and December 31, 2017 (Ref. 2017-01-118860, 2017-01-119130, 2017-01-122175 and 2017-01-123051, respectively), the information included in which is incorporated herein by reference.

On November 8, 2018, the Partnership released an immediate report, attached to which was a temporary tax certificate for an entitled holder due to the holding of participation units of the Partnership for the 2017 tax year (Ref. 2018-01-101494), the information included in which is incorporated herein by reference.

(b) Against the backdrop of the disputes that arose between the Partnership and the Tax Authority and disagreements regarding the amount of the taxable income of the Partnership for tax purposes for 2017, on July 23, 2020, a tax assessment to the best of judgment was received from the Tax Authority, pursuant to Section 145(a)(2)(b) of the Income Tax Ordinance (in this section: the "**Tax Assessment**"), whereby the Partnership's taxable income from a business for 2017 is approx. $405.9 million (rather than approx. $239.6 million, as included in the Partnership's tax report that was filed with the Tax Authority) and the Partnership's capital gain for 2017 is approx. $728.8 million (rather than approx. $597.9 million, as included in the Partnership's tax report that was filed with the Tax Authority). Note that the foregoing amounts were translated from ILS to $ according to the dollar exchange rate known as of December 31, 2021.

The disputes mainly pertain to the interpretation of the manner of recognition of financial expenses and additional expenses actually borne by the Partnership, including attribution of financial income deriving from exchange rate differences to a property under construction, the manner of implementation of Section 20(b) of the Taxation of Profits from Natural Resources Law with regard to deduction of depreciation expenses and the manner of calculation of the capital gain from the sale of 9.25% (of 100%) of the interests in the Tamar and Dalit leases.

As of the report approval date, and pursuant to the Tax Assessment, and insofar as all the Tax Authority's claims are accepted, the Partnership will be required to make an extra tax payment (including interest and linkage differentials) at the expense of holders of Participation Units in the Partnership in the amount of approx. $87 million.

On December 10, 2020, the Partnership filed an administrative objection to the Tax Assessment, and, as of the report approval date, several discussions have been held at the offices of the Assessing Officer with respect to the administrative objection and several further discussions are expected to be held.

It is noted that, in view of the aforesaid, the issuance of a final tax certificate for an eligible holder due to the holding of a Participation Unit of the Partnership for the 2017 tax year may be delayed pending the completion of the proceedings which will be required for the determination of the final assessment.

In the Partnership's estimation, based on the opinion of its legal counsel, the probability of acceptance of the Partnership's key claims is higher than 50%, and the Partnership therefore intends to exhaust the administrative and legal proceedings available thereto.

(c) Upon determination of the taxable income of an Entitled Holder for the 2017 tax year, a final certificate will be issued for purposes of calculating the taxable income of an Entitled Holder for tax year 2017, according to the Income Tax Regulations.

7.20.6 The 2018 tax year

(a) For details regarding the Partnership's decision to act in respect of the tax year 2018 similarly to the way it acted in the tax year 2017 (according to the 2017 Arrangement), and regarding the estimate of the Partnership's taxable income for 2018, as well as payments made by the Partnership in respect thereof on January 14, 2019 see the Partnership's immediate reports of December 24, 2018 and December 31, 2018 (Ref. 2018-01-117988 and 2018-01-120982, respectively), the information appearing in which is incorporated herein by reference.

On February 19, 2020, the Partnership released an immediate report, attached to which was a temporary tax certificate for an entitled holder due to the holding of a participation unit of the Partnership for the 2018 tax year (Ref. 2020-01-017376), the information appearing in which is incorporated herein by reference.

(b) Against the backdrop of the disputes which arose between the Partnership and the Tax Authority and disagreements regarding the amount of the taxable income of the Partnership for 2018, on March 24, 2021, a tax assessment other than in agreement was received from the Tax Authority, pursuant to Section 145(a)(2)(b) of the Income Tax Ordinance (in this section: the "**Tax Assessment**"), whereby the Partnership's taxable income from a business for 2018 is approx. $209.4 million (rather than approx. $160.8 million, as included in the Partnership's tax report that was filed with the Tax Authority) and the Partnership's capital gain for 2018 is approx. $18.5 million, as declared in the report filed thereby as aforesaid. Note that the foregoing amounts were translated from ILS to $ according to the dollar exchange rate known as of December 31, 2021.

The disputes mainly pertain to the interpretation of the manner of recognition of financial expenses and additional expenses borne by the Partnership, similar to the disputes for which assessments to the best judgment were issued for 2016 and 2017, as specified in Sections 7.21.6(c) and 7.21.7(c) above, respectively.

As of the report approval date, pursuant to the Tax Assessment, and insofar as all the Tax Authority's claims are accepted, the Partnership will be required to make an extra tax payment (including interest and linkage differentials) at the expense of holders of Participation Units in the Partnership in the amount of approx. $14.4 million.

On June 10, 2021, the Partnership filed a reasoned administrative objection to all of the Assessing Officer's determinations in the Tax Assessment. As of the report approval date, several discussions on the objection have been held at the offices of the Assessing Officer, and several further discussions are expected to be held.

It is noted that in view of the aforesaid, the issuance of a final tax certificate for an Eligible Holder due to the holding of a Participation Unit of the Partnership for tax year 2018 may be delayed pending the completion of the proceedings which will be required for the determination of the final assessment.

In the Partnership's estimation, based on the opinion of its legal counsel, the probability of acceptance of the Partnership's key claims is higher than 50%, and the Partnership therefore intends to exhaust the administrative and legal proceedings available thereto.

(c) Upon determination of the taxable income of an Entitled Holder for the 2018 tax year, a final certificate will be issued for purposes of calculating the taxable income of an Entitled Holder for tax year 2018, according to the Income Tax Regulations.

7.20.7 The 2019 tax year

(a) For details regarding the Partnership's decision to act in respect of the tax year 2019 similarly to the way it acted in the tax years 2017 and 2018, and regarding the estimate of the Partnership's taxable income for 2019, as well as payments made by the Partnership in respect thereof on January 9, 2019, see the Partnership's immediate reports of December 23, 2019 and December 24, 2019 (Ref. 2019-01-112650 and 2019-01-113175, respectively), the information included in which is incorporated herein by reference.

(b) On July 14, 2021, the Partnership released an immediate report, attached to which was a temporary tax certificate for an entitled holder due to the holding of a participation unit of the Partnership for the 2019 tax year (Ref.

2021-01-116862), the information included in which is incorporated herein by reference.

(c) Upon determination of the taxable income of an Entitled Holder for tax year 2019, a final certificate will be issued for purposes of calculating the taxable income of an Entitled Holder for the 2019 tax year, according to the Income Tax Regulations.

7.20.8 The 2020 tax year

(a) For details about the Partnership's decision to operate with regard to the 2020 tax year similarly to the manner in which the Partnership operated in the 2017 to 2019 tax years, and with regard to the estimation of the Partnership's taxable income for tax purposes for 2020 and payments made by the Partnership in relation thereto on January 20, 2021, see the Partnership's immediate report dated December 27, 2020 (Ref. 2020-01-140187), the information appearing in which is incorporated herein by reference.

In the preparation of the Partnership's financial statements upon the conclusion of the audit, the Partnership's estimate of taxable income for the 2020 tax year was updated, based on, *inter alia*, estimations of the General Partner, assumptions and various taxation opinions, to a total amount of approx. ILS 277.6 million.

(b) Upon determination of the taxable income of an Entitled Holder for 2020 tax year, a final certificate will be issued for purposes of calculating the taxable income of an Entitled Holder for the 2020 tax year, according to the Income Tax Regulations.

7.20.9 The 2021 tax year

(a) For details about the Partnership's decision to act with regard to the tax year 2021 similarly to the manner in which the Partnership acted in the tax years 2017 through 2020, and on the Partnership's estimate of taxable income for the 2021 tax year and payments made by the Partnership in relation thereto on January 20, 2022, see the Partnership's immediate report of December 26, 2021 (Ref. 2021-01-184560), the information included in which is incorporated herein by reference.

In the context of preparation of the Partnership's financial statements and upon conclusion of the audit, the Partnership's estimate of taxable income for the 2021 tax year was updated, based, *inter alia*, on estimations of the General Partner, various assumptions and taxation opinions, to the total amount of approx. ILS 945 million. It is noted that the capital gain in respect of the sale of the rest of the Partnership's interests in the Tamar and Dalit leases totaled approx. ILS 2 billion, for which the Partnership has paid capital gain tax in the sum of approx. ILS 470 million.

(b) Upon determination of the taxable income of an Entitled Holder for the 2021 tax year, a final certificate will be issued for purposes of calculating the taxable income of an Entitled Holder for tax year 2021 tax year, according to the Income Tax Regulations.

7.20.10 Although under the amendment to the Income Tax Regulations, the Partnership will be taxed as a company (i.e., according to the two-stage method) as of 2022, as noted in Section 7.20.1 above, according to a clarification received from the Tax Authority, the payments made in January 2022 (after the tax regulations had taken effect) will not be taxed as a dividend distribution by a company according to the regulations.

7.20.11 It is clarified that for each of the tax years from 2016 forth, for which the Tax Authority's audit of the Partnership's tax reports is as yet uncompleted, it may transpire after the completion of the Tax Authority's audit that there are assessment differences, such that the final tax assessment is higher than the tax payments made by the Partnership (net of refunds which were paid thereto), and in such case the Partnership will be required to pay to the Tax Authority, on account of the participation unit holders, the balance of the tax deriving from the assessment differences, according to the tax calculation under Section 19. It is noted that according to the judgment of June 28, 2021, as specified in Section 7.20.2 above, balancing payments due to such assessment differences (if any) will not be made. Should it transpire in the future that advances were paid by the Partnership in amounts exceeding the amount required by law, the balance will be repaid to the Partnership.

7.20.12 It is further clarified that part of the unique tax issues related to the Partnership's activity have yet to be addressed in Israeli case law, and it is difficult to anticipate or to determine how the Court will rule if and when said legal issues are brought before them. In addition, with regard to certain of the legal issues, it is difficult to anticipate what the Tax Authority's position will be. For further details see Note 20B to the financial statements (Chapter C of this report).

Every participation unit holder should examine its tax status through professional consultants, as well as the need for preparation according to the recommendations of its professional consultants as aforesaid. The Partnership is not responsible and shall not bear any responsibility in connection with the reports of the unit holders and/or amendment thereof and/or repercussions of amendment thereof.

7.21 <u>Environmental risks and management thereof</u>

7.21.1 By nature, the activity of exploration, development and production of oil or natural gas entails the risk of causing damage to the environment, that may occur, *inter alia*, from faults in equipment and/or work procedures, and/or unforeseen events. The severity of the risks varies from event to event, and therefore the manner of management and treatment of them varies too.

7.21.2 <u>The Partnership is subject to the provisions of the law and/or instructions of competent authorities on environmental issues.</u>

(a) The Petroleum Law and its regulations provide, *inter alia*, that upon performing drilling cautionary measures will be taken, such that there will be no unchecked liquids or gases flowing into the earth or rising from it and that there be no penetration from one geological layer into another. In addition, it is forbidden to abandon a well without plugging it according to the instructions of the Petroleum Commissioner.

(b) In addition, the Partnership's activity via the operator may be subject to the provisions of various environmental laws including the Prevention of Sea Pollution (Dumping of Waste) Law, 5743-1983 and the regulations promulgated thereunder; Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988 (the "**Prevention of Sea Pollution Law**") and the regulations promulgated thereunder; Prevention of Sea Water Pollution by Oil Ordinance (New Version), 5740-1980; Hazardous Substances Law, 5753-1993 (the "**Hazardous Substances Law**") and the regulations promulgated thereunder; Maintenance of Cleanliness Law, 5744-1984 and the regulations promulgated thereunder; Liability for Compensation for Oil Pollution Damage Law, 5764-2004 and the regulations promulgated thereunder; Prevention of Environmental Nuisances (Civil Actions) Law, 5752-1992; Clean Air Law, 5768-2008 (the "**Clean Air Law**") and the regulations promulgated thereunder; Environmental Protection (Emissions and Transfers to the Environment – Reporting Duty and Register) Law, 5772-2012 and the regulations promulgated thereunder; Abatement of Nuisances Law, 5721-1961 and the regulations promulgated thereunder; Protection of the Coastal Environment Law, 5764-2004; Business Licensing Law, 5728-1968 ("**Business Licensing Law**"), the regulations and the orders promulgated thereunder.

(c) There has recently been a public debate on climate changes and mankind's influence over these changes, which may lead to regulatory changes with a material effect on the Partnership's business sector. Concurrently, April 2021 saw the release of the Climate Bill, 5781-2021, which aims to create an organizational framework for the State of Israel's management of climate changes, and addresses several aspects, the chief of which being measures for the prevention and reduction of greenhouse gas emissions, *inter alia*, for the purpose of implementing the State of Israel's international obligations under the climate treaty and promoting the preparations for the effects deriving from climate changes and from the harms of the climate crisis. In February 2022, a section that had been added to the aforesaid Bill was released for public comment. The section pertains to climate risk evaluation and seeks to apply in the field of climate an impact assessment process that is similar to the one in the world.

(d) Furthermore, February 2022 saw the release of the Enhanced Efficiency of Environmental Licensing Proceedings Bill (Legislative Amendments), 5782-2022, the purpose of which is to optimize and enhance the efficiency of the existing licensing schemes from both a regulatory perspective and an environmental perspective, by means of a comprehensive reform that is based on conformity to the standards generally accepted in the European Union. Under the proposed law, the licensing arrangements in the existing environmental legislation will be amended so that licensing proceedings will be consolidated, to the extent possible, based on the regulation principles in the European Union, such that a uniform environmental permit will be issued for operations with the potential to cause considerable environmental impact.

(e) In addition, apart from the regulation prescribed by Israeli law, there are additional provisions on environmental issues determined also in the terms of the lease deeds that were given to the Partnership, and in the approvals for the construction and operation of the production systems of the projects in which the Partnership is a partner. Upon exploration, drilling and/or in the framework of the production of oil and natural gas, the Partnership purchases, independently and/or through the operator, in accordance with directives for provision of collateral in connection with petroleum interests (for details, see Section 7.22.8(a) below), insurance to cover damage for expenses of environmental cleanup, removal of debris and bodily injury and/or property damage to third parties which derive from a sudden, unexpected and uncontrolled accidental eruption of oil and/or natural gas. The Partnership does not take out insurance for non-accidental pollution damage resulting from a gradual and ongoing process. In this context, it is noted that the Petroleum Regulations (Principles for Offshore Petroleum Exploration and Production), 5777-2016 (which revoked the regulations of 2006) include various provisions regarding offshore petroleum exploration and production activity, and *inter alia* conditions in relation to the identity of an operator, including with respect to its experience in maintaining safety and environmental protection in the framework of petroleum exploration and production.

(f) <u>Environmental directives for offshore exploration and production of oil and natural gas</u>

In September 2016, the Ministry of Energy, jointly with the Ministry of Environmental Protection and other government ministries, published directives designated to regulate the environmental aspects of the operations of offshore oil and natural gas exploration, development and production. Furthermore, the Ministry of Energy and the Ministry of Environmental Protection, as well as other agencies on behalf of other governmental bodies, including the Israel Land Authority, release environmental directives to which the Partnership may be directly or indirectly subject. Such directives are updated from time to time, and they are intended to instruct the holders of offshore petroleum interests as to the actions and documents they are required to prepare in the context of their operation in the areas of their rights, in order to prevent, or minimize to the greatest extent possible, environmental hazards that might be created during the operations of offshore oil and natural gas exploration, development and production. Such directives constitute an integral part of the petroleum interest and the work plan therefor, and deviation therefrom might lead to the revocation of the right.

These directives include, *inter alia*, directives for the performance of seismic surveys, directives on the drilling of exploration and appraisal wells and directives post-discovery and on leases, and specify the various tests, approvals and permits which are required from the interest holders in each of the aforesaid stages.

(g) In addition to the instructions of the Ministry of Energy and the Ministry of Environmental Protection, in its activity the Partnership may, directly or indirectly, be subject to environmental directives of additional authorities that may be given from time to time, on behalf of other governmental bodies, including the Israel Land Authority.

7.21.3 In addition, the operating approval of the Leviathan platform determines the leaseholder's duty to act, on issues of environmental protection, pursuant to the law and instructions and permits that are given pursuant to any law, and also determine provisions with respect to the discharge of emissions into the sea, emissions into the air, etc. The said operating approval further determined that on matters in respect of which there are no provisions in Israeli legislation, U.S. standards will apply, subject to law, in relation to issues of safety and environmental protection, as well as the provisions specified in some of the annexes to the MARPOL Convention (The International Convention for the Prevention of Pollution from Ships) which apply or shall apply with respect to (mobile) rigs or permanent rigs.

7.21.4 <u>Events in connection with the environment</u>

According to information provided to the Partnership by the operator of the Leviathan project, in 2021 there was no event or matter relating to the Partnership's operations in connection with the environment which had a material effect on the Partnership. For details regarding material legal or administrative proceedings related to the environment, see Section 7.21.7 below.

7.21.5 <u>Environmental risk management policy</u>

(a) The operator in the Leviathan project operates according to a strategic policy for the protection of the environment and for compliance with the provisions of the law in general, and the environmental laws in particular. This policy includes the operator taking care to act in accordance with an environmental risk management system, including training suitable manpower, and including a work plan for the reduction of environmental damage, for the prevention of incidents and accidents and for the constant improvement of the organizational culture on issues of safety, environment and hygiene. In this framework the operator has a designated team both for the development stage and the operating stage, which is responsible for implementation of and supervision over such policy, and for fulfillment of the procedures for ensuring fulfillment of and compliance with all of the requirements and standards, including various systems for the management of environmental risks, such as SEMS (Safety & Environmental Management System). In addition, the operator performs due diligence by a third party, in addition to current audits performed by the Ministry of Energy and the Ministry of Environmental Protection in the production facilities. The operator carries out current activities on issues of the environment, safety and hygiene to increase awareness, knowledge and preparedness, including training of and drills for the operator's teams. Additionally, the operator is acting to obtain all of the environmental-regulation permits required for each one of the sites operated thereby, as applicable, including a business license under the Business Licensing Law, a toxic materials permit under the Hazardous Substances Law, a marine discharge permit under the Prevention of Sea Pollution Law and an emission permit under the Clean Air Law. The Partnership is acting to receive periodic and specific updates, as needed, regarding the operator's activity regarding the aforesaid matters.

(b) In 2019, the operator in the Leviathan project received a preliminary business license, marine discharge permit and toxic materials permit for the Leviathan platform, which are extended from time to time in accordance with the requirements of the law. The business license is valid until December 31, 2029, the toxic materials permit is valid until June 3, 2022, and the marine discharge permit is valid until March 31, 2022. On February 28, 2022, the operator received a marine discharge permit, which is valid until March 31, 2024. The validity of such permits is extended from time to time in accordance with the requirements of the law. A business license and a toxic materials permit were also received for the Hagit site, and their validity is extended in a similar manner.

(c) On November 6, 2019, the operator received an air emission permit for the Leviathan rig, the validity of which is determined in the law for a period of 7 years until 2026 ("**Leviathan's Emission Permit**"). The Leviathan's Emission Permit includes, *inter alia*, maximum emission values for emission sources on the Leviathan rig, and provisions with respect to implementation of the best available technology, monitoring, sampling, control and reporting to the Ministry of Environmental Protection. At the request of the operator, in 2020 and 2021, the terms and conditions of Leviathan's Emission Permit have been updated several times. On February 1, 2022, the Ministry of Environmental Protection published a draft for public comments on a proposal to change the terms and conditions of such Emission Permit.

7.21.6 Environmental costs and investments

The projected costs of actions relating to environmental protection are included in the budgets of the various projects and are updated from time to time according to the approved work plans. As of the report approval date, no additional material costs are expected.

7.21.7 Material legal or administrative proceedings in connection with the environment

As of the report approval date and to the best of the Partnership's knowledge, no material legal and/or administrative proceeding is being conducted against the Partnership and/or any of the officers of the General Partner and/or of the

Partnership in connection with environmental protection, which is expected to have a material effect on the Partnership.

(a) On August 28, 2019, the Homeland Guards Association (in this section: the "**Petitioner**") petitioned to the Jerusalem District Court against the Ministry of Environmental Protection and position holders therein and against Chevron and the Ministry of Energy, and sought to instruct the Ministry of Environmental Protection and position holders therein to require Chevron or the Ministry of Energy to furnish various items of information which are necessary, so the Petitioner claimed, to make a decision on the application for Leviathan's Emission Permit; to publicly release all of the information and to allocate a 45-day period for the submission of comments; and to refrain from granting an Emission Permit for the platform until the petition has been heard. Concurrently with the petition, a motion was filed for a temporary order and an interim order, intended to prevent the granting of Leviathan's Emission Permit until the petition has been heard. On December 19, 2019 the court's judgment denying the petition was received, and on November 2, 2021 the Supreme Court's judgment denying an appeal that was filed by the Petitioner from the judgment was received.

(b) In a petition which was filed in November 2019 with the Jerusalem District Court 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 "**Petitioners**", respectively), against the Head of the Air Quality Division at the Ministry of Environmental Protection and against Chevron, the court was moved, *inter alia*, to order that Leviathan's Emission Permit is null and void and to rule that there would be no activity on the Leviathan platform which entails the emission of gases. On March 15, 2020, the district court issued a judgment dismissing the Petition with prejudice and on October 7, 2021, the supreme court's judgment was issued which rejected an appeal filed by the Petitioners from such judgment while stating that the court has taken note of Chevron's declaration whereby the Commissioner will be informed of any change it will intend to make in the monitoring and sampling system operated thereby and that it will act according to the directives he will issue thereto in such context.

(c) On January 19, 2020, the Homeland Guards Association petitioned the Jerusalem District Court against the Ministry of Environmental Protection and Chevron, and sought to order the Ministry of Environmental Protection to publish a reasoned decision regarding Chevron's request to deem the information on the Leviathan reservoir well flow as such that contains information which amounts to a trade secret. According to the Petitioner, the non-publication of a reasoned decision constitutes a violation of the provisions of the Clean Air Law by the Ministry of Environmental Protection. It was further argued that the Ministry of Environmental Protection violated its internal procedures which contemplate the examination of requests to recognize trade secrets. A preliminary hearing on the petition was held on May 23, 2021 and in its context, in view of the Ministry of Environmental

Protection's consent to post on its website, a reasoned decision according to which the information constitutes a trade secret, on the website, the court ordered to dismiss the petition without prejudice.

(d) Financial penalties

1. On May 20, 2020, Chevron received a notice from the Ministry of Environmental Protection of the intention to impose a financial penalty, in an immaterial amount, due to alleged violations of the Leviathan's Emission Permit and the Clean Air Law, and the instruction of the Supervisor of Emission Permit in the Ministry of Environmental Protection (in this section: the "**Supervisor**"), given by virtue thereof in connection with the continuous monitoring systems in the Leviathan platform. Chevron has informed the Partnership that it has submitted an information request to the Ministry of Environmental Protection under the Freedom of Information Law, 5758-1998 (the "**Freedom of Information Law**"), which directly addresses the claims raised in such notice and that the Ministry of Environmental Protection has agreed to postpone the date for submission of the arguments with respect to such financial penalty and schedule such date for 30 days after the information is received.

   As of the report approval date, the requested information has not yet been received and therefore the count of days for responding to the aforesaid notice has not yet begun, such that it is not possible to estimate the chances of attaining additional reductions of the amount of the penalty or Noble's ability to attain the cancellation of some of the penalty's components on their merits.

2. On July 1, 2020, Chevron received an additional notice from the Ministry of Environmental Protection of the intention to impose a financial penalty, in an immaterial amount, due to alleged violations of the terms and conditions of Leviathan's Emission Permit and the Clean Air Law, with respect to the operation of flares on the production platform. On August 16, 2020, Chevron filed its arguments with respect to this penalty with the Ministry of Environmental Protection and on December 13, 2020, the decision of the Ministry of Environmental Protection was received whereby it was decided to cancel some of the penalties which the Ministry of Environmental Protection intended to impose and replace them with a new penalty, and to partially reduce the amount of one of the penalties. Payment for such penalties was transferred to the Ministry of Environmental Protection on January 12, 2021.

3. On January 28, 2021, another decision of the Ministry of Environmental Protection was received whereby it orders the cancellation of the new penalty that was imposed in the context of its aforesaid decision and repayment of the amount paid therefor to Chevron, since Chevron was denied the lawful right of fair hearing with respect to the new penalty before it was imposed thereon, and concurrently it notified that it intends to impose such penalty, while affording Chevron the chance to complete

its arguments with respect thereto by February 28, 2021. Chevron filed its arguments on March 7, 2021 and on September 5, 2021, the Ministry of Environmental Protection issued its final decision which imposed on Chevron a financial penalty in an immaterial amount. Payment for such penalty was transferred to the Ministry of Environmental Protection on October 5, 2021.

4. On June 6, 2021, Chevron received a notice from the Ministry of Environmental Protection of the intention to impose a financial penalty under the Clean Air Law in an immaterial amount, due to a flare activation event that took place on October 17, 2020, during which unburned gas was allegedly transmitted to flares (cold venting). On July 6, 2021, Chevron filed its arguments with respect to this notice of intention and on November 24, 2021, the decision of the Ministry of Environmental Protection was issued, ordering the imposition of a reduced financial penalty for such event. The decision stated that it was decided to reduce the amount of the penalty due to the fact that Chevron took measures to prevent the reoccurrence of the violations and due to the fact that Chevron discontinued the violation on its own initiative and reported it to the Supervisor. Payment for such penalty was transferred to the Ministry of Environmental Protection on December 22, 2021.

(e) Hearings

1. On January 19, 2021, Chevron received a warning and an invitation to a hearing from the Ministry of Environmental Protection with regard to an alleged violation of the sea discharge permit that was given to the Leviathan platform, with respect to the open system waste standards set forth in the permit. After Chevron sent on February 28, 2021 to the Ministry of Environmental Protection a letter of claims responding to the warning and invitation to a hearing, a. hearing regarding the matter was held on March 22, 2021, in which it was determined that the Ministry will not recommend punitive sanctions due to the alleged deviations. However, in the case of further deviations, the Ministry will consider exercising its full powers as prescribed by law. It was further determined that Chevron should prepare procedures and complete oil source detection and cleaning actions.

2. On November 1, 2021, Chevron received a letter of notice and summons to a hearing before the Ministry of Environmental Protection due to noncompliance with the conditions of the sea discharge permit issued to the Leviathan platform and violation of the Prevention of Marine Pollution Law, in which letter it is claimed that Chevron has deviated from the specified criteria for marine discharge from the open system. The hearing took place on January 6, 2022, in which it was determined that Chevron is required to take all actions to prevent deviations from the marine discharge permit and that the Ministry of Environmental Protection is considering exercising its full powers by law, including a possible recommendation for a financial penalty under the law.

At this stage, it is not possible to assess whether penalties will be imposed on the Company following the hearing.

On December 15, 2020, a motion for class certification was filed with the Tel Aviv District Court against Chevron (below in this section: the "**Respondent**") by a resident of Dor Beach on behalf of "anyone who was exposed to the air, sea and coastal environment pollution, due to prohibited emissions from the gas platform operated by the Respondents in the sea, which is located opposite Dor Beach, and treats the natural gas reservoir, Leviathan, in the period from the commencement of the platform's activity in December 2019 until a judgment is issued in the claim" (below in this section: the "**Certification Motion**", the "**Petitioner**" and the "**Class Members**"). In essence, the certification motion argues that the Respondent exposed the Class Members to air, sea and environmental pollution, due to prohibited emissions deriving from the Leviathan platform. Such exposure, according to the Petitioner, created various health problems (which were not specified in the certification motion) and damage of injury to autonomy due to the concern of health damage as aforesaid. The main remedy sought in the certification motion is compensation for the Class Members for the damage they allegedly incurred which is estimated at approx. ILS 50 million. In addition, the Petitioner moved for a remedy of an order instructing the Respondent to immediately fulfill the obligations imposed thereon in the Clean Air Law and the Regulations thereunder. On May 5, 2021, the court suggested to the parties to negotiate and on June 21, 2021, the parties updated the court that they have not reached agreements that will advance the conduct of the proceeding and that therefore, its conduct must continue before the court. As pretrial in the proceeding was set for May 16, 2022.

As of the report approval date, the Partnership estimates, based on the opinion of legal counsel representing the operator in the proceeding, that at this stage, the chances of the Certification Motion being granted are lower than 50%.

7.21.8 <u>Cyprus</u>

To the best of the Partnership's knowledge, under the Cypriot Environmental Effects Of Plans And Activities Law of 2005, (which is adapted to the European Directive), a strategic environmental evaluation is required in connection with a governmental decision to perform plans that may have environmental impact. The Cyprus Ministry of Energy imposed on the companies active in the sector (after a tender) the preparation of a strategic environmental assessment in connection with petroleum exploration and production activities in Cyprus and in the Cyprus exclusive economic zone (EEZ) (the "**Environmental Report**"). The license holder for the exploration or production activity must act in accordance with the Environmental Report and perform an environmental survey prior to conducting said activities in the area of the license.

7.21.9 It is noted that the EMG pipeline and the operation thereof, which connects between the Israeli transmission system in the area of Ashkelon and the Egyptian transmission system in the area of el-ʻArīsh, are subject both to Israeli and Egyptian regulation.

7.21.10 As of the report approval date, and in accordance with information provided to the Partnership by the operator, the Partnership has no knowledge of non-compliance or deviation from environmental quality requirements in projects in which the Partnership holds rights, that is expected to have a material effect on the Partnership.

7.22 Restrictions and supervision of the Partnership's activity

7.22.1 The Gas Framework

On August 16, 2015, Government Resolution No. 476 (readopted with certain changes in a Government Resolution of May 22, 2016) was adopted with respect to a framework for the increase of the natural gas quantity produced from the "Tamar" natural gas field[91] and the expeditious development of the "Leviathan", "Karish" and "Tanin" natural gas fields and other natural gas fields (in this section: the "**Government Resolution**"), which took effect on December 17, 2015, upon the grant of an exemption from certain provisions of the Economic Competition Law, 5748-1988[92] to the Partnership, Avner, Ratio and Chevron (in this section: the "**Parties**") by the Prime Minister, in his capacity as Minister of Economic Affairs, pursuant to the provisions of Section 52 of the Economic Competition Law (in this section: the "**Exemption**" or the "**Exemption Pursuant to the Economic Competition Law**"). The Exemption applies to certain restrictive arrangements which ostensibly may have been attributed to the Parties, as specified in the Government Resolution (the "**Restrictive Arrangements**"). The Government Resolution and the Exemption as aforesaid shall hereinafter be referred to above and below as the "**Gas Framework**".

Below is a concise description of the main parts of the Gas Framework.

(a) The restrictive trade practices in relation to which the Exemption was granted are as follows:

1. The Restrictive Arrangement that was ostensibly created, according to the Competition Commissioner's position, as a result of the acquisition of the rights in the Ratio-Yam permit by the Partnership, Avner and Chevron; and the Restrictive Arrangement that was ostensibly created as a result of the Parties' coming together as joint holders of the Ratio-Yam permit and the Leviathan reservoir.

[91] "Tamar" was defined in the exemption annexed to the Framework as "a natural gas reservoir situated in the area of the Tamar I/12 and Dalit I/13 leases, and the rights held by the entities that hold Tamar in the gas transmission infrastructure, including all of its components and parts, including the rights of the holders of Tamar to use the onshore gas reception and processing facility, from the Tamar reservoir to the national transmission system".

[92] On January 1, 2019, the Amendment to the Competition Law was approved, in the context of which the name of the law was changed from the "Antitrust Law" to the "Economic Competition Law".

2. The Restrictive Arrangement that shall ostensibly be created in a case in which the Parties or some of them jointly market the gas that shall be extracted from the Leviathan reservoir to the domestic market until January 1, 2025.[93]

3. The Restrictive Arrangement that shall ostensibly be created in a case in which the Parties or some of them jointly market the gas that shall be extracted from the Leviathan reservoir for export only.

4. The Restrictive Arrangement which may be created as a result of a certain agreement for the purchase of natural gas from the Leviathan reservoir, provided that such agreement is signed by January 1, 2025.

5. With respect to their activity in the Leviathan and Tamar reservoirs only, the Partnership, Avner and Chevron being the holders of a monopoly according to the Competition Commissioner's declarations.[94]

(b) The Exemption from the Restrictive Arrangements specified above was made contingent upon the fulfillment of the following conditions:

1. Transfer of rights in the Karish and Tanin reservoirs

a. Pursuant to the Framework, the Partnership, Avner and Chevron were obligated to transfer all of their rights in the Karish and Tanin leases to a third party not affiliated with the Parties or any of them, which shall be approved by the Petroleum Commissioner.[95]

b. The permitted export quota from the Karish and Tanin reservoirs in the amount of 47 BCM was exchanged, as of the date of the Petroleum Commissioner's approval of the transfer of the rights in Karish and Tanin, against the duty to supply to the domestic market imposed on the holders of the Leviathan Leases.

In accordance with the provisions of the Gas Framework, the rights in the Karish and Tanin leases were fully transferred to a third party in December 2016. For further details, see Section 7.7.1 above.

2. Transfer of rights in the Tamar Project

a. Pursuant to the Gas Framework, the Partnership and Avner were obligated to transfer, by December 17, 2021 (72 months from the date the exemption is granted, the "**Effective Date for Tamar**"), all of their rights in the Tamar and Dalit leases to a third party not affiliated with the Parties or any of them or with any entity that holds means of

[93] The Minister of Energy is authorized, upon the fulfillment of certain conditions as prescribed in the Exemption, to extend the Exemption until January 1, 2030.

[94] See Footnote 93 above.

[95] As aforesaid, on December 26, 2016, a transaction was closed for the sale of all of the rights of the Partnership, Avner and Chevron in the Tanin and Karish Leases to Energean Israel.

control in the Leviathan reservoir or in the Karish and Tanin reservoirs, subject to the Petroleum Commissioner's approval.

b. By the Effective Date for Tamar, Chevron shall deliver to the Petroleum Commissioner a binding sale contract, such that after consummation thereof, Chevron's rights in the Tamar Lease will be no higher than 25% and the surplus rights will be transferred to a third party which is not affiliated with the Parties or any of them and does not hold means of control in the Leviathan reservoir or in the Karish and Tanin reservoirs, subject to the Petroleum Commissioner's approval.

According to the provisions of the Gas Framework, the Partnership transferred all of its rights in the Tamar project in the context of a sale to Tamar Petroleum, which transaction was closed in July 2017 (for further details see Section 7.24.11 below) and an additional sale to Tamar Investment 1 RSC Limited and Tamar Investment 2 RSC Limited, which transaction was closed in December 2021 (for further details see Section 7.24.12 below). In addition, in May 2021, the Partnership sold its entire holdings in shares of Tamar Petroleum in an off-exchange transaction.

To the Partnership's best knowledge, according to the Gas Framework, Chevron reduced its percentage holdings in the Tamar project to 25%, after performing in December 2016 and March 2018 two transactions for the sale of 3.5% and 7.5% of the rights in the project to Everest and Tamar Petroleum, respectively.

(c) New agreements for the supply of natural gas

The Gas Framework sets out specific restrictions that apply to agreements for the supply of gas from the Leviathan reservoir, that shall be signed with consumers. Such main restrictions are as follows:

1. Agreements for the supply of natural gas, that shall be signed from the date of the Government Resolution, will meet all of the following provisions:

   a. The consumer shall be subject to no restriction with respect to the purchase of natural gas from any other natural gas supplier.

   b. The consumer will have the possibility of selling natural gas that it purchased in a secondary sale, in accordance with the conditions and provisions set forth in the Exemption.

   c. The parties shall not apply any restriction to the sale price at which the consumer shall sell the natural gas in a secondary sale.

2. With respect to agreements that shall be signed from the date of the Government Resolution until 4 years after the date on which the Petroleum Commissioner approved the transfer of the Rights in Karish

and Tanin (i.e., December 13, 2020), the holders of the rights in the Leviathan reservoir will be required to provide the consumer the possibility of purchasing gas in an agreement for any period that he shall choose up to 8 years or a longer period to be agreed between the parties and the consumer.

3. With respect to any gas supply agreement for a period exceeding 8 years signed by June 13, 2017 (6 months after the date of approval by the Petroleum Commissioner of the transfer of rights in Karish and Tanin), the consumer will have a unilateral and unconditional right to give notice of reduction of the gas quantity stated in the Take or Pay clause, to an amount equal to one half of the actual average annual consumption quantity of such consumer in the 3 years preceding the date of the notice. Reduction of such quantity of purchase will be made possible at any time during the period ending at the beginning of the sixth year from the date of supply of the natural gas to the customer at Leviathan.

(d) Provisions regarding the price of natural gas in consumer supply contracts

The Gas Framework included provisions regarding the prices that the Partnership was required to offer to gas consumers from the date of the Government Resolution, on August 16, 2015 until the date of closing of the transfer of the rights of the Partnership, Avner and Chevron in the Karish and Tanin leases, or in the Tamar lease in accordance with the provisions of the Framework, whichever is later. Such period ended upon the closing of the sale of Partnership's rights in the Tamar lease in December 2021.[96] For a description of the provisions relevant to such transition period, see Section 7.23.1 of Chapter A to the 2020 Periodic Report, which is included herein by reference.

It is noted that in accordance with the provisions of the Gas Framework regarding taxation and taxation decisions given in connection with the gas export agreements from the Leviathan and Tamar reservoirs, the Partnership offered new customers in Israel the price terms set forth in such export agreements, as specified in the taxation chapter of the Framework. For further details, see subsection (f) below and the description of the export agreements in Section 7.10.3 above.

(e) Provisions regarding natural gas export

The Gas Framework included several clarifications and amendments to government resolution no. 442 of June 23, 2013, with regard to the adoption of the main recommendations of the committee for the examination of the

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[96] It is noted that on January 19, 2022, the Natural Gas Authority announced that the transition period has ended and therefore it is no longer required to publish the price alternatives. However, the Natural Gas Authority noted that it is exploring various options for continued publishing of average prices in the market. For details, see: https://www.gov.il/BlobFolder/generalpage/decision476/he/decision476_end.pdf

government's policy regarding the natural gas sector in Israel (the Tzemach Committee report).

(f) Taxation

The Government Resolution included the Tax Authority's notice which regulates various taxation issues pertaining to activity in the Leviathan and Tamar reservoirs. In addition, the government decided to act to promote amendments to the Taxation of Profits from Natural Resources Law, whose aim, *inter alia*, is the closing of tax loopholes, various clarifications and the application of assessment and collection proceedings.

It was further determined that the price of a petroleum unit in an export agreement will be taxed according to the actual income from the export agreement and not according to the "average domestic price" for such type of petroleum, as defined in the Taxation of Profits from Natural Resources Law, and that there will be no need for an annual examination of the revenues from the export agreement for this purpose, subject to the prior approval of the Tax Authority that the price of a petroleum unit under the export agreement is not lower than the "average domestic price" or alternatively, that the holder of the export agreement shall undertake to offer the price determined in the export agreement as aforesaid to new customers in Israel, in the manner and under the conditions set forth in the Gas Framework. It is noted that the Tax Authority's approvals as aforesaid were received by the Partnership in relation to all of the export agreements in which the Partnership has engaged.

(g) Maintaining a regulatory environment that encourages investments

The Israeli government undertook, as part of the Gas Framework, to maintain regulatory stability in the natural gas exploration and production segment on three issues: (a) the public's maximum share in the profits (Government Take); (b) export; and (c) the restructuring included in the Government Resolution, and all for 10 years from the date of adoption of the Government Resolution.

Following the original Government Resolution and the grant of the Exemption, several petitions were filed with the High Court of Justice. On March 27, 2016, the judgment of the High Court of Justice was issued on the said petitions, ruling, *inter alia*, that the stability clause as worded in the Gas Framework (the government's undertaking to limit future changes in the regulation of the natural gas sector) cannot stand, and the State was given a one-year period to act for the regulation of the stability issue in the Framework.

On May 22, 2016, the Government readopted its resolution of August 16, 2015 with respect to the Framework, while setting an alternative arrangement for Chapter J of the Framework concerning a "stable regulatory environment", to secure a regulatory environment that encourages investments in the natural gas exploration and production segment.

7.22.2 Economic competition law

(a) <u>The position of the Partnership as a monopoly</u>

On November 13, 2012 the Partnership was declared a monopoly – together with its other partners in the Tamar Project and separately – in the supply of natural gas in Israel commencing upon the date of the beginning of commercial supply from the Tamar Project. Since as of the report approval date, the Partnership is engaged in the joint marketing of the gas produced in the Leviathan project together with Chevron (which was declared a monopoly), the Partnership may be considered a monopoly in connection with the natural gas supply in Israel, although it completed the sale of its remaining rights in the Tamar and Dalit Leases, in December 2021.

A monopoly is subject to Chapter D of the Economic Competition Law, including a prohibition to unreasonably refuse to supply the asset or service in the monopoly and a prohibition on abuse of its position in the market in a manner that might reduce competition in business or harm the public.

(b) <u>Natural gas price control</u>

The Products and Services Price Control Order (Application of the Law to Natural Gas and Determination of Level of Control), 5773-2013 (the "**Products and Services Price Control Order**"), imposes control on the gas market at the level of profitability and price reporting. Such duty to report applies separately with respect to each project. Over and above the duty to report prices and profitability, as of the report approval date, no control was imposed on the prices of gas marketed in Israel. For details regarding a risk factor pertaining to the possible impact of imposing control on natural gas prices in Israel, see Section 7.28.18 below.

(c) <u>The consent of the Competition Commissioner to the merger in connection with the acquisition of EMG shares</u>

In order to enable the export of gas from the Leviathan reservoir to Egypt, EMED acquired 39% of the share capital of EMG, according to an agreement signed in September 2018, specified in Section 7.24.4 below. The acquisition of EMG shares was subject, *inter alia*, to the receipt of approval for the merger, in accordance with Section 20(b) of the Economic Competition Law. On July 31, 2019, the decision of the Competition Commissioner approving the merger was given[97], under the conditions whose summary is described below:

1. The Partnership, Chevron, EMG and EMED and any party related thereto as defined in the Resolution (jointly: the "**Parties**") shall not refuse a request for gas swap and shall supply natural gas to a customer in Israel who signed a natural gas supply contract with a natural gas supplier in Egypt, in the same quantity and at quality no lower than the quality undertaken by the natural gas supplier in Egypt to the customer in Israel (the "**Gas Swap Arrangement**"). In this

[97] https://www.gov.il/BlobFolder/legalinfo/decisions037056/he/decisions_037056.pdf

context, they shall make every reasonable effort including by exercising their rights in the Leviathan and Tamar projects, in order to comply with such request.

2. The duty of the parties as stated in subsection (a) above is up to the quantities of gas set forth in the Take or Pay clauses signed by the Leviathan Partners or any one of them and the Tamar Partners or any one of them in respect of which there are transmission agreements in the EMG pipeline.

3. In respect of natural gas to be swapped as part of the Gas Swap Arrangement, EMG shall not charge from an Egyptian supplier an amount that exceeds one half of the pipeline transmission fee.

4. The Parties shall not refuse to provide pipeline transmission services to another party wishing to receive pipeline transmission services up to the scope of available capacity.

5. The aforesaid notwithstanding, the obligation to provide the transmission services shall not apply in any of the following cases: (a) the Other Entity shall have refused to sign a transmission agreement with the Parties, despite the Director of the Natural Gas Authority having confirmed that the transmission agreement contains no conditions that are unnecessarily burdensome on the Other Entity; (b) the Other Entity shall have refused to meet conditions required by the Director of the Natural Gas Authority with respect to such transmission agreement.

6. EMED shall not exercise the option granted thereto to extend the capacity and operation agreement by an additional 10 years (as specified in Section 7.24.4 below) without the receipt of a prior permit from the Competition Commissioner.

(d) As specified in Section 7.11.4(b)(2) of Chapter A to the 2020 Periodic Report, on January 30, 2021, the Leviathan Partners signed a settlement agreement with the IEC, which was subject to, *inter alia*, the approval of the Competition Commissioner and the approval of the Competition Court of an agreed order that was signed by Chevron, regarding the separate marketing of the gas produced from the Tamar reservoir,[98] which was received on March 24, 2021.

(e) On June 6, 2021, a letter was received from the Competition Authority whereby, in the position of the Competition Authority, the "exclusivity clause" included

[98] The language of the agreed order: https://www.gov.il/BlobFolder/legalinfo/draftord-nobleenergy/he/legalinformation_cavim_%D7%A0%D7%95%D7%A1%D7%97%20%D7%A6%D7%95%20%D7%9E%D7%95%D7%A1%D7%9B%D7%9D%20%D7%A0%D7%95%D7%91%D7%9C%20%D7%90%D7%A0%D7%A8%D7%92%D7%99%2024.3.21.pdf

in the natural gas supply agreement that was signed between the Leviathan Partners and the IEC, constitutes a violation of the provisions of the Gas Framework, according to which in sale agreements from the Leviathan reservoir, no restriction will apply to the consumer regarding the purchase of natural gas from any other natural gas supplier. In view thereof, the Leviathan Partners were required to immediately cancel the said clause, without the aforesaid exhausting the handling of such violation or infringing on the powers of the Competition Commissioner with respect to such violation. In the opinion of the Leviathan Partners, this is not an exclusivity clause, their acts in connection with the said agreement were not contrary to the provisions of the Gas Framework and they disagreed with the powers of the Competition Authority in this matter. However, on June 10, 2021, the Leviathan Partners notified the Competition Authority of their consent to the cancellation of the said clause, and on June 14, 2021, the IEC was notified of the cancellation of the clause, without constituting an admission or consent to the notice of the Competition Authority and/or to any of the allegations raised against the aforesaid agreement and/or the aforesaid clause. It is noted that the agreement signed between the Leviathan Partners and the IEC, which included the said clause, ended on June 30, 2021. See Section 7.10.3(b) above for further details.

7.22.3 The Promotion of Competition and Reduction of Concentration Law, 5774-2013 (the "**Anti-Concentration Law**")

According to the Anti-Concentration Law, regulators have powers to make industry competitiveness considerations and economy-wide concentration considerations, as part of the allocation of public assets by the State, in order to ensure increased industry competitiveness and decentralization of economy-wide concentration. Accordingly, a regulator may choose to not allocate to an entity listed on the published list of concentration entities, determined on the basis of criteria set forth in the Anti- Concentration Law, a right, including a contract, in a business sector that uses critical infrastructure or a public resource, or in the framework of which a utility is provided to the public, listed in the Anti-Concentration Law (the "**Critical Infrastructure Sector**"), until having found that no actual damage will be caused to the sector in which the right is allocated and to the regulation of the said sector due to non-allocation, and after having taken into account considerations of prevention of the expansion of the operations of the concentration entity, bearing in mind the relevant business sectors and the link between them (the "**Economy-Wide Concentration Considerations").**

Therefore, prior to the allocation of a right in any Critical Infrastructure (including a business sector with respect to which a petroleum interest is granted or a business sector with respect to which a storage license or an LNG facility license is required under the Natural Gas Sector Law) to the Partnership, the regulator will have to weigh Economy-Wide Concentration Considerations.

Notwithstanding the foregoing, the aforementioned provisions with regard to Economy-Wide Concentration Considerations will not apply to the allocation of a petroleum interest to anyone having another petroleum interest in respect of the same area on the allocation date.

In addition, when allocating a right (within the above meaning thereof) including a license required for activity business sector that is not in an Critical Infrastructure Sector, the regulator is required to take into account considerations of promotion of the sectorial competition, in addition to any other consideration he is required to weigh under law for such purpose.

According to the provisions of the Anti-Concentration Law, the Committee for the Reduction of Concentration publishes and updates from time to time the list of the concentration entities in the economy, the list of significant financial entities and the list of significant non-financial corporations. The Partnership is included in the list of concentration entities and in the list of significant non-financial corporations. On December 28, 2021, the Partnership contacted the chairman of the Concentration Committee in a request to remove it from the list of concentration entities. To the best of the Partnership's knowledge, as of report approval date, the Partnership has not been removed from the said lists and it is still included therein.

7.22.4 The Petroleum Law and the regulations promulgated thereunder

(a) The Petroleum Law

The exploration, development and production of oil and/or natural gas (in this section: "**Petroleum**") in Israel is regulated mainly under the Petroleum Law, including the amendments incorporated therein, and the regulations promulgated thereunder (in this section: the "**Law**") the principles of which are as follows:

1. The Law provides that a person shall not explore for Petroleum except under a "preliminary permit", "license" or "lease deed" (as defined therein) and a person will not produce petroleum except for under a license or lease deed.

2. Preliminary testing, that does not include test drilling, in any area, in order to ascertain the prospects for discovering Petroleum in such area, including the conducting of seismic surveys, is subject to the receipt of a preliminary license. The Law permits the granting of priority rights to the holder of the preliminary rights for petroleum interests in the area in which the preliminary permit was granted, if same will undertake to do preliminary tests and invest in the exploration for Petroleum as determined by the State's competent representatives to this matter.

3. A License grants the licensee, subject to the provisions of the Law and the terms and conditions of the License, mainly the right to explore for Petroleum in the area of the license in accordance with the plan submitted to the Petroleum Commissioner under the Law, and the exclusive right to conduct test and development drilling in the license area and to recover Petroleum therefrom. In general the License will be

granted for an initial period of 3 years and is subject to extension, under conditions provided for by Law, for an additional term not to exceed 4 years.

4. If a leaseholder makes a Petroleum discovery, it is entitled to an extension of the license period for such time, not exceeding two years, as will give it sufficient time to define the borders of the Petroleum field, and the licensee is entitled to receive in a certain area within the license area, a "lease" which granting exclusivity to explore and to produce Petroleum in the leased area, for the term of the Lease. The lease is given for a period of up to 30 years from issuance, but if a lease is given pursuant to a license that was extended after a discovery in the license area, the license term will commence upon the original termination date of the license, prior to extension. A lease may be extended, under the provisions of the Law, for an additional period of up to 20 years. A lease may expire following a suitable prior notice given by the Minister of Energy, if the lease holder fails to produce or ceases to produce Petroleum in commercial quantities.

5. The Law provides that the lessee pay the State royalties of one eighth of the quantity of Petroleum produced from the leased area and utilized (excluding Petroleum used by the lease holder for operating the leased area), but in any event no less than the minimal royalty provided for by Law.

6. A lease might expire following a suitable prior notice given by the Minister of Energy if the lease holder fails to produce or ceases to produce Petroleum in commercial quantities.

7. The Law provides that the Petroleum Commissioner may cancel a petroleum interest or a priority right if the rights holder thereof has not complied with the provisions of the Law or fails to comply with any condition of its petroleum interest or preliminary permit, or has not performed in accordance with the work plan submitted by it or is late in its performance or fails to invest in Petroleum exploration the sums undertaken to invest, notwithstanding written notice given to the petroleum interest holder or preliminary permit holder sixty days previously.

8. The Petroleum Commissioner will maintain a Petroleum register which will be open to the public for review (the "**Petroleum Register**"). The Petroleum Register will list all requests, grants, extensions, revisions or expirations and transfers, pledges of petroleum interests or benefits therein or grant of a lease deed. No such transaction shall be in force until it is registered therein.

9. The Law provides that no one person shall have more than 12 licenses, and that it will not have licenses for a total area exceeding 4 million thousand sqm, except upon prior approval of the Petroleum Council.

10. Section 76 of the Petroleum Law determines that a preliminary permit, license and lease are personal and neither they nor any benefit therein may be pledged or transferred in any manner – other than through inheritance – other than with the Petroleum Commissioner's permission, and the Petroleum Commissioner will not permit the pledge or transfer of a license or of a lease other than after consulting with the Petroleum Council.

11. A leaseholder may build pipelines for the transport of oil and oil products. A leaseholder shall not build an oil pipeline, other than collection pipelines which lead to tanks in or around the areas of the lease wells, other than according to a line approved by the Petroleum Commissioner. An oil pipeline will be constructed according to detailed drawings in accordance with the law, which will first require the approval of the Petroleum Commissioner, which shall not be unreasonably withheld.

(b) <u>The Petroleum Regulations (Principles for Offshore Petroleum Exploration and Production), 5777-2017</u> (the "**Offshore Regulations**")

On November 15, 2016, the Offshore Regulations, which replaced the Petroleum Regulations (Principles for Offshore Petroleum Exploration and Production), 5766-2006, came into effect. The Offshore Regulations prescribe, *inter alia*, proof of qualification of the applicant seeking operator certification.

Below is a description of the principles of the Offshore Regulations:

1. The Petroleum Commissioner will not certify an applicant as operator unless the following principal conditions are fulfilled:

    a. The operator will be the lease holder with at least 25% of the rights in the Petroleum asset.

    b. The operator or control holder therein (subject to the conditions in the Offshore Regulations) will have at least 5 years of experience in the 10 year period preceding the filing of the application, in the performance of the functions of an operator, including (a) experience in offshore oil or natural gas exploration; (b) experience in offshore drilling; (c) experience in offshore development and production of oil and natural gas; and (d) experience in activities for preservation of health, safety, and environmental protection relating to activities in petroleum interests.

    c. Furthermore, the Petroleum Commissioner will not certify a corporation as operator, unless it directly employs employees that have qualification and at least 5 years of experience in the offshore oil or natural gas exploration sector, and in the offshore oil or natural gas development and production sector, unless he decides to certify a corporation as an operator despite its noncompliance with the requirement of experience in offshore oil or natural gas development and production, as described below.

d. The Petroleum Commissioner may, according to the stage and characteristics of the right and according to the scope of the demand for receipt of the right in that area or according to the composition of the entire group, certify a corporation as an operator even if it fails to comply with the above requirement of necessary experience in offshore oil or natural gas development and production.

e. The Petroleum Commissioner may require a certain corporation, for certification thereof as operator, greater experience than the one prescribed, if it finds it necessary according to the stage and characteristics of the right, and considering the work plan, its complexity and environmental and safety aspects.

f. The Commissioner will not certify a corporation as an operator unless it has sufficient financial capacity and financial strength. For this purpose, an operator or the control holder thereof (subject to the conditions in the Offshore Regulations) is financially sound (as defined in the Offshore Regulations) and has financial capacity that is deemed sufficient if the total assets in the balance sheet are at least $200 million and the total equity in the balance sheet is $50 million.

2. The applicant for a petroleum interest must prove appropriate financial capacity by fulfillment of both of the following:

   a. The total assets in the balance sheet of the applicant (or of all holders of the petroleum interest jointly, including a member of the group approved as the operator with respect to the petroleum interest) are at least $400 million.

   b. The total equity in the balance sheet of the applicant (or of all holders of the petroleum interest jointly, including a member of the group approved as the operator with respect to the petroleum interest) is at least $100 million.

   An applicant for a petroleum interest may rely on the control holder thereof in order to prove financial capacity, subject to the conditions prescribed by the Offshore Regulations.

   The aforesaid financial capacity, financial strength, total assets and total equity will be examined according to the data in the audited financial statement as of December 31 of the year preceding the submission of the application, or according to an average of the data in the audited financial statements as of December 31 of the two years preceding the submission of the application, according to the discretion of the Petroleum Commissioner.

3. The Petroleum Commissioner may, with approval from the Minister of Energy, withhold approval from an application to receive a petroleum interest or an application to serve as an operator, even if all the aforesaid conditions are fulfilled, if he is convinced that reasons of national security, foreign relations and international trade relations so justify, or if there are special circumstances due to which approval of the application is not in the best interests of the public or the energy sector in Israel.

4. Notwithstanding the provisions above, it is possible to approve an operator or grant a petroleum interest even if not all of the details which appear above are fulfilled, provided that under the circumstances the non-fulfillment of the conditions is immaterial and the Commissioner was convinced that there are special grounds which justify so doing.

5. The Offshore Regulations include additional provisions on the details to be included in the application for approval of an operator and reports which an operator and a holder of a petroleum interest are required to submit to the Petroleum Commissioner.

(c) The Petroleum Law Legislative Memorandum (Amendment no. 7) (Regulation of Specific Export Pipelines and Liquefaction Facilities), 5780-2020

On August 9, 2020 the Ministry of Energy released the Petroleum Law Legislative Memorandum (Amendment no. 7) (Regulation of Specific Export Pipelines and Liquefaction Facilities), 5780-2020 (in this section, the "**Memorandum**"). The purpose of the Memorandum is to regulate the construction of pipelines for export of natural gas and facilities for export of natural gas, also by entities that are not lease holders pursuant to the Petroleum Law. As of the report approval date, this matter is regulated in Section 10A of the Natural Gas Sector Law. The purpose of the Memorandum is, inter alia, to replace the regulation set forth in the Natural Gas Sector Law. The Memorandum further proposes to regulate the construction and operation of an offshore natural gas liquefaction facility, the purpose of which is to transform the state of the natural gas from gas to liquid, which is designed to enable export of liquefied natural gas.

In addition, the proposed amendment to the Petroleum Law requires an indirect amendment to the Natural Gas Sector Law for the purpose of adaptation of the Natural Gas Sector Law to the proposed amendments to the Petroleum Law.

7.22.5 The Natural Gas Sector Law and the regulations promulgated thereunder

The Natural Gas Sector Law and the regulations promulgated thereunder set forth provisions with regard to the construction of the transmission system, marketing and supply of natural gas. The Natural Gas Sector Law provides, *inter alia*, that:

(a) The following activities may not be undertaken without a license issued by the Minister of Energy (in this section: the "**Minister**") and according to its terms:

1. The construction and operation of a transmission system or part thereof.

2. The construction and operation of a distribution network or part thereof.

3. The construction and operation of an LNG facility ("**LNG License**").

4. The construction and operation of a storage facility.

5. The construction and operation of an export pipe by a person who is not a lease holder.

(b) Transmission license will only be given to a company established in Israel under the Companies Law.

(c) The holder of the transmission license or an electricity provider may not deal in the sale or marketing of natural gas, nor may a holder of control or a link in any of them.

(d) The occupation of selling and marketing of natural gas does not require a license, however the Minister has the discretion under certain conditions set forth in the Natural Gas Sector Law, to determine, upon agreement with the Minister of Finance and upon approval of the Knesset's Economic Affairs Committee, that for a certain determined term, natural gas marketing activity will be subject to a license.

The Gas Sector Law establishes additional provisions that include, *inter alia*, conditions for granting licenses, granting powers to the Minister, the Natural Gas Sector Authority (appointed under Section 63 of the Natural Gas Sector Law) and the Director of the Authority regarding the granting of licenses and determining various conditions and restrictions that will apply with respect to the licenses or license holder, and grants them powers to determine provisions with respect to natural gas suppliers; provisions regarding revocation of licenses, guarantees required from a license holder, etc.

It is noted that in accordance with the provisions of the Natural Gas Sector Law, a transmission license was granted to Leviathan Transmission System, for the gas flow from the production platform of the Leviathan project to the northern entry point of the national transmission system of INGL.

Within the framework of the Economic Plan Law (Legislative Amendments for Implementation of Economic Policy for 2021 and 2022 Budget Years), 5782-

2021, which was approved by the Knesset on November 4, 2021, the definition of the term "Rates" in the Natural Gas Sector Law was expanded such that it includes not only payments paid by consumers for services they receive, but rather any payment that will be imposed on any one of the players in the natural gas sector, including natural gas suppliers, for the benefit of another license holder and for any purpose, including purposes of gas sector development, backup and redundancies. The aforesaid applies whether or not such player on whom the Rate is imposed, receives any service from the license holder. This amendment may allow for the imposition of charges on natural gas suppliers by virtue of the Law. It is noted that the aforesaid law was approved by the Knesset after the petition mentioned in Section 7.25.13 below, has been filed with the Supreme Court.

It is further noted that, to the best of the Partnership's knowledge, on February 24, 2022, Government Resolution No. 1158 was adopted, which concerns the Natural Gas Sector Bill (Amendment No. ...), 5782-2022 (in this section, the "**Bill**"), in which it is proposed, *inter alia*, to amend the provisions regarding "state of emergency" and regulate sub-trade in natural gas by entities that are not gas suppliers. As of the report approval date, the Bill has not yet been released for public reference, and accordingly not yet published in the Official Gazette.

(a) <u>Natural Gas Sector Regulations (Management of the Natural Gas Sector in a State of Emergency), 5777-2017</u> (the "**Emergency Regulations**")

The Emergency Regulations were promulgated under Section 91 of the Natural Gas Sector Law, which authorizes the Minister of Energy, with approval from the Government, to announce a state of emergency in the natural gas sector and promulgate regulations applicable to the operation of the natural gas sector in a state of emergency.

In the event that the Minister of Energy announces a state of emergency in the natural gas sector, the Emergency Regulations determine that if the demand at any time exceeds the maximum quantity that a natural gas supplier can supply from the field for which the declaration was given (the "**Defaulting Gas Supplier**"), then the gas supplier and the transmission license holder are obligated to make allocations of natural gas and LNG to consumers in accordance with the provisions specified in the Regulations. The Regulations authorize the Minister of Energy, under certain conditions, to deviate from the provisions of the Regulations and order a different allocation of the quantities of gas and LNG, provided that the deviation does not exceed what is required.

The Regulations determine that they do not derogate from the remedies and relief available to anyone that signed an agreement with the Defaulting Gas Supplier and in accordance with the said agreement.

To the best of the Partnership's knowledge, as of the report approval date, the Minister of Energy is promoting an update to the language of the Emergency Regulations.

(b) The Natural Gas Sector Regulations (Duty to Provide Information of a Natural Gas Seller and Marketer), 5782-2022 (in this section: the "**Regulations**")

On March 7, 2022, the Regulations have been published in the Official Gazette, according to which all those engaged in the sale or marketing of natural gas will be required to submit to the Director of the Natural Gas Authority quarterly reports that include details on the quantities of natural gas sold or marketed each month, the prices agreed upon in each natural gas supply agreement, the total income of the seller or marketer from natural gas sales to consumers in the Israeli market, copies of signed agreements and other details. Applicability of the Regulations is within 30 days (i.e., April 6, 2022).

(c) Regulation of criteria and rates regarding the operation of the transmission system in a flow control regime

1. On January 3, 2021, the Natural Gas Authority Council released an amendment to the Council's decision on criteria and rates regarding the operation of the transmission system in a flow control regime decision no. 5/2020 (Amendment No. 2)[99] (in this section: the "**Decision**"). The Decision stipulates that the costs for the UFG in the transmission system deriving from reasons that cannot be attributed to malfunction of the transmission system, but to factors that cannot be prevented or controlled such as measurement timing, pressure differences and temperature differences, will be borne by the gas suppliers. The Decision further stipulates that the UFG-T ranges from 0%-0.5% (positively or negatively). The costs for UFG-T will be divided equally between the gas suppliers and the gas consumers. The Decision took effect on April 1, 2021.

   After the release of the Decision, INGL contacted Chevron with a demand to apply the Decision retroactively from the beginning of 2020 with respect to the Leviathan project, and also forwarded for the inspection of Chevron, a notice in this spirit which it provided to its customers. Further to the above notice, Chevron turned to the Gas Authority and expressed its objection to the retroactive application of the Decision, without derogating from its arguments against the Decision itself.

   For details regarding a petition filed by the Partnership together with the other Leviathan Partners and Tamar Partners against the Natural Gas Council and the Ministry of Energy in which it is requested to order the nullification of the decision on April 7, 2021, see Section 7.25.13 below.

2. For details regarding the expansion of the definition of the term "Rates" in the Natural Gas Sector Law, which allows the imposition of charges on natural gas suppliers by virtue of the Natural Gas Sector Law, see this section above.

[99] Decision no. 5/2020 amends decision no. 4/2020 of the Natural Gas Authority Council of May 27, 2020, which amended the Council's decision no. 8/2019.

(d) <u>Decisions of the Natural Gas Authority Council regarding the financing of export projects via the national transmission system (in this section: the "**Decision**")</u>

The Natural Gas Authority Council made several decisions regarding the transmission rates that will apply to the export of natural gas via the national transmission system, and regarding the financing of the construction of those segments of the transmission system designated for purposes of export of natural gas as aforesaid, by the gas exporters.

According to the decisions of the Council, on June 23, 2020 the Director General of the Natural Gas Authority announced his determination that the cost of the Ashdod-Ashkelon Combined Section designated for the piping of natural gas from the Leviathan and Tamar reservoirs to EMG's terminal in Ashkelon for purposes of piping gas to Egypt according to the export agreements (above and below, the "**Combined Section**") was estimated at a sum total of ILS 738 million which will be updated according to an update and accounting mechanism between the parties as set forth in the Transmission Agreement with INGL.

According to the announcement of the Director General of the Gas Authority, 43.5% of the section's cost, as shall be determined in accordance with the aforesaid, will be financed by the holder of the transmission license (INGL) and 56.5% of the section's cost shall be financed by the exporter in accordance with the milestones that shall be determined in the Transmission Agreement. In addition thereto, the exporter shall pay the holder of the transmission license ILS 27 million for its share in the cost deriving from the bringing forward of the doubling of the Dor-Hagit and Sorek-Nesher sections (which is estimated at approx. ILS 48 million) and that the exporter will provide the holder of the transmission license with an independent financial guarantee on behalf of an Israeli bank, in the sum of 110% of the aggregate amount of the cost stated above (the share of the holder of the transmission license in the cost of construction of the Combined Section plus ten percent), and in the sum of ILS 21 million, which will decrease in accordance with the provisions of the addendum to the Decision.

The announcement of the Director General of the Authority further determines that as long as the exporter exports to Egypt, the quantity of natural gas determined in the Transmission Agreement will be transported via the transmission system of the holder of the transmission license and not via a section outside of the Israeli transmission system and that insofar as the exporter shall have ceased to export to Egypt, it will be required to pay the holder of the transmission license the difference, if any, between 110% of the aggregate total cost of the section plus ILS 48 million (the cost derives from the bringing forward of the doubling of the Dor-Hagit and Sorek-Nesher sections), and the aggregate capacity and piping fees that the exporter paid the holder of the transmission license from the date of completion of the Combined Section and of the payments that the exporter paid the license holder in accordance with the aforesaid.

For details on a transmission agreement signed between Chevron and INGL in connection with the export of natural gas to Egypt, see Section 7.11.2(e) above.

7.22.6 Regulation of Security in Public Entities Law, 5758-1998 (in this section: the "**Law**")

(a) The Law imposes various duties on a "public entity" (as defined in the Law), including: (a) Appointment of a security officer who will report directly to the director of the entity, in order to ensure the security level required for the activity of the public entity; (b) Appointment of an officer in charge of the security of essential computerized systems; and (c) Appointment of a security guard in accordance with the requirements of an authorized officer.

(b) According to the Sixth Schedule to the Law, a license holder under the Gas Sector Law that owns an offshore facility or operates an offshore facility is deemed a public entity for the purpose of imposition of the duties listed in the Law, including the performance of maritime security activities required for the protection of a person's safety or the protection of property, in a building or on the premises of a public entity located in the maritime zone, as well as actions for the prevention of harm thereto. The definition of an offshore facility in the Law includes, *inter alia*, any facility or vessel used for the performance of a petroleum discovery survey or for a production well, for transmission, for liquefaction or for gasification of petroleum, or for the processing, storage or transportation of petroleum and therefore apply to the offshore production facilities of the Leviathan project. Accordingly, the provisions of the Sixth Schedule to the Law apply to Leviathan Transmission System, which holds the license for transmission from the Leviathan project.

(c) Other than offshore facilities the provisions of the Law also apply to an operator of an onshore facility for the processing of natural gas received by pipeline from the sea or from a foreign country, by virtue of a license or by law and therefore the provisions of the Law apply to the facilities of the Hagit site. An operator of an onshore facility as aforesaid is obligated to perform physical security activities and information security activities.

(d) In accordance with the Law, the Partnership and the other Leviathan Partners are responsible, *inter alia*, for the security of vital automated systems that exist in the facilities of the reservoirs, in accordance with the instructions of the Israel National Cyber Directorate (the "**INCD**"). Since it is the operator that is responsible for the operation of the production system of the reservoir, it is the one that actually implements the instructions of the INCD on the matter. As the Partnership has been informed, and to the best of its knowledge, in January 2020, the operator received confirmation from the INCD with respect to the Leviathan reservoir's full compliance with the security requirements.

(e) As of the report approval date, and as the Partnership was informed by the operator in December 2021, in connection with operation of the Leviathan reservoir, the operator meets the provisions of the Regulation of Security in Public Entities Law and the sections concerning regulation of security in the lease deed, including the directives on security matters issued thereto by the professional functions in the navy pursuant to law.

7.22.7 The Gas Legislative Memorandum (Safety and Licensing) (Amendment No. ...) (Various Amendments), 5781-2021

On August 18, 2021, the Gas Legislative Memorandum (Safety and Licensing) (Amendment No. ...) (Various Amendments), 5781-2021 (the "**Safety and Licensing Legislative Memorandum**")[100] was released for public comment, proposing amendments to the existing safety regulation in the natural gas sector, through the amendment of both the Gas Law (Safety and Licensing), 5749-1989, which regulates safety matters in the gas sector and establishes authority to promulgate safety rules and regulations for gas facilities and entities engaged in the natural gas sector, and of the Natural Gas Sector Law.

7.22.8 Directives of the Petroleum Commissioner

(a) Provision of collateral in connection with petroleum interests

In accordance with Section 57 of the Petroleum Law, the Petroleum Commissioner published directives for the provision of collateral in connection with petroleum interests, which are updated from time to time (in this section: the "**Directives**"). The Directives determine, *inter alia*, provisions regarding guarantees required to be provided by new license applicants when submitting the application and prior to drilling wells, and confer vast discretion on the Petroleum Commissioner in relation thereto. The Directives also determine that the guarantees will be in force even after the right for which they were given terminates, until the Commissioner advises otherwise, but no more than 7 years after expiration of the right for which they had been provided.

The Directives further set forth that the Petroleum Commissioner may order forfeiture of all or part of the guarantees if he deems that a petroleum interest holder did not act with due diligence in respect of the petroleum interest or caused damage in his actions due to the petroleum interest or did not incur expenses or failed to fulfill obligations that he was due to incur or fulfill under the Petroleum Law, and according to the

[100] https://www.tazkirim.gov.il/s/law-item/a093Y00001RdkpCQAR/%D7%AA%D7%96%D7%9B%D7%99%D7%A8-%D7%97%D7%95%D7%A7-%D7%94%D7%92%D7%96-%D7%91%D7%98%D7%99%D7%97%D7%95%D7%AA-%D7%95%D7%A8%D7%99%D7%A9%D7%95%D7%99-%D7%AA%D7%99%D7%A7%D7%95%D7%9F-%D7%9E%D7%A1-%D7%9E%D7%99%D7%AA%D7%A7%D7%A0%D7%99-%D7%92%D7%96-%D7%98%D7%91%D7%A2%D7%99-%D7%9C%D7%A9%D7%99%D7%9E%D7%95%D7%A9-%D7%91%D7%99%D7%AA%D7%99-%D7%94%D7%AA%D7%A9%D7%A4%D7%90?language=iw

instructions of the Petroleum Commissioner, during the period of the right.

Moreover, the Directives obligate a petroleum interest holder to take out at its expense and maintain throughout the entire term of the petroleum interest, all of such insurances, which are customary among international companies for exploration or production of oil or gas and to give instructions in connection therewith.

In the event of non-compliance with the Directives, the Petroleum Commissioner may deem the same as non-compliance with the work plan and with the provisions of the interest and act in accordance with the provisions of the Petroleum Law.

As of the report approval date, in accordance with the Directives and the terms and conditions of the Partnership's petroleum assets, the Partnership, together with its partners in the various projects, deposited autonomous bank guarantees for the Ashkelon, Noa, Leviathan North, Leviathan South leases, the Alon D license and the New Ofek and New Yahel licenses.[101] The Partnership's total share in such guarantees totals approx. $57 million.

(b) Directives on the method of calculation of the royalty value at the wellhead

1. In May 2020, the Director of Natural Resources at the Ministry of Energy released directives on the method of calculation of the royalty value at the wellhead according to Section 32(b) of the Petroleum Law (in this section: the "**Directives**").

   The Directives state that the value of the royalty at the wellhead shall be equal to 12.5% of the price of sale to customers at the point of sale, net of costs deemed essential for treatment, processing and transportation of the petroleum, actually incurred by the lease holder between the wellhead and the point of sale.

   The expenses to be recognized for purposes of calculation of the royalty value at the wellhead shall be expenses actually incurred by the lease holder between the wellhead and the point of sale specified above, provided that the Commissioner deems them essential for the sale of the petroleum: (a) the following capital expenses (capex): (1) costs for the treatment and processing of the petroleum; and (2) costs of pipeline transportation of the petroleum up to the first point of

[101] With respect to additional guarantees that the Partnership provided, together with its partners in the Leviathan project in accordance with the terms of the lease, see Section 7.2.2(n) above. With respect to guaranties that the Partnership provided for the customs in connection with the Leviathan project and Yam Tethys project, see Notes 12K5 and 12K6 to the financial statements (Chapter C of this report).

connection to the national transmission system; and (b) operating expenses (opex) arising directly from the types of capital expenses.

The Petroleum Commissioner shall from time to time determine, for each lease holder, specific directives for each lease, listing the deductible expenses for purposes of calculation of the royalty, according to the specific characteristics of the lease.

The Directives determine additional provisions, including a specification of the types of expenses which will not be recognized, the method of recognition of abandonment costs and the method of treatment of transactions that are affected by the existence of special relations between the parties to the transaction.

2. As of the date of approval of the report, no specific directives have yet been received from the Petroleum Commissioner with respect to the method of calculation of the royalties to the State from the Leviathan reservoir.

3. For details on a dispute which erupted between the Tamar Partners and the Ministry of Energy regarding the method of calculation of the royalty value at the wellhead, see Section 7.24.7(b) below.

(c) The transfer and pledge of a petroleum asset interest and benefit in a petroleum asset interest

On December 28, 2020 the Petroleum Commissioner published an updated version of directives for purposes of Section 76 of the Petroleum Law, which determine instructions and conditions for the transfer and pledge of a petroleum interest (preliminary permit, license and lease) and a benefit (including a right to contract royalties) in a petroleum interest (in this Section: the "**Directives**").

According to the Directives, the requirement to obtain the approval of the Petroleum Commissioner for a transfer and pledge of a petroleum interest and a benefit applies in certain cases also to a transfer or allocation of means of control in a corporation (as such terms are defined in the Directives).

The Directives specify conditions for the provision of the Petroleum Commissioner's approval for a transfer of interests, while distinguishing between a transfer of interests in a license and lease and other actions, including conditions regarding the financial capacity of the applicant and regarding the fulfillment of conditions required of an operator in accordance with the Petroleum Law and the Petroleum Commissioner's directives. The Directives further determine specific conditions pertaining to a transfer of royalty interests, a pledge of petroleum interests and other particular cases.

With respect to the pledge of petroleum rights the Directives clarify that permission for a pledge does not constitute permission to transfer the pledged right, and if the conditions for realizing the pledge are fulfilled, the license or lease or any part thereof or benefit in the license or lease, as the case may be, will not be transferred to the pledge holder or any other body, unless the Petroleum Commissioner allows the transfer to the transferee in advance and in writing, pursuant to the Directives. Furthermore, the appointment of a receiver for the pledged rights will not be subject to the rules applicable to the transfer thereof, provided that the Petroleum Commissioner agreed in advance and in writing to the identity of the receiver and the powers provided to him.

The Petroleum Commissioner may not approve a transfer, even if all the conditions for providing the approval which are detailed in the Directives are fulfilled, if he is convinced that reasons of public security, national security, foreign relations or international trade relations so justify, and in this context, in the case the transferee is a corporation controlled by a foreign country or there are other special circumstance with respect to which the transfer is not in the best interests of the public or the energy sector in Israel.

(d) Export permit applications

Directives published by the Petroleum Commissioner concerning the receipt of a permit to export natural gas specify, *inter alia*, the date and the manner for submission of the application. As of the report approval date, export permits have been received for the export agreements that were signed by the Partnership, which are specified in Section 7.10.3 above.

7.22.9 Government resolutions regarding natural gas export

(a) Further to the conclusions of the committee for examination of the Government's policy on the natural gas sector in Israel headed by Mr. Shaul Tzemach, adopted by the Israeli Government in June 2013 (the "**Tzemach Committee**"), on January 6, 2019, the Israeli Government adopted the principal recommendations of the interministerial professional team headed by the Director General of the Ministry of Energy, Mr. Udi Adiri, which reexamined the matter of natural gas supply and demand as of 2018 (in this section: the "**Government Resolution**").

(b) According to the Government Resolution, the quantity of natural gas required to be secured for the domestic market shall be 500 BCM (the "**Minimum Quantity for the Domestic Market**"), which shall allow for the supply of natural gas for the market's needs over the next 25 years. In this context, the "natural gas quantity" means the quantity of natural gas in the 2P and 2C categories in the aggregate, according to PRMS, in the discoveries recognized by the Petroleum Commissioner, with respect to which leases have been granted and for which the connection of the leases to the shore has been completed according to a development plan in a manner allowing for the supply thereof to the Israeli market.

(c) The duty to supply the Minimum Quantity for the Domestic Market in respect of discoveries recognized prior to the Government Resolution will be as specified below:

Amount of Natural Gas in Reservoir	Rate of Minimum Supply to Domestic Market out of Natural Gas Amount in Reservoir
Exceeding 200 BCM (inclusive)	50%
Exceeding or equaling 100 BCM, but lower than 200 BCM	40%
Exceeding or equaling 25 BCM, but lower than 100 BCM	25%
Lower than 25 BCM	To be determined by the Petroleum Commissioner

The duty to supply the Minimum Quantity for the Domestic Market in respect of discoveries recognized after approval of the Government Resolution will be as specified below:

Amount of Natural Gas in Reservoir	Rate of Minimum Supply to Domestic Market out of Natural Gas Amount in Reservoir
For every additional 1 BCM exceeding 200 BCM	55%
For every additional 1 BCM from 50 BCM to 200 BCM	50%
Lower than 50 BCM	No duty to supply to the domestic market shall apply

It is noted that in respect of reservoirs shared by Israel and other countries, the Petroleum Commissioner shall determine specific arrangements and conditions.[102] In addition, it was determined that the export facilities will be located in an area that is controlled by Israel which is in its exclusive economic zone, unless determined otherwise in a bilateral agreement between Israel and another country.

(d) The export of natural gas will require approval from the Petroleum Commissioner, and the amount of gas permitted for export will be in

[102] It is noted that the permitted export quota from the Karish and Tanin reservoirs in the amount of 47 BCM was replaced, against the obligation to supply to the domestic market that applies to the holders of the Leviathan Leases, from the date of the Petroleum Commissioner's approval of the transfer of the interests in Tanin and Karish. For details, see Section 7.22.1(b)1B. above.

accordance with the relative part of quantities authorized for export in the reservoirs at that time, and subject to ensuring the minimum amount for the domestic market, as aforesaid.

(e) The Government Resolution further determines instructions regarding an obligation to connect reservoirs to the domestic market according to the size of the reservoir, instructions in relation to the sale of natural gas to consumers in the domestic market, which gas is designated for the production of follow-on products that are primarily designated for export, instructions regarding regulation of secondary trade in natural gas, which may be directed toward export, etc.

(f) On June 21, 2021, the Ministry of Energy published for public comment the interim report of the professional team established for the periodic review of Government policies regarding the Israeli natural gas sector (the "**Interim Report**")[103] in which the professional team noted, *inter alia*, that the export policy should be reexamined, especially in relation to the restrictions on quantities reserved for the domestic market (the total and minimum mandatory supply volumes). The professional team stressed that should no changes be made to this policy, there is a substantial chance that Israel's natural gas resources will not be utilized in full. This is expected to lead to significant loss of revenue for the State. The Interim Report also stated that Israel's regulation of export is stricter than other countries, and that the working assumption should be that the sale of natural gas has a "window of opportunity" of approx. 2-2.5 decades. It is thus necessary to fully exhaust the existing potential for finding additional discoveries.

The Ministry of Environmental Protection objected to the proposed framework. This objection is due to its position that the proposed framework would undermine Israel's ability to wean itself off polluting fuels and transition to a competitive, low-carbon economy in line with other OECD countries.

On December 15, 2021, the Minister of Energy published the policy of the Ministry of Energy, whereby, *inter alia*, in 2022, the Ministry of Energy will not adopt the conclusions of the Interim Report.[104]

7.22.10 Government Resolutions with respect to the reduction of greenhouse gas emissions and the promotion of renewable energies

(a) Cessation of use of coal for power production

On June 3, 2018, the Government, by Resolution 3859, approved a reform in the electricity sector and in IEC (the "**Reform**"), under which IEC would reduce its power production operations by selling 5 production sites with

[103] https://www.gov.il/he/departments/publications/Call_for_bids/ng_210621.

[104] Website of the Ministry of Energy, spokesmanship release of December 15, 2021: https://www.gov.il/he/departments/news/press_151221

an aggregate maximum capacity of approx. 4,000 MW, representing about one half of its power production capacity, and IEC would build two modern natural gas-fired production units in Orot Rabin, as part of the direction of reducing the use of coal in the power production process. according to the Minister of Energy's decision of November 13, 2019, conversion of the coal-fired power plants in Hadera and Ashkelon to natural gas will be completed by 2025, meaning that in that year the era of coal use for electricity production in the State of Israel is in fact expected to come to an end.

Further thereto, in 2020 and in February 2021, the Government issued directives to IEC to reduce and limit the use of coal such that it does not exceed 22.5% of total power production in 2021.

(b) The plan to save Israel from polluting energy

On October 9, 2018, the Energy Minister released the "Plan to save Israel from polluting energy", which mainly concerns reduction of the use of polluting fuel products by 2030, and further thereto, in March 2019, the Ministry of Energy released a principles of policy document entitled 'The energy sector's targets for 2030'.[105] The plan set goals for 2030, specifying concrete steps and determining timetables in 5 main sectors, as follows:

1. The electricity production section – a gradual reduction of electricity production using coal until the use of coal in the production of electricity at all of the coal-fired power plants will be completely stopped, and electricity production will be based on natural gas and renewable energies only.

2. The transportation sector – cessation of the consumption of polluting fuel products in land transportation, and transition to use of electric vehicles and compressed natural gas-powered vehicles. Accordingly, from 2030, a total ban will be imposed on the import of cars that run on polluting fuels. Further to this policy, the Ministry of Energy issued a tender for the establishment of approx. 2,500 electric car charging stations nation-wide,[106] and in June 2019 it released the list of winners of the tender. Toward the deployment of the new charging stations, the Ministry of Energy is promoting the creation of a map and an app that will include all of Israel's stations. Establishment of the system is expected to be completed by the end of 2022.[107]

3. The industrial sector - discontinuation of the use of fuel oil, LPG and diesel oil and replacement thereof with cleaner and more efficient sources of energy commencing from 2030. Furthermore,

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105 https://www.gov.il/BlobFolder/rfp/target2030/he/energy_2030_final.pdf.

106 https://www.gov.il/he/departments/general/electric_vehicle_ac_dc.

107 https://www.gov.il/he/Departments/General/electric_vehicle_ac_dc

additional advantages are being examined, such as using electricity to replace fuels and supplying compressed natural gas. Accordingly, in 2019 the Ministry of Energy issued grants to the distributing companies for purposes of accelerating deployment of the distribution network.[108]

4. Promotion of energy streamlining through use of various mechanisms, including mechanisms to encourage decreasing electricity production among suppliers, producers and consumers of electricity and other license holders in the electricity sector; steps to require zero-energy building; promotion of a model city for smart and efficient energy use; streamlining governmental bodies in order to already reach a target of 20% in 2025 and implementing energy rating targets according to actual consumption for existing buildings in Israel.

5. Ensuring energy security in the market through ensuring redundancy in natural gas supply to the market, in the transportation, industry and electricity sectors.

(c) Government Resolution no. 465 on promotion of renewable energy in the electricity sector

On October 25, 2020, government resolution no. 465 was adopted pertaining to the promotion of renewable energy in the electricity sector ("**Resolution 465**") and it, *inter alia*, embraced the Minister of Energy's policy according to which, by 2030, 30% of electricity production will be from renewable energy based mainly on solar power and partially on wind power. An update was also determined for the intermediate target, setting it at 20% electricity generation from renewable energies by December 31, 2025. In addition, the policy regarding the promotion of conventional power generation facilities was modified. Resolution 465 included a series of decisions aimed at the promotion of use of renewable energies.

(d) On May 4, 2021, the National Planning and Building Council advised the Government to approve the Comprehensive National Outline Plan for Electricity Sector Infrastructures ("**NOP 41**"), the principal purposes of which are to delineate designated areas that will serve as sites for power production from renewable energies and to create a uniform planning framework for the production and storage of electricity from diverse sources and by various technologies[109]. It is noted that NOP 41, is an overall and comprehensive plan for infrastructures and meeting the needs of the national market in 2030 and 2050, while addressing the blend of energy sources, the range of production measures, and assurance of redundancy and reliability of capacity and integration of energy storage in significant amounts. The plan brings together the

[108] https://www.gov.il/he/departments/news/electric_car_110619.

[109] https://www.gov.il/he/Departments/General/tama_41; https://mavat.iplan.gov.il/SV4/1/99006595.

national outline plans that concern electricity, natural gas and fuels, and designates areas for renewable energy-fired power production, electricity transmission pathways and energy infrastructures. It is further noted that the plan implements Resolution 465 on the promotion of renewable energies in the electricity sector, and outlines the principles for planning energy infrastructures, it also being aimed at efficiency in the energy sector and reduction, to the greatest extent possible, of the effects of energy facilities on the environment and public health.

(e) Energy sector targets for 2050

1. On April 18, 2021, the Ministry of Energy published a plan for compliance with targets of emission reduction in the energy sector in 2050, as part of the attempts made by the State of Israel and other countries to cope with the climate crisis110, which plan determined a target of 80% reduction in the emissions of greenhouse gases in the sector by 2050, as well as several sub-targets that include a commitment to close down coal-fired plants by 2025, reduce greenhouse gas emissions in the electricity sector at a rate ranging between 75% and 85% by 2050 and annual improvement of 1.3% in the Energy Intensity Indicator (energy consumption per output unit).

2. On July 25, 2021, the Israeli Government, by Resolution No. 171, approved the plan for reduction of approx. 85% of greenhouse gas emissions by 2050 and an interim target for reduction of approx. 27% of the greenhouse gas emissions by 2030 ("**Resolution 171**"). Resolution 171 also sets sectorial targets for the reduction of greenhouse gas emissions and for improved efficiency in the energy consumption in the market, as well as the appointment of an interministerial committee to formulate a national plan for accomplishment of the objectives[111].

3. On October 12, 2021, the Ministry of Energy published a long-term strategic plan for compliance with emission reduction targets by the energy sector in 2050[112]. The plan outlines principal courses of action and policy measures derived from such targets, and addresses the electricity, transportation, industry and natural gas sectors, as well as infrastructure planning and regional collaborations. Further thereto, on October 29, 2021, the Office of the Spokesperson of the Prime Minister's Office released an announcement, whereby the Prime Minister and the Minister of

[110] https://www.gov.il/he/departments/news/press_180421.

[111] https://www.gov.il/he/departments/policies/dec171_2021.

[112] https://www.gov.il/he/departments/publications/reports/energy_121021?utm_source=InforuMail&utm_medium=email&utm_campaign=%D7%A2%D7%93%D7%9B%D7%95%D7%A0%D7%99%D7%9D+%D7%9E%D7%90%D7%AA%D7%A8+%D7%9E%D7%A9%D7%A8%D7%93+%D7%94%D7%90%D7%A0%D7%A8%D7%92%D7%99%D7%94+%28253%29

Energy had agreed to increase the carbon emission reduction target, such that by 2050 Israel would nullify emissions[113].

(f) Further to Resolution 171, several Government Resolutions were adopted on October 24, 2021 as follows:

1. Government Resolution 541, which approved an update to the national plan for energetic efficiency and reduction of greenhouse gas emissions, the principles of which are: (a) To adopt an interim target in terms of energy intensity of 131.7 MWh per ILS 1 million GDP in 2026; (b) To appoint an interministerial task force headed by the Ministry of Energy to monitor and control the implementation of the national plan for energetic efficiency; (c) Task all Government Ministries with a duty to report to the Ministry of Energy of measures taken by them in the interest of energetic efficiency and renewable energies; (d) Task the Minister of Energy, the Minister of Environmental Protection and the Minister of Economy and Industry to implement programs for grants and promotion of pioneering projects for energetic efficiency and reduction of greenhouse gas emissions and reduction of the negative effect on competition and the Israeli industry; and (e) Task the Minister of Energy with promoting the preparation and implementation of sustainable energy programs by local authorities.

2. Government Resolution 542, the principles of which are as follows: (a) Setting a new target, whereby as of 2035, at least 50% of vehicles exceeding 3.5 tons which are imported into Israel are clean or use fuels that reduce 80% of greenhouse gas emissions as compared with diesel oil; (b) Appointment of an interministerial steering task force to monitor compliance with the targets specified in the Resolution, act to remove barriers to implementation and recommend changes for promotion of the implementation of the targets specified in the Resolution; (c) Details of the actions to be taken with the purpose of complying with the targets specified in the Resolution.

3. Resolution 543, which concerns the acceleration of infrastructures in the context of countering climate changes, under which it was decided to appoint an interministerial task force headed by the Director General of the Prime Minister's Office, in order to accelerate infrastructure projects of national importance for the reduction of greenhouse gases and for compliance with the targets of the transition to a low-carbon economy.

(g) <u>Government Resolution no. 286 on "pricing of greenhouse gas emissions"</u>

August 1, 2021 saw the adoption of Government Resolution No. 286 ("**Resolution 286**"), the key points of which are as follows: (a) To task the

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[113] https://www.gov.il/he/departments/news/carbon_emissions291021

Minister of Finance with the amendment of the Fuel Excise Order, the Customs Tariff and Exemptions Order and the purchase tax on goods, in order to lead to the gradual internalization of the environmental externalities of carbon emissions. The taxation pertaining to natural gas will gradually commence in 2023 in the following manner: The amount of the excise and purchase tax on natural gas will be approx. ILS 29 per ton in 2023; approx. ILS 45 per ton in 2024; approx. ILS 65 per ton in 2025; approx. ILS 91 per ton in 2026; approx. ILS 126 per ton in 2027; approx. ILS 170 per ton in 2028, and so forth. Furthermore, the decision specifies a taxation mechanism for all fuels and for mixed waste burial and burning costs; (b) To task a team headed by the Budget Department of the Ministry of Finance and the Ministry of Energy, in consultation with the Bank of Israel and the National Insurance Institute, with advising the Director General of the Ministry of Energy on mechanisms for encouraging energy efficiency and facilitating the transition to clear energy for low-income demographics resulting from the imposition of such tax, without negatively affecting the incentives for emission reduction that underpin the tax, within 6 months of the date of issuance of Resolution 286; (c) To present to the Government, within 60 days of the date of Resolution 286, a national multiannual plan for energetic efficiency of the business sector, with an emphasis on industry; and (d) In the event of technological developments that allow for the reduction of carbon emissions from source fuels, the Ministry of Energy, Ministry of Finance and Ministry of Environmental Protection shall examine the implications of such technological developments.

On October 13, 2021, the Fuel Excise Order (Imposition of Excise Tax) (Amendment and Temporary Provision), 5782-2021 was released, as was the Customs Tariff and Exemptions and Purchase Tax on Goods Order (Amendment No. 2 and Temporary Provision No. 3), 5782-2021, which were signed by the Minister of Finance[114]. Under these orders, the amounts of purchase tax and excise tax imposed on a ton of natural gas will gradually increase, as set out in the aforesaid notice, between 2023-2028, from ILS 29 to ILS 170 per ton.

In the Partnership's estimation, Resolution 286 is not expected to have a material effect on the volume of natural gas consumption in Israel, *inter alia*, in view of the economic implications of the Resolution and the provisions of the orders regarding the cost of natural gas compared with other fuels and considering the energy consumption forecasts in Israel in the coming years.

It is noted that, as of the report approval date, the orders have not been approved as required by the Finance Committee of the Knesset, and Resolution 286 has not taken effect.

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[114] https://www.chamber.org.il/media/165396/1965.pdf.

(h) National plan for prevention and reduction of air pollution in Israel

Further to its publications of December 23, 2021[115], the Ministry of Environmental Protection presented for the Government's approval, during March 2022, a multiannual national plan for prevention and reduction of air pollution. The plan will, *inter alia*, address the transition to the use of green energy and the promotion of low-carbon economy, greenhouse gas pricing and the promotion of clean transportation and targets for the reduction of air pollution in Israel[116]. According to a preliminary estimation, the total benefits arising from the plan are approx. ILS 4.7 billion from the reduction of local air pollutants, and approx. ILS 12.8 billion from the reduction of greenhouse gases for 2030.

(i) The Paris Agreement and the Powering Past Coal Alliance (PPCA)

In 2016, Israel joined the Paris Agreement, which was agreed in the course of the 2015 United Nations Climate Change Conference, and concerns reducing greenhouse gas emissions and coping with greenhouse gas emissions by the countries of the world. The principal undertaking of every country that signed the Paris Agreement is to submit a plan every 5 years which specifies the measures it will take to cope with climate changes.

Moreover, in December 2018, Israel joined the PPCA, the purpose of which is to encourage the reduction and discontinuation of use of coal. The parties to this initiative undertake to gradually reduce coal-fired power production and to support clean energy in government and corporate policies. The countries and the organizations that joined PPCA support the reduction of coal use in OECD countries by 2030 and worldwide by 2050.

7.22.11 National Outline Plan 37/H for the Reception and Processing of Natural Gas

In order to create the zoning infrastructure for the connection of the natural gas reservoirs to the national transmission system and construct the facilities required for such purpose, the National Planning & Building Council (in this section: the "**National Council**") and the Israeli Government approved the "detailed partial national outline plan on the reception and processing of natural gas from discoveries to the national transmission system" (in this section: the "**Plan**" or "**NOP 37/H**").

The Plan designates areas (onshore and offshore) for the construction of the facilities required in the process of production and transmission of natural gas, which include, *inter alia*, natural gas reception and processing terminals, pipelines for transmission of the gas etc. It is noted that the development plan of the

[115] https://www.gov.il/he/departments/news/multi-year_plan
[116] https://www.gov.il/he/departments/news/a_national_plan_to_reduce_greenhouse_gas_emissions.

Leviathan reservoir in the format specified in Section 7.2.2(j) above, is in keeping with NOP 37/H.

7.22.12 Permits and licenses for the facilities of the Yam Tethys project and the Leviathan project

(a) In the framework of the development of the Yam Tethys project, the Yam Tethys Partners received an approval to construct a permanent platform for the production of natural gas and oil and also an approval for the operation of a production system of natural gas under the Petroleum Law, and in addition the Minister of Energy granted Yam Tethys Ltd. (a company owned by the Yam Tethys Partners) a license to construct and operate a transmission system for the transfer of natural gas of the Yam Tethys Partners or other natural gas suppliers from the production platform to the Terminal, provided certain conditions are fulfilled and subject to the conditions of the license and the Natural Gas Sector Law .

(b) In the Phase 1A development plan for the Leviathan project, the Leviathan Partners received approval for the construction of a permanent platform for the production of natural gas and oil, as well as approval for the operation of a system for production of natural gas and condensate from the Leviathan project, according to which the Leviathan Partners were obligated, *inter alia*, to submit guaranties, as specified in Section 7.2.2(n) above.

On February 21, 2017, the Minister of Energy granted Leviathan Transmission System (a company owned by the Leviathan Partners) a license for the construction and operation of a transmission system to be used for the transfer of natural gas of the Leviathan Partners originating from the Leviathan Leases, or of other natural gas suppliers, upon the fulfillment of certain conditions, and all subject to the conditions of the license.

7.22.13 Applicability of Cypriot legislation to the Partnership's activity

The Partnership's gas and oil exploration activity in Cyprus is subject to legislation and regulation that applies to the operating sector in the Republic of Cyprus, including instructions regarding the obligation to obtain permits and licenses for performance of acts, undertakings to execute work plans, provisions in relation to safety and environmental protection etc. The Republic of Cyprus is a full member of the European Union and is therefore subject to the European Community directive with regard to the granting and use of authorizations for exploration and production of hydrocarbons (Directive 94/22/EC) and other relevant European legislation which regulates the exploratory activity and the production of hydrocarbons onshore and within the EEZ of the Republic of Cyprus.

For details on the petroleum asset, Block 12 in Cyprus, and the agreements signed with the Cypriot government in relation thereto, see Section 7.3 above.

7.23 **Pledges**

With regard to pledges the Partnership has given on its assets, see Notes 10 and 12K to the financial statements (Chapter C of this report).

7.24 **Material Agreements**

The Partnership has entered into material agreements that were in effect during the period from January 1, 2020 until the report approval date, as specified below:

7.24.1 The main agreements for the sale of natural gas from the Leviathan project to the domestic market and for export as specified in Section 7.10.3 above.

7.24.2 Financing documents of the bonds issued by Leviathan Bond that are described in Section 7.19.2 above.

7.24.3 Production Sharing Contract in respect of Block 12 (as specified in Section 7.3.3 above).

7.24.4 Series of agreements for the purchase of EMG shares and regulation of the terms for export of gas to Egypt

(a) General

With the aim of enabling the consummation of the agreement for export of gas to Egypt that is described in Section 7.10.3(d) above, EMED purchased 39% of the share capital of EMG, a private company registered in Egypt which owns a submarine pipeline of a diameter of 26 inches and approx. 90 km long, which connects the Israeli transmission system in the Ashkelon area and the Egyptian transmission system in the el Arīsh area, and related facilities (collectively: the "**EMG Pipeline**").[117]

The transaction for acquisition of EMG shares was closed on November 6, 2019, and natural gas flow from the Leviathan reservoir to Egypt through the EMG Pipeline began on January 15, 2020, after additional related arrangements and agreements had been made, as described below.

[117] To the best of the Partnership's knowledge, on December 30, 2018, ORL submitted an application to the International Chamber of Commerce for institution of arbitration against EMG in accordance with the agreement for the sale of natural gas that was signed between them on December 12, 2010 (the "**EMG-ORL Agreement**"). ORL's main argument was that due to non-supply of natural gas in the term of the EMG-ORL Agreement and termination of the agreement, it suffered estimated damage of approx. $350 million. In addition, ORL's secondary argument was that contractual restrictions apply to liability which are estimated at approx. $45 million, plus interest. EMG asserts that ORL is not entitled to damages at all since the EMG-ORL Agreement was suspended due to *force majeure* events, and that ORL's claims are time-barred. EMG further claims that even if it is found that ORL is entitled to compensation for its damage, the sum of the compensation is limited to approx. $20 million in accordance with the terms and conditions of the EMG-ORL Agreement. Arbitration hearings were held in October 2020, and included written pleading submissions which continued until December 2020. The arbitration award was issued to the parties on March 5, 2021, in which all of the claims against EMG were rejected, and ORL was charged with costs in the sum of approx. $4 million.

(b) The agreements for the acquisition of EMG shares

On September 26, 2018, EMED signed 4 separate, mainly similar, agreements with 4 shareholders of EMG (in this section: the "**Sellers**") for acquisition of 37% of EMG's share capital held by the Sellers, and, at the same time, EMED signed an agreement with another shareholder ("**MGPC**"), which transferred to EMED, without consideration, 2% of the EMG shares held thereby, in the context of the resolution of disputes that had arisen between the Sellers and MGPC. Following the closing of the transaction, EMG's shareholders are as specified in Section 1.9.5 above.

In the context of the transaction, the Sellers, the shareholders of the Sellers and the companies affiliated with the Sellers have agreed to waive any claim, lawsuit, award, decision, order or remedy that are available to them against the Egyptian government and companies owned thereby in the framework of arbitration proceedings which were held between the parties in relation to discontinuation of piping of the gas from Egypt to Israel.

In consideration for the Purchased Shares, for waiver of their rights in the framework of the Arbitration Proceedings, and other rights in accordance with the Share Purchase Agreements, EMED paid the Sellers the sum total of approx. $527 million (in this section: the "**Consideration**"), out of which each one of the Partnership and Chevron paid a sum of approx. $188.5 million, and the balance was paid by the Egyptian Partner.

(c) Capacity Lease & Operatorship Agreement[118]

In the CLOA signed on June 30, 2019 between EMED and EMG, EMG gave EMED the exclusive right to lease and operate the EMG Pipeline for the period expiring at the end of 2030, with an option to extend the agreement for 10 more years.

According to the agreement, the costs required for refurbishment of the EMG Pipeline, and the current operation costs of the pipeline, shall be borne by EMED (collectively in this section: the "**Operation Costs**"), while EMG will be entitled to receive the current transmission fees which Blue Ocean shall pay for use of the pipeline (in this section: the "**Transmission Fees**"), net of the Operation Costs. As of December 31, 2021, Chevron and the Partnership have invested in the refurbishment of the EMG Pipeline, through EMED, approx.

[118]To the Partnership's best knowledge, on August 26, 2019, PTT (which was the owner of 25% of the shares of EMG as of the filing date of the claim), filed a claim with the Economic Court in Port Said, Egypt, against EMG and other parties. In the complaint, PTT moved to cancel the resolutions of EMG's general meeting of June 10, 2019, including to cancel the resolution to approve the signing of the Capacity Lease & Operatorship Agreement. According to PTT, these resolutions constitute minority oppression and are against the company's best interests, in violation of the Egyptian companies law, which applies to EMG. On December 2, 2021, it was announced that PTT had sold its holdings in EMG to a special purpose entity wholly owned by the Italian company SNAM, and to the Partnership's best knowledge, the claim filed by PTT was withdrawn.

$124 million, most of which will be repaid to Chevron and the Partnership through EMG's revenues from transmission of the gas through the pipeline.

(d) Agreement for allocation of capacity in the transmission to Egypt system

Concurrently with the signing of the Export to Egypt Agreement, on September 26, 2019 an agreement was signed between the Partnership and Chevron and the Leviathan Partners and the Tamar Partners in connection with allocation of the capacity (in this section: the "**Capacity Allocation Agreement**") in the transmission from Israel to Egypt system. The capacity division in the transmission from Israel to Egypt system (the EMG Pipeline and the transmission in Israel pipeline) will be on a daily basis, according to the following order of priority:

1. First layer – up to 350,000 MMBTU per day will be allocated to the Leviathan Partners.

2. Second layer – the capacity above the first layer, up to 150,000 MMBTU per day until June 30, 2022 (the "**Capacity Increase Date**"), and 200,000 MMBTU per day after the Capacity Increase Date, will be allocated to the Tamar Partners.

3. Third layer – any additional capacity above the second layer will be allocated to the Leviathan Partners.

Pursuant to the Capacity Allocation Agreement, on the date of the closing the EMG Transaction, the Leviathan Partners and the Tamar Partners paid the Partnership and Chevron the sum of $250 million (80% by the Leviathan Partners and 20% by the Tamar Partners), as participation fees, in consideration for the undertaking to allow the piping of natural gas from the Leviathan and Tamar reservoirs and guaranteeing capacity in the EMG Pipeline. Pursuant to the agreement, the amount of the aforesaid payments will be updated by June 30, 2022, according to the formula determined in the agreement, based on the actual use of the EMG Pipeline. The Capacity Allocation Agreement determines further arrangements for bearing the additional costs and investments that will be required for refurbishment of the EMG Pipeline and maximum utilization of the pipeline capacity, which shall be paid by both the Leviathan Partners and the Tamar Partners.

The Capacity Allocation Agreement further determines that from June 30, 2020 until the Capacity Increase Date, insofar as the Tamar Partners shall be unable to supply the quantities which they undertook to supply to Blue Ocean, the Leviathan Partners shall supply the Tamar Partners with the required quantities.

The term of the Capacity Allocation Agreement is until the conclusion of the Export to Egypt Agreement, unless it shall have ended prior thereto in the following cases: a breach of a payment undertaking which was not remedied by the party in breach; or in a case where the Competition Authority shall not have approved extension of the Capacity Lease and

Operatorship Agreement according to the decision of the Competition Commissioner, as specified in Section 7.22.1 above. In addition, each party shall be entitled to end its part in the Capacity Allocation Agreement insofar as its export agreement shall have been terminated.

(e) EMED's shareholders' agreement

In proximity to the date of the signing of the agreements for the purchase of the shares of EMG, EMED's shareholders signed a shareholders' agreement which regulates the relationship between them as shareholders of EMED, including provisions regarding material resolutions that shall be adopted unanimously. In addition, right of first refusal arrangements were determined for the transfer of shares of EMED.

(f) Term sheet for use of additional infrastructures

Concurrently with the signing of the agreements for the purchase of the shares of EMG, as described above, a term sheet was signed between the Partnership and Chevron and the Egyptian Partner (which holds the Arab Gas Pipeline in the segment between el Arish and Aqaba, and an affiliate of Blue Ocean, whereby the parties agreed that the Partnership and Chevron would receive access to additional capacity in the Egyptian transmission system, through the Arab Gas Pipeline, at the entry point to the Egyptian transmission system in the Aqaba area, allowing the flow of gas in additional quantities over and above the gas quantities that would flow via the EMG Pipeline, for the purpose of implementation of the Export to Egypt Agreement and other agreements for the sale of natural gas to Egypt. In addition, the parties agreed to look into other projects for the transmission of natural gas from Israel to potential customers and facilities in Egypt. For further details see Section 7.11.2(e)5 above.

(g) Agreement between EMG and EAPC and Eilat-Ashkelon Infrastructure Services Ltd.

On July 1, 2019, an agreement was signed between EMG and EAPC and Eilat-Ashkelon Infrastructure Services Ltd. (in this section: the "**EAPC Companies**" and "**EAPC Agreement**" or the "**Agreement**", respectively) for regulation of a sublease of areas in the EAPC site at the Ashkelon port, rights of way at the port and use by EMG and EMED of the natural gas facility situated on this site, for the purpose of the transport of the natural gas in the EMG Pipeline. In consideration for these rights, the EAPC Companies are entitled to payments as specified in the Agreement.

The EAPC Agreement took effect on November 6, 2019, together with the closing of the EMG Transaction, and will be in effect until June 10, 2030, unless terminated prior thereto, *inter alia* by EMG in the event that the Export to Egypt Agreements are terminated due to a breach by the buyer or due to *force majeure*, all in accordance with the provisions of the Agreement. According to the Agreement, and subject to the provisions thereof, including extension of the lease agreement between Eilat-Ashkelon Infrastructure

Services Ltd. and the Israel Land Authority, EMG will be entitled to extend the term of the Agreement until October 6, 2043.

For the purpose of securing the payments to the EAPC Companies, EMG was required to provide a bank guaranty (renewable over the term of the Agreement) in the sum of $4 million (in this section: the "**Guaranty Amount**"). As of the report approval date, EMG has not provided the bank guaranty, and in its stead EMED provided a company guaranty up to the sum of the Guaranty Amount, which is backed by two bank guaranties in the sum of $2 million each, which were provided by the Partnership and Chevron (in this section: the "**Bank Guaranties**"). The guaranty provided by EMED shall expire and be null and void in the events that: (a) all of EMG's undertakings vis-à-vis the EAPC Companies shall have been cancelled; (b) the EAPC Companies shall have received payment in the sum of the Guaranty Amount due to enforcement of the Bank Guaranties; (c) the Bank Guaranties shall have been replaced with a bank guaranty provided by EMG; or (d) the Bank Guaranties shall have expired or been cancelled. It is further noted that according to the terms and conditions of the guaranty provided by EMED, the EAPC Companies will be obligated to first enforce the Bank Guaranties and only in the case of non-payment will they be entitled to use EMED's guaranty.

Alongside the signing of the Agreement, the Leviathan and Tamar Partners provided a release letter, according to which each one of the partners releases the EAPC Companies from any future lawsuit in respect of damage that shall be caused thereto (if any) due to an act or omission of the EAPC Companies or anyone on their behalf as parties to the EAPC Agreement or as the operators of the Ashkelon port (with the exception of damage caused with malicious intent). The EAPC Companies provided a similar letter to the Leviathan and Tamar Partners.

(h) For details on agreements signed between Chevron and INGL pertaining to transmission of natural gas to the EMG Pipeline through the INGL system, see Section 7.1.1(e) above.

7.24.5 Joint Operating Agreement in respect of the Leviathan Leases[119]

(a) General

The activity in the framework of the Leviathan Leases is carried out under a joint operating agreement of August 31, 2008 (as amended from time to time), the present parties to which are the Partnership and the other partners in the Leviathan Leases as specified in Section 7.2.1 above (in this section: the "**Agreement**" or "**JOA**").

[119] It is noted that until January 1, 2012, the activity in the Leviathan Leases was carried out in the framework of a single joint operating agreement.

The purpose of the Agreement is to set forth the mutual rights and obligations of the parties in connection with activities in the areas of the Leviathan Leases (in this section: the "**Petroleum Asset**").

According to the aforesaid operating agreements, Chevron was appointed as the operator.

(b) Manner of accounting

Unless otherwise provided for in the JOA, all the rights and interests in the Petroleum Asset, in the joint property and all the hydrocarbons produced from them, will be subject to the terms and conditions of the Petroleum Asset and the applicable rules, and in accordance with the participation rates of the parties therein. Furthermore, unless otherwise provided for in the JOA, the party's undertakings under the Petroleum Asset conditions and the JOA and all the liabilities and expenses incurred or undertaken by the operator in connection with the joint activity,[120] and all the credits to the joint account,[121] will be borne by the parties, amongst themselves, in accordance with their participation rate in the Petroleum Asset, and each party will pay, when due, in accordance with the Accounting Procedure instructions of the JOA (the "**Accounting Rules**") its share in accordance with its participation rate of all the expense of the joint account. It is noted that payment dates are of the essence of the JOA and payment by a party of another party's obligation under the JOA does not negate its right to dispute such liability at a later stage. According to the Accounting Rules, Chevron is entitled to be reimbursed for of all direct expenses paid in connection with it fulfilling its position as operator and to be reimbursed for the indirect costs derived from its shares of the expenses of the joint venture at the exploration state as follows:

Direct expenses (on an annual basis)	Rate of payment to operator (as a percentage of direct expenses
Up to $4 million -	4%
$4-7 million -	3%
$7-12 million -	2%
Above $12 million -	1%

The rate of indirect expenses for the development and production stage was not provided by the Agreement, and on June 30, 2016 an amendment to the JOA in the Leviathan project was signed, whereby the operator will be entitled to receive indirect expenses at the rate of 1% of all of the direct expenses in connection with development and production operations, subject to certain exceptions, such as marketing activity.

[120] In accordance with the definitions in the JOA – the "joint activity" is the activity performed by the operator according to the provisions of the JOA and the costs for which each of the parties to the JOA may be billed.
[121] In accordance with the definitions in the JOA – the "joint account" are accounts held by the operator for the joint project in accordance with rules set forth in the JOA and the Accounting Rules.

(c) Rights and obligations of the operator

Under the JOA the operator is exclusively responsible, for the management of the joint activity, which includes, *inter alia*, preparation of work plans, budgets and payment authorizations, performance of the work plan according to the joint operating committee's approval, planning and obtaining all of the approvals and materials required for performance thereof, and provision of consulting services and technical services as required for the efficient performance of the joint operation. The operator may employ contractors and/or agents (which could be related companies/affiliates of the operator[122] or one of the parties to the JOA or a related party/affiliate to one of the parties to the JOA) to perform said joint activities.

In managing the joint activities the operator must, *inter alia*, perform the joint activities in accordance with the terms and conditions of the Petroleum Asset and the rules applicable thereto, the laws, the JOA and the instructions of the operating committee (which roles are specified below); and manage all the joint activity with diligence and in a safe and efficient manner in accordance with the acceptable principles in the international petroleum industry in similar situations. In addition, the operator is required to take out the insurances detailed in the JOA, in accordance with the instructions set forth therein.

In addition, the operator is required, after receipt of reasonable prior notice, to permit the representatives of all the parties at any reasonable time and at their expense and responsibility access to the joint activity including the right to observe the joint activity, to inspect the joint equipment and to conduct a financial audit in accordance with the provisions of the Accounting Rules set forth in the JOA.

Subject to the terms and conditions of the Petroleum Asset, the conditions applicable to it and the JOA, the operator will determine the number of workers, will select them and determine their hours of work and the consideration to be paid to them in connection with the joint activity. The operator will only employ the manpower reasonably required to perform the joint activity.

The operator will provide the other parties with information and data as detailed in the JOA and will enable them access at all reasonable times to all aforementioned information.

The operator, as shall be instructed by the operating committee, will immediately advise the parties of any significant actions and other actions that were filed as a result of the joint activity and/or related thereto. The operator will represent the parties and defend them from said actions. The operator may, at its sole discretion, settle any claim or series of claims for a

[122] In this regard, "a related/associated party" is defined in the JOA as a legal entity that controls or is controlled by a party to the JOA (directly or indirectly); and "control" means the ownership (directly or indirectly) of more than 50% of the voting rights or the ability to control the decision-making at the said legal entity.

sum that does not exceed $50,000 plus legal expenses, and will ask for permission from the operating committee for any sum(s) that exceed that. Each party will be entitled, at its own expense, to be represented by its own lawyer at any compromise arrangement or defense in said actions. No party will settle with regard to its proportionate share of any claim without first proving to the operating committee that this can be done without harming the interests of the joint activity.

Each party that is not an operator will immediately advise the other parties of any action against it by a third party that derives from the joint activity or may impact the joint activity, and the non-operator party will defend or compromise on the said claim, in accordance with instructions given by the operating committee. Costs and damages which will be caused in connection with the defense or compromise and that can be attributed to the joint activity will be charged to the joint account.

Unless otherwise provided for in this section: the operator (and in this regard – including the directors and officers therein, its related companies and the directors and officers therein, collectively: the "**Indemnified Parties**") will not bear (except as a party in the participation rate of a Petroleum Asset) any damage, loss, cost, expense or liability deriving from the joint activity, even if caused, in whole or in part, by a prior defect, negligence (sole, joint or parallel), gross negligence, strict liability or any other legal culpability of the operator or of any indemnified party as aforesaid.

Unless otherwise provided for in this section: the parties to the JOA in accordance with their participation rate in the Petroleum Asset will defend and indemnify the operator and the Indemnified Parties for all damages, losses, costs, expenses (including legal expenses and reasonable legal fees) and liability, deriving from actions demands or causes of action that were filed by any person or legal body and that are the result of or derive from the joint activity, even if caused in full or in part, by a prior defect, negligence (sole joint or parallel), gross negligence, strict liability or any other legal culpability of the operator or any other said Indemnified Party.

Notwithstanding the foregoing, if the operator's officers in senior supervisory positions or in its related parties is involved in gross negligence which proximately causes the parties damages, loss, cost, expense or other liability for actions, claims or claims of action as aforesaid, then in addition to its liability as a party in accordance with its participation rate, the operator will bear only the first $5,000,000 in aggregate of such damages, losses, expense, costs and debts.

Notwithstanding the foregoing, in no event will an Indemnified Party (except as a party with rights in the Petroleum Asset according to the percentage of its working interests therein) in the debt for damages or environmental or consequential losses.

(d) <u>The operating committee</u>

In the framework of the JOA the parties established an operating committee, which has the authority and responsibility to approve and supervise the joint activities required or necessary to meet the conditions of the Petroleum Asset and the JOA, for exploration and exploitation of Petroleum Asset areas in accordance with the JOA and in an appropriate manner according to the circumstances. The operating committee is made up of representatives of the parties (and their alternates) and each representative of a said party will have the right to an opinion equal to the working interest which it represents. The JOA determines the order of processes and proceedings for convening meetings of the operating committee and the discussion at them and includes processes and arrangements for making decisions in writing.

Unless otherwise provided for specifically in the JOA, all decisions, approvals and other activities of the operating committee with regard to the proposals presented before it, will be decided by the vote in favor of at least two parties or more (that are not related parties/affiliates, as defined above) jointly holding at the time of the vote at least 60% of all of the working interests in the area of the applicable Petroleum Asset.

It is further noted that in order to approve a decision to end the lease or waive any part of the area of the lease, a positive vote of all of the parties is required. A positive decision of any one party to the JOA is sufficient in order to approve any application for a license or renewal of a license or a lease.

(e) Work plans and budgets

The JOA sets forth procedures and processes to submit and approve work plans, budgets and authorizations for expenditure (AFE) for activities in the areas to which the JOA applies.

On or prior to the first day of October of each calendar year, the operator will present the parties with a proposed production work plan and budget, which will specify the joint activity that will be performed in the production area as well as the planned production timetables for the next calendar year, and the operating committee is required to make a decision, within 30 days of the submission of the proposal as aforesaid, about the production work plan and budget.

Engagement of the operator in contracts in the framework of the exploration and evaluation activity and also in the production activity, that the consideration thereof exceeds $2.5 million and also development activity that consideration thereof exceeds $5 million, will be subject to the approval of the operating committee

Prior to expenditure or the giving of an undertaking in a sum that exceeds $500,000 for any item in the work plan and approved budget for exploration, evaluation and production activity, or in a sum that exceeds $1,000,000 for any item in the work plan and approved budget for development activity, the operator will send an authorization for expenditure request (AFE) which will include, *inter alia*, an evaluation of the sums and schedule required to perform said work, and all the additional information required to support the aforementioned application all of the other parties. Notwithstanding the foregoing, the operator will not be obliged to submit an AFE to parties prior to undertaking any expenditure with regard to operational expenditure, general and ongoing management activity, classified as separate items in the work plan and the approved budget.

The operator may deviate, without operating committee approval, at a rate that does not exceed 10% per item from the sum that was approved for such item and subject to the aggregate total deviations in calendar year not exceeding 5% of the work plan total and approved budget. Where the operator believes that the deviation shall exceed such aforementioned limits, it shall submit another AFE for the operating committee's approval for issuance of a permit. These limitations do not derogate from the right of the operator to deviate from the expenditure for urgent operational matters and emergencies as detailed in the JOA.

It is noted that the JOA permits the other parties who are not the operator to submit different work plans and budgets to those that were submitted by the operator, for the operating committee's approval. In the event that the work plans and the budgets that were submitted by the parties shall not be approved by the operating committee by an effective majority as aforesaid, the work plan that received the most assenting votes will be approved, insofar as it meets the obligations required by the minimum work terms determined in regards to the Petroleum Asset.

(f) Sole Risk operations

Activities in which not all the parties participate (defined in the agreement as "Exclusive Operations" and known in the oil exploration industry as "Sole Risk" operations) will not be performed if they contradict joint operations in which all the parties participate. The agreement determines rules with respect to the framework of performance of such operations.

The JOA includes various provisions relating to Sole Risk operations, namely the drilling of wells, tests and development, other than with the consent of all of the parties and which, under certain conditions specified in the agreement, may be performed by some of the parties. Parties that did not join such activity were given a possibility, subject to conditions and payments determined in the agreement, to receive back their share in such activity and everything deriving therefrom. In addition, parties which did not join the Sole Risk operations but decided to join after the joining date will bear the penalties and interest set forth in the JOA.

(g) Resignation and removal of the operator

Subject to the provisions of the JOA, the operator may, at any time, resign from its position as operator, upon prior notice of at least 120 days.

Subject to the provisions of the JOA the operator will be removed from its position upon the occurrence of any one of the following events: (a) if it becomes insolvent, bankrupt or if it has made an arrangement with its creditors; (b) if a notice was provided by a party to an agreement in the event of a court order or valid decision for reorganization under the insolvency laws; (c) if a receiver is appointed to a significant portion of its assets; or (d) if the operator is liquidated or ceases to exist in another manner.

Furthermore, the operator may be removed from its position by a decision of other parties to the JOA (that are not the operator) if it materially breached the JOA and did not commence the remedy of said breach within 30 days from the date upon which it received notice detailing said breach, or if it did not act to complete the remedy of the breach. Any decision of other parties to the JOA (that are not the operator) to give a notice of breach to the operator or to remove the operator will require an affirmative vote in favor of the decision of one or more of the parties that are not the operator (or that are not a related party or an affiliate of the operator) that represent collectively at least 65% of the total working interests of the parties that are not an operator.

When there is a change in the identity of the operator as aforesaid, then the operating committee will convene as soon as possible in order to appoint an operator, however no party to the JOA will be appointed as operator against its will. The operator that was removed from office against its will or the related party/affiliate will not be permitted to vote in favor of itself or to be a candidate for the position of operator.

(h) Sanctions applicable to the parties and the conditions for imposition thereof

A party that fails to timely pay its proportionate share in the joint expenses (including advances and interest) or that fails to obtain or maintain the collateral required thereof, will be deemed a party in breach (the "**Party in Breach**").

As of 5 days from the date a Party in Breach was provided with a notice of breach and the breach persists, the Party in Breach will not be entitled, *inter alia*, to participate in meetings of the operating committee or to vote at them, receive information regarding the joint activity and to transfer its working interests or any part thereof, except to parties in breach.

Any party that is not a Party in Breach (a "**Party Not in Breach**") must bear the proportionate share (its share relative to the share of the other Parties Not in Breach) of the sum that is in breach (excluding interest), and to pay this sum to the operator within 10 days from the date of receipt of a notice with regard to the breach, and if it does not do so will itself be deemed a Party in Breach.

As long as the breach is ongoing, the Party in Breach will not be entitled to receive its portion of the output, and this portion will be the property of the Parties Not in Breach and they will be entitled, while following the proceedings detailed in the JOA, to collect from it what is due to them until the full payment of the breached sum (including setting up a reserve fund). Any surplus sum will be paid to the Party in Breach and any shortage will remain as a debt of the Party in Breach to the Parties Not in Breach.

If the Party in Breach does not remedy the breach within 90 days from the date of the notice of the breach, then without derogating from any other rights the Parties Not in Breach may have under the JOA, each party that is not in breach will have the option (that can be exercised at any time until full remedy of the breach) to require the Party in Breach to resign completely from the JOA and the Petroleum Asset. If such option is realized on the date a notice of realization of the option was sent, the Party in Breach will be deemed as having assigned all of its working interests to the Parties Not in Breach, and it will be required to sign, without delay, any document and take any action required by law in order to give force and effect to the said transfer of shares, and to remove any attachment or pledge that apply to the said rights.

Rights and remedies of the Parties Not in Breach as a result of said breach are in addition to any right or other remedy at the disposal of the Parties Not in Breach, under law.

A fundamental principle of the JOA is that each party is required to pay its relative portion (according to its participation rate in the Petroleum Asset) of all sums it owes under the JOA when due. Therefore each party that becomes a Party in Breach waives any offset claims and will not be entitled to raise such vis-à-vis the Parties Not in Breach which instituted the proceedings set forth in the JOA against it, for non-payment of the sums owed by it on time.

(i) Transfer of rights

Transfer of working interests of a party to a Petroleum Asset, in whole or in part, will be in force if it meets all the conditions set forth in the JOA, including *inter alia* the following conditions:

1. Except for in the case where a party transfers all of its working interests in a Petroleum Asset, no transfer of rights will occur where as a result the transferor retains or the transferee has received a working interest in a Petroleum Asset and in the JOA of less than 10%.

2. Notwithstanding the transfer, the transferor will retain liability vis-à-vis the other parties to the JOA for all financial and other liabilities, that were vested, had matured or accrued under the Petroleum Asset and the JOA prior to the date of the transfer including any and all expenses approved by the operating committee prior to the transferor's notice with regard to the transfer of the offered rights to the other parties under the JOA.

3. The transferee will have no rights with regard to the Petroleum Asset or under the JOA, for as long as and until: (a) it receives the required government approval and provides the guarantees required by the government or according to the terms and conditions of the Petroleum Asset; (b) it specifically undertakes, in a written document, to the satisfaction of the other parties, to perform the transferor's undertakings under the terms and conditions of the Petroleum Asset and the JOA with regard to the working interest being transferred to him; and (c) all other parties have given their written consent to the transfer. It is noted that the parties may withhold their approval only if the transferee fails to demonstrate, to their reasonable satisfaction, that it has the ability to satisfy its payment obligations under the leases and the JOA and the technical ability to contribute to the planning and execution of the joint activity. However, in the event of transfer to a related party, the consent of the other parties is not required, subject to the transferor remaining responsible for the transferee's performance of all of its obligations.

4. The foregoing does not preclude a party to the JOA from pledging any or part of its working interests as collateral for financing, subject to such party remaining responsible for all undertakings relating to said interest. The said pledge or encumbrance will be subordinate to any government approval that will be required and will be done specifically as subordinate to the rights of the other parties under the JOA.

5. The transfer of a party's working interests in the petroleum assets, in whole or in part (with the exception of a transfer to a related party or encumbrance of the interests as specified above), shall be subject to the giving of a notice to the other parties, in which the transferor discloses to the other parties the final terms and conditions of the transaction and grants them the right of first refusal. Upon the delivery of such notice, each of the other parties shall have the right to acquire the working interests to which the transaction pertains from the transferor, on the same terms and conditions (and without any reservation), by giving a counter-notice within 30 days of the delivery of the notice. In the event that more than one party notifies of its intention to exercise the right of first refusal, the sale of the rights shall be conducted *pro rata* according to such parties' rate of working interests.

(j) Change of control

In the event of change of control of any of the partners, such party shall provide the other parties with: (a) all of the required governmental approvals, as well as the guarantees required by the government; and (b) collateral with respect to the financial ability to comply with the obligations under the agreement. In addition, the party undergoing such change, is required to give notice of the change of control to the other parties (in this section, the "**Notice**"). In this section, "change of control" means any direct or indirect change of control of a party (including by way of merger, sale of shares, other interests or otherwise), the value of the Leviathan Leases held by which constitutes more than 50% of the market value of all of the assets of such party. The Notice shall include, *inter alia*, the market value of the partner's rights according to the JOA, based on the amount that the entity acquiring the control is prepared to pay in an arm's length transaction. Upon delivery of the Notice as aforesaid, each one of the other parties shall be entitled to purchase all of the rights of the partner at which the change of control is performed, within a period of 30 days from delivery of the Notice, and the purchase will be according to the conditions and the sum of the purchase amount stated. It is also noted that according to the terms and conditions determined in the JOA, the other parties may challenge the value stated in the Notice of the change of control.

In a case where more than one party gives notice of its desire to exercise its right to purchase the rights as aforesaid, the division will be made proportionately to the share of the parties' working interests.

(k) Withdrawal from the JOA

The JOA includes provision regulating the matter of withdrawal, full or in part, of a party from any Petroleum Asset in which it is a participant (and from the JOA applicable) and determines the cases when withdrawal is possible, and the rights and obligations of the withdrawing party vis-à-vis the other partners for the Petroleum Asset and the JOA.

A party that wishes to withdraw from a Petroleum Asset, must provide a notice of its decision to the other parties (in this section: "**Withdrawal Notice**"). The Withdrawal Notice will not be unconditional and irrevocable upon delivery, subject to the conditions set forth in the JOA. Within 30 days from the day of delivery of the Withdrawal Notice the other parties to the JOA will be entitled to also present a Withdrawal Notice. In the event that all the parties present a Withdrawal Notice, they will act to terminate the JOA and the remaining undertaking connected to the Petroleum Asset and the JOA. In the event that not all the parties will decide to withdraw, all the withdrawing parties will act in order to assign as soon as possible the said rights to the partner/partners that chose not to withdraw. Transfer of said rights will be without consideration, with each of the withdrawing partners bears all expenses with regard to its withdrawal, unless otherwise resolved. The transfer of the rights to the remaining partners will be in proportion to their relative holdings.

(l) Rights and obligations with respect to production

Each party has the right and obligation to take its share in the hydrocarbons produced from the leases, unless it is agreed otherwise.

(m) Governing law and dispute settlement

The JOA is subject to the laws of England and Wales. A dispute shall be decided in an arbitration proceeding in accordance with the arbitration rules of the London Court of International Arbitration (LCIA).

7.24.6 Joint operating agreement in Block 12

The joint operating agreement in Block 12 covers the same issues as, and is in a format similar to the joint operating agreement in the Leviathan project which is described in Section 7.24.5 above, with decisions made by an "effective majority", which is affirmative votes in favor of the decision by at least two participants that are not related parties and collectively hold at least 65% of the total rights in the license. Chevron Cyprus serves as operator in Block 12.

7.24.7 Payment of royalties to the State and royalty payment undertakings to related and third parties

(a) General

The Petroleum Law prescribes that a lease holder must pay the State royalties at the rate of one-eighth (12.5%) of the quantity of oil and natural gas produced from the area of the lease and utilized, according to the market value of the royalty at the wellhead (the "**State Royalties**").

In addition to State Royalties, the Partnership pays royalties, according to the market value of the royalties at the wellhead, to related and third parties (the "**Royalty Interest Owners**") according to undertakings originating from the agreement for the transfer of rights in petroleum assets to the Partnership, as specified in Section 7.24.7(c)2 below, and undertakings originating from Avner's Limited Partnership Agreement as specified in Section 7.24.7(c)3 below.

(b) Calculation of the market value of the royalties at the wellhead

1. General

Pursuant to the Petroleum Law, the leaseholder will pay the State the "market value of the royalty at the wellhead". A determination of a method for calculating the market value of the royalty at the wellhead is required, since natural gas sales are priced at the onshore gas delivery point, and therefore, the contractual price stipulated in the gas sale agreements is higher than the price that would have been determined, had the gas been delivered at the wellhead. Consequently, the effective rate of the State Royalties is actually lower than one-eighth (the "**Effective Rate**").

2. The Effective Rate of the royalties in the Tamar project.

Since the commencement of production in 2013, a dispute erupted between the Tamar Partners and the Ministry of Energy regarding the method of calculation of the Effective Rate of the royalties. According to the Tamar Partners, the payments made thereby, at the State's request, are payments in excess that were unlawfully collected and therefore the Tamar Partners through Chevron are acting to resolve this dispute vis-à-vis the Ministry of Energy. The difference between the royalties actually paid by the Partnership to the State and the effective royalty rate used by the Partnership in its financial statements for 2013-2021 is approx. $18 million.

It is noted in this context that, according to the terms and conditions of the transaction for the sale of interests in Tamar, which was closed in December 2021, the Partnership is entitled to receive amounts for excess payments made to the State in respect of the Tamar project, if the arguments of the Tamar Partners on this issue are accepted.

3. The Effective Rate of the royalties in the Leviathan project

From the date of commencement of supply of the gas from Leviathan reservoir, the Leviathan Partners are making advance payments to the State on account of the State's royalties in respect of the revenues from the Leviathan project at the rate of approx. 11.26%, in accordance with a letter of demand received from the Ministry of Energy in January 2020. Such effective rate is higher than the calculation performed by the Partnership and Chevron, such that in accordance with the 2020 royalties report submitted by Chevron to the Ministry of Energy, the State's rate of royalties in the Leviathan project ought to be approx. 9.58%. Accordingly, the rate of the royalties on which the Partnership's 2020 financial statements are based is approx. 10.8%, and approx. 10.7% on the 2021 financial statements.[123] The difference between the royalties actually paid by the Partnership to the State in the Leviathan project and the effective rate of royalties on which the Partnership's financial statements in 2020 to 2021 are based is approx. $7.4 million. For further details see Note 15 to the financial statements (Chapter C of this report).

It is noted that the method of calculation of the market value at the wellhead of the royalties in respect of the Leviathan project, which the Partnership is paying to the royalty interest owners is in accordance with the effective rate of the royalties paid by the Partnership to the State.

(c) Undertaking to pay royalties to the royalty interest owners [124]

1. General

In addition to the State royalties, the Partnership pays, as aforesaid, royalties to the royalty interest owners, which include related and third

[123] It is noted that in the discounted cash flow figures for the Leviathan project, the Partnership assumed that the effective rate of State royalties was 11.5%.

[124] Note that following the merger of the partnerships, all of the undertakings to pay royalties to the royalty interest owners now apply with respect to all of the Partnership's (existing and future) petroleum assets, however, on the merger date, such royalty rate was reduced by 50% relative to the royalty rate on the eve of the merger, since the Partnership and Avner held the said petroleum assets in equal shares, apart from the Ashkelon and Noa leases, in which the Partnership held 25.5% and Avner 23%, and in respect of which the royalty rate was reduced by 47.42% relative to the royalties that were paid by the Partnership prior to the merger to Delek Group and Delek Energy, and by 52.58% relative to the royalties that were paid by Avner prior to the merger.

parties, in accordance with undertakings that the Partnership and Avner assumed in the past, as shall be specified below.

2. Delek Group Royalties

a. In the context of an interest transfer agreement of 1993 (the "**Interest Transfer Agreement**") signed between Delek Energy and Israeli Fuel Company Ltd.[125] ("**Delek Israel**" and jointly in this section: the "**Transferors**") and the General Partner of the Partnership, the Transferors transferred to the Partnership interests in several oil licenses, in consideration for the Partnership's undertaking to pay the Transferors (Delek Energy – 75% and Delek Israel – 25%) overriding royalties at the rates specified below from the entire share of the Partnership in oil and/or gas and/or other valuable substances that shall be produced and used from the petroleum assets, in which the Partnership has or shall have any right (prior to deduction of any kind of royalties, but after deduction of the petroleum used for the production itself) (the "**Delek Group Royalties**").

b. The royalty rates of the Delek Group Royalties as set forth in the Interest Transfer Agreement (after an adjustment following the merger of the partnerships), are as follows: until the Partnership's Investment Recovery Date (as defined below), royalties shall be paid at a rate of 2.5% from onshore petroleum assets and 1.5% from offshore petroleum assets, and after the Partnership's Investment Recovery Date, royalties shall be paid at a rate of 7.5% from onshore petroleum assets and 6.5% from offshore petroleum assets.

c. As of the report approval date, the holder of the right to the Delek Group Royalties in the Leviathan project is Delek Overriding Royalty Leviathan Ltd., a wholly owned subsidiary of Delek Energy (the "**Delek Overriding Royalty**").[126] Delek Group and Delek Energy are entitled to Delek Group Royalties with respect to all the remaining oil assets of the Partnership that exist on the report approval date, and with respect to the petroleum assets in which the Partnership will have interests in the future.

d. Until the sale of the remainder of its interests in the Tamar and Dalit Leases in December 2021, the Partnership paid the Delek Group Royalties for the Tamar project to the parties entitled

[125] Following the reorganization that was carried out in the past, the royalty right as aforesaid of Delek Israel was transferred to Delek Group.

[126] To the best of the Partnership's knowledge and in accordance with the reports of Delek Group, in October 2020, Delek Group and Delek Energy transferred their right to receive Delek Group royalties from the Partnership's share (45.34%) in oil and/or gas and/or other valuable substances to be produced and utilized from the Leviathan Leases, to Delek Overriding Royalty.

thereto.[127] On September 4, 2018, the Audit Committee and the Board of the General Partner approved a calculation whereby the Investment Recovery Date in the Tamar Project falls in January 2018 and therefore, from this date, the Partnership paid the increased royalties rate (6.5% in lieu of 1.5%) to the parties entitled to the Delek Group Royalties in the Tamar project. For details on a legal proceeding being conducted in connection with determination of the Investment Recovery Date in the Tamar Project, see Section 7.25.6 below.

3. Avner Partnership Royalties

In the context of the closing of the merger of the partnerships the Partnership assumed the undertakings of Avner Partnership to pay royalties, as the same are set forth in the Avner Partnership Agreement[128] (the " **Avner Royalties**), at the rate of 3% of the Partnership's entire share of the oil and/or gas and/or other valuable substances which shall be produced and utilized from the petroleum assets in which the Partnership has or shall in the future have an interest (before deduction of royalties of any kind but after reduction of the petroleum which shall serve for the purpose of the production itself). As of the report approval date, all of the parties entitled to Avner Royalties are third parties.

4. Terms and conditions of the royalties:

The following terms and conditions apply to all of the royalties paid by the Partnership (Delek Group Royalties and Avner Royalties) (in this section jointly: the "**Royalties**"):

a. The Royalty Interest Owners or any of them shall be entitled to receive all or part of the Royalties in kind, i.e. to receive in kind a part of the oil and/or gas and/or other valuable substances that will be produced and used from the petroleum assets, in which the Partnership has an interest (up to the amount of the aforesaid rate). If any of the Royalty Interest Owners shall have chosen to receive the royalties in kind, the parties shall regulate the manner of and dates on which the Royalty Interest Owners shall receive the royalties. Should either of the Royalty Interest Owners not choose to receive the royalties in kind, the Partnership shall pay such Royalty Owner the market value, in Dollars or (if payment

[127] To the best of the Partnership's knowledge and in accordance with the reports of Delek Group, in June 2018, Delek Energy transferred its right to receive royalties from the Tamar Project to Tomer Energy Royalties (2012) Ltd., and in December 2019, Delek Group transferred its right to receive royalties from the Tamar Project to Advanced Study Funds for School and Kindergarten Teachers – Managing Company Ltd. and to Advanced Study Funds for High School and Seminar Teachers and Supervisors – Managing Company Ltd.

[128] A limited partnership agreement of August 6, 1991 (as amended from time to time) which was signed between Avner Oil & Gas Ltd., as the general partner of Avner of the first part, and Avner Trusts Ltd., as limited partner of Avner of the second part (the "**Avner Partnership Agreement**").

under law may not be made but in Israeli currency) in Israeli currency, calculated according to the Dollar's representative rate upon the actual payment, at wellhead price, of the royalties due to the Royalty Owner. Such payment shall be made once every month. The measurement of the quantities of oil and/or gas and/or other valuable substances that shall be produced and exploited from the petroleum assets, for the purpose of calculating the royalties due to the Royalty Interest Owners, shall be made in accordance with accepted principles in the petroleum industry.

b. The Partnership shall keep full and accurate records concerning its share in the oil and/or gas and/or other valuable substances that shall be produced and exploited from the petroleum assets in which it has an interest. Each of the Royalty Interest Owners shall be entitled to appoint an accountant who shall be entitled to inspect, examine and copy, during normal work hours, the Partnership's books and other documents and records regarding the Transferors' right to the royalties under the Interest Transfer Agreement.

c. The aforesaid right to royalties shall be linked to the Partnership's share in each of the petroleum assets in which it has an interest. Should the Partnership transfer its rights in a petroleum asset in which it has an interest, the Partnership shall ensure that the transferee assume all of the undertakings to pay the royalties as aforesaid. The aforesaid shall not apply at the event of asset forfeiture due to the Partnership being behind on payments. Regarding the Royalties by Virtue of the Avner Partnership Agreement, the aforesaid shall also not apply in the event of a transfer to partners who are continuing operations by some of the participants (sole risk).

5. In view of the dispute that has arisen between the Tamar Partners and the State regarding the method of calculation of the royalty value at the wellhead in the Tamar Project, as described in Section 7.24.7(b) above (in this section: the "**Tamar Dispute**"), and the dispute that has arisen regarding royalties paid to the State for gas that was marketed from the Tamar reservoir to customers of the Yam Tethys project as described in Section 7.25.2 below (in this section: the "**Yam Tethys Dispute**"), in November 2020, the Partnership reached agreements with all of the parties to which it had paid royalties from the Tamar Project over the years (including Delek Group and its affiliated corporations) (in this section: the "**Royalty Interest Owners**"), whereby:

   a. In reference to the Tamar Dispute, it was agreed that after said dispute with the State shall be decided, and should it be found that the Royalty Interest Holders received Overpayments from the Partnership, then the Royalty Interest Owners shall be required to return said Overpayments to the Partnership, as shall be determined regarding the Overpayments made by the Partnership in respect of the State Royalties, plus linkage differentials and interest according to the Adjudication of Interest and Linkage Law, 5721-1961. It was further clarified that should it be found, after the determination of a binding method of calculation, that the Royalty Interest Holders received underpayments, then the Partnership shall be required to return said underpayments to the Royalty Interest Owners, plus linkage differentials and interest as aforesaid. It was further agreed that until the expiration of 18 months from the date of determination of the binding method of calculation, none of the parties shall raise claims relating to the lapse of time.

b. In reference to the Yam Tethys Dispute, it was agreed that the ruling in the claim conducted in such regard by the Partnership and Chevron against the State shall apply, *mutatis mutandis*, also to the Royalty Interest Holders, and that should it be found that the Partnership underpaid royalties, then it shall be required to pay the Interest Royalty Owners the underpaid royalties plus linkage differentials and interest and should it be found that the Partnership overpaid royalties, then the Royalty Interest Owners shall be required to return such overpaid royalties, plus linkage differentials and interest as aforesaid. It was further agreed that until the expiration of 18 months from the date the claim against the State shall be decided, none of the parties shall raise claims relating to the lapse of time.

7.24.8 Agreement for granting usage rights in the facilities of the Yam Tethys project

The Partnership together with the other Yam Tethys Partners, and the Tamar Partners signed an agreement on July 23, 2012, whereby the Yam Tethys Partners granted the Tamar Partners usage rights in the existing facilities at the project, in consideration for total payment of $380 million (the "**Usage Agreement**"). The term of the Usage Agreement shall expire on the earlier of: (a) the expiration or termination of the Tamar Lease, and in case that the Dalit field is developed such that use is made of the Yam Tethys Facilities, the expiration or termination of the Dalit Lease; (b) giving of notice by the Tamar Partners of permanent discontinuation of commercial production of gas from the Tamar Project; and (c) the abandonment of the Tamar Project. The agreement provides various provisions in relation to the term of use and in relation to the end of the term of use, including a mechanism for the settlement of accounts in respect of upgrades made to the facilities. In the context of the sale of the Partnership's remaining interests in the Tamar and Dalit Leases, the Partnership assigned to the buyers its rights in the usage agreement as a partner in the Tamar project.

7.24.9 Agreement for the purchase of interests in the New Ofek and New Yahel licenses

On March 19, 2019, the Partnership entered into an agreement with SOA (in this section: the "**Seller**") for the purchase of a 25% interest (out of 100%) in each of the New Ofek and New Yahel Licenses, which are onshore licenses, in the center and the north of the State of Israel, respectively (in this section: the "**Petroleum Assets**", the "**Licenses**", the "**Purchased Interest**", the "**Purchase Agreement**" and the "**Transaction**", respectively). Upon fulfillment of the conditions precedent in the Purchase Agreement, on October 10, 2019, the Transaction was closed, and on November 5, 2019, the Petroleum Commissioner announced that the transfer of the Purchased Interest had been registered in the Petroleum Register.

Set forth below is a concise description of the main principles of the Purchase Agreement:

(a) On the Transaction closing date (in this section: the "**Effective Date**"), the Seller transferred to the Partnership the Purchased Interests, their being free and clear of any pledge, royalty[129], liability, claim and third party rights, apart from certain exceptions that were defined, such as the State's royalties, other mandatory payments and statutory restrictions, and from this date the Partnership shall assume and bear all of the rights and liabilities in connection with the Purchased Interests, apart from certain exceptions that were defined, such as liability for bodily injury and property damage and environmental damage in respect of the period preceding the Effective Date.

(b) On the Effective Date, the Partnership paid the Seller $1 million as reimbursement for past expenses which were borne by the Seller, until the Effective Date, in the framework of its activity in the Petroleum Assets.

(c) The Partnership undertook to bear the costs of production tests in the New Ofek License up to a sum total that shall not exceed $6,500,000. If the cost of the production tests exceeds the said amount, each one of the partners in the New Ofek License, including the Partnership, shall pay its proportionate share in the additional cost as aforesaid, in accordance with the provisions of the Joint Operating Agreement (JOA) which was signed between the Partners on the Effective Date[130].

(d) The Partnership shall provide guaranties in the sum of 50% of the guaranties required in connection with the Licenses, according to the directives of the Petroleum Commissioner for provision of collateral, provided that if the Seller does not provide the remaining guaranties (50%), the Partnership shall be released from its said obligation.

(e) The Purchase Agreement includes additional provisions which pertain to tax duties, confidentiality, dispute resolution, representations, undertakings and indemnification arrangements between the parties in

[129] It is clarified that the Purchased Interests shall be subject to the Partnership's commitment to pay overriding royalties to interested parties of the Partnership and to third parties.

[130] For further details regarding the increase in the production tests budget, see Section 7.4.3 above.

respect of a breach of the representations or undertakings that were made in the agreement, as is accepted in transactions of this type.

7.24.10 Agreement for the sale of the Partnership's interests in the Tanin and Karish Leases

On August 16, 2016, the Partnership and Avner (in this section: the "**Sellers**") signed an agreement with Energean Israel (in this section: the "**Buyer**"), whereby the Buyer purchased all of the interests of the Sellers and Chevron in the I/16 "Tanin" and I/17 "Karish" leases (in this section: the "**Leases**"). In consideration for the purchase of the interests in the Leases, the agreement provides that the Buyer will pay the Sellers a sum total of $148.5 million (in equal shares between them), which represents the reimbursement of past expenses invested in the Leases by the Sellers and Chevron, plus royalties in respect of the natural gas and condensate to be produced form the Leases, as follows: (a) The Sellers were paid $40 million in cash on the transaction closing date; (b) The balance of the consideration, in the total amount of $108.5 million (in this section: the "**Balance of the Consideration**"), will be paid to the Sellers in 10 equal annual installments plus interest according to the mechanism and at the rate specified in the agreement, which will commence on the date on which a final investment decision (FID) is made with respect to the development of the Leases or on the date on which the total expenses of the Buyer in connection with the development of the Leases exceeds $150 million, whichever is earlier (c) The sold interests were transferred to the Buyer along with the existing royalties in the Leases, which the Sellers had borne in respect of their original share in the Leases (26.4705%), and accordingly, the duty to pay the same to the royalty holders will be imposed on the Buyer as of the transaction closing date; and (d) The Buyer will transfer to each of the Sellers a royalty right in respect of the natural gas and condensate to be produced from the Leases at the rate of 3.75% (for 100% of the interests in the Leases) – prior to the payment of the petroleum profit levy under the Taxation of Profits from Natural Resources Law (the "**Levy**") in respect of the Leases, and at the rate of 4.125% (for 100% of the interests in the Leases) – immediately upon commencement of the payment of the Levy, net of the rate of the existing royalties in respect of the Seller's share in the Leases, as specified in Subsection (c) above. Furthermore, in accordance with the provisions of the Gas Framework, the Buyer transferred to the Sellers and to the other Leviathan Partners the Leases' export quota, according to the conditions specified in the agreement and its annexes.

On March 27, 2018, the Partnership received the Buyer's notice whereby, on March 22, 2018, the Buyer adopted a final investment decision (FID) in connection with development of the Leases. Therefore, in accordance with the terms and conditions of the agreement, the Partnership is entitled, from the date of adoption of such FID, to payment of the Balance of the Consideration in 10 equal annual installments, plus interest according to the mechanism and at the rate determined in the agreement. It was further determined that in an event of Force Majeure (as defined in the agreement) that prevents or delays the implementation of the approved development plan of the Leases for a period exceeding 90 days a year, the fixed periodic payment for that year shall be postponed for the same period of time, without accrual of interest.

For details regarding the consideration that was received upon adoption of such FID and with respect to a very material valuation regarding the Partnership's royalties from the sale of the leases, see Note 8B to the financial statements (Chapter C of this report) and Section 8B of Chapter D of this report. For details regarding disputes that arose between the Partnership and Energean, see Section 7.7.3 above.

7.24.11 <u>The agreement for the sale of 9.25% of the interests in the Tamar and Dalit Leases to Tamar Petroleum</u>

On July 2, 2017, a sale agreement was signed by and between the Partnership, as seller, on the first part, and Tamar Petroleum, as buyer, on the second part (in this section: the "**Sale Agreement**"), pursuant to which Tamar Petroleum purchased interests from the Partnership at a rate of 9.25% (out of 100%) of the Tamar and Dalit leases, for a total of approx. $837 million in cash (approx. ILS 3 billion), and the allotment of 19,990,000 ordinary shares of ILS 0.1 par value each of Tamar Petroleum to the Partnership. The said transaction was closed on July 20, 2017.

The Sale Agreement determines, *inter alia*, that the Partnership shall continue to bear responsibility with respect to specific issues also subsequently to the completion of the transaction, including the motion for certification of a class action that was filed by an IEC consumer against the Tamar Partners (for details see Section 7.25.1 below), with respect to the amounts that were received by the Partnership during the period before the effective date; liability due to taxes and royalties to the State with respect to the period before the effective date, or with respect to any profit, income or revenue of the Partnership in connection with the Object of Sale (including if said tax assessment was made after the effective date), except for taxes that relate to reports that were filed before the effective date to the tax authorities with respect to the Taxation of Profits from Natural Resources Law; taxes which apply to the Partnership in connection with the transfer of the Object of Sale to Tamar Petroleum; and liabilities to the Partnership's suppliers or customers due to the Object of Sale which relate to the period until the effective date, except if provisions were made for such liabilities in Tamar Petroleum's financial statements.
For further details regarding the sale of the Partnership's remaining rights in the Tamar Petroleum shares, see Section 1.7 above.

7.24.12 <u>Agreement for the sale of the Partnership's remaining 22% rights in the Tamar and Dalit Leases</u>

In accordance with the provisions of the Gas Framework, which, *inter alia*, obligated the Partnership to sell its full holdings in the Tamar and Dalit Leases, on September 2, 2021, the Partnership engaged in an agreement for the sale of the Partnership's remaining 22% rights in the Tamar Project to Tamar Investment

1 RSC Limited and Tamar Investment 2 RSC Limited[131] (in this section: the "**Purchasers**" and the "**Agreement**", as applicable). On December 9, 2021, the transaction was closed, and as of the report approval date, the Purchasers transferred the sale consideration of approx. $965 million.[132] For details regarding the closing of the said transaction, see Section 7.8.3 above.

A summary of the highlights of the Agreement follows:

(a) The Sale, as defined in the Agreement, includes the Partnership's rights of 22% in each one of the Tamar and Dalit Leases, together with the Partnership's share in the shares of Tamar 10-Inch Pipeline Ltd. (holder of the transmission license under Section 10 of the Natural Gas Sector Law), and the rights and obligations of the Partnership in the Joint Operation Agreement which applies to the Leases, the agreement for the use of Yam Tethys facilities (relative to the Partnership's share as a holder of rights in the Tamar Lease), in agreements for the sale of natural gas and condensate from the Tamar Lease, agreements for natural gas export (including the agreements associated with the export agreements and export approvals to Jordan and Egypt) and in additional related agreements between the holders of the rights in the Leases.

(b) The Partnership's rights in the Leases shall be transferred to the Purchasers subject to the existing royalties in the Leases borne by the Partnership, and accordingly, the duty of payment to the royalty holders, shall apply to the Purchasers.

(c) As of August 1, 2021 (in this section: the "**Effective Date**"), the Purchasers shall bear, each one according to its share, any and all expenses, payments, guarantees, collateral and liabilities applicable in respect of the sale and in accordance with the provisions of any law, other than specific liabilities for which it was determined in the Agreement that they shall remain under the responsibility of the Partnership also after the closing of the transaction, as specified below.

(d) The Partnership shall bear any and all expenses, payments, guarantees, collateral and liabilities applicable in respect of the sale and in accordance with the provisions of any law until the Effective Date, including taxes for the selling of the sale and levy under the Natural Resources Law, 5771-2011 ("**Oil Profit Levy**") in respect of the quantities of hydrocarbons sold up to the Effective Date.

[131] To the best of the Partnership's knowledge, the Purchasers are SPCs established for the purpose of the transaction and are (indirectly) held by MDC Oil & Gas Holding Company LLC, a corporation of the Mubadala Investment Company PJSC, which is a company owned by the Government of Abu Dhabi.

[132] The consideration was calculated according to certain adjustments for income gained and expenses incurred by the Partnership in connection with the leases. In addition, according to the sale agreement, insofar as the sums of the oil and gas profit levy assessments for 2021, the reports for which will be filed by the end of April 2022, shall be more than $1 million higher or lower than the sums assumed in the accounting under the sale agreement, then an additional accounting will be held between the parties to the Agreement.

(e) The Partnership shall remain liable for the liabilities listed below also after the closing of the transaction: (a) liabilities in connection with the sale in relation to the period prior to the Effective Date (except for malfunctions and wear and tear of facilities and equipment of the Tamar Project, that existed prior to the Effective Date but were not known to the Partnership); (b) liabilities in respect of hydrocarbons produced from the Leases prior to the Effective Date; (c) liabilities in connection with the motion for class certification filed by a consumer of the IEC against the holders of rights in the Tamar Lease, including any appeal and another proceeding in connection therewith; (d) payment requests under to the Joint Operation Agreement in the Leases, which were sent by the operator of the Tamar Project before the Effective Date; and (e) liabilities regarding environmental hazards in the area of the Leases, insofar as they existed prior to the Effective Date or were known to the Partnership prior to the date of closing of the transaction.

(f) As part of the Agreement, the Partnership gave the Purchasers various representations as is customary in such transactions, including representations regarding its rights in the sale and disclosure to the Purchasers of material information concerning the sale, including, *inter alia*, compliance with the terms of the Leases, the validity of the material agreements and the absence of a breach, legal proceedings relevant to the sale, compliance with the applicable provisions of law with respect to the sale, the applicable taxation and financial data of the joint project.

(g) The Agreement determines provisions under which the Partnership undertook to indemnify the Purchasers for any damage or liability to be incurred thereby in connection with suits, claims or another legal proceeding as a result of a breach of representation, provided that the Partnership shall not be liable for damage, until the total said damage exceeds $2.5 million, and the total indemnity in which the Partnership will be charged does not exceed 35% of the consideration paid for the sale, except with respect to specific representations which were defined as "fundamental representations" (where the total indemnification does not exceed 100% of the consideration) or in the event of a fraud (in relation thereto, no maximum liability has been set). The Partnership shall not be liable vis-à-vis the Purchasers for breach of the representations unless an indemnification demand has been provided by the end of 18 months from the date of closing of the transaction (or 36 months in relation to the aforesaid fundamental representations and until the end of the relevant statute of limitations period with respect to representations relating to tax liabilities).

(h) The Partnership undertook to indemnify the Purchasers for irregular events, including excess charges of the Purchasers in the Oil Profit Levy in connection with specific disputes between the Partnership and the tax authorities on the method of calculation of the levy relative to the income and expenses for the period prior to the Effective Date, up to a maximum indemnity of $15 million.

(i) The Agreement shall be governed by the law of England. Any dispute between the parties to the Agreement shall be resolved in an arbitration proceeding to be held before 3 arbitrators in London in accordance with the rules of the London Court of International Arbitration.

7.25 <u>**Legal proceedings**</u>

7.25.1 On June 18, 2014, a motion for class certification was filed with the District Court in Tel Aviv by a consumer of the IEC against the Tamar Partners (in this section: the "**Petitioner**" and the "**Certification Motion**", respectively). The issue addressed in the said Motion is the price for which the Tamar Partners sell natural gas to the IEC.

The Certification Motion claims that the gas price for the IEC is an unfair price which constitutes abuse of the Tamar Partners' position as the holders of a monopoly in the Israeli natural gas supply sector in violation of Section 29A of the Economic Competition Law.

The remedies sought by the Certification Motion are: compensation for all of the electricity consumers in the sum of the difference between the price that the IEC paid for natural gas supplied by the Tamar Partners and the fair price thereof, which was estimated, on the date of the filing of the Certification Motion, at a total sum of ILS 2.456 billion (100%), as well as declaratory orders, according to which the Tamar Partners are obligated to avoid selling the natural gas from the Tamar Project in an amount exceeding the amount stated in the Motion for Certification, and the sale thereof at a higher price constitutes abuse of their monopoly power.

On August 6, 2021, a judgment of the District Court was issued, denying the Certification Motion, both since the cause of action was not proved, not even ostensibly, in the sense that there is no evidence that the price of natural gas in the IEC contract is unfair, and since the Certification Motion does not meet the requirement of Section 8(A)(2) of the Class Actions Law, 5766-2006, in the sense that the class action is not the effective and fair way to decide the dispute under the circumstances. The aforesaid is in view of the deep involvement of the regulators who examined broad questions from the field of economics, economic competition, and Israel's foreign and security policy, which were reflected in the decision of the regulators and the government of Israel.

On September 30, 2021 the Petitioner filed an appeal from the judgment with the Supreme Court, in which the Supreme Court was moved to certify the class action and order the District Court to hear the class action. The Tamar Partners filed their response to the appeal on March 1, 2022, and the Attorney General is scheduled to file her response to the appeal by April 3, 2022. A hearing on the appeal is set for September 19, 2022.

In the Partnership's estimation, based on the opinion of the legal advisors, the chances of the appeal being granted are lower than 50%.

It is noted that, in accordance with the terms and conditions of the Agreement described in Section 7.24.12 above, regarding the sale of the Partnership's remaining rights in the Tamar and Dalit Leases, the Partnership shall remain liable, also after the closing of the transaction, vis-à-vis the Purchasers for liabilities in connection with the above Certification Motion, including any appeal and another proceeding in connection therewith.

7.25.2 On March 12, 2015, the Partnership and Chevron (jointly in this section: the "**Plaintiffs**") filed a complaint with the District Court in Jerusalem against the State of Israel through its representatives from the Ministry of Energy, which primarily includes a demand for the restitution of royalties paid by the Plaintiffs to the State in excess and under protest, for the Plaintiffs' revenues from gas supply agreements signed between consumers of natural gas and the Yam Tethys Partners, some of which was actually supplied from the Tamar Project, according to the accounting mechanism designed to maintain a balance of the gas quantities in the Tamar Project between the partners therein according to their share. The restitution remedy claimed from the State is, as of December 31, 2021, approx. $28 million, the Partnership's share being approx. $13 million.

Alternatively, the Plaintiffs' argument is that they are at least entitled to a partial restitution amount that is, as of December 31, 2021, approx. $19.4 million, the Partnership's share being approx. $9 million.

As of the report approval date, the claim has reached the stage of the closing statements.

The Partnership estimates, based on the opinion of the legal advisors, that there is a possible chance, i.e. above 20% but below 70%, that the Plaintiffs' primary remedy sought will be accepted and they will thus be entitled to the full restitution amount, and the chances of receiving a partial restitution remedy are greater than the chances it will be rejected.

It is noted that, in accordance with the terms and conditions of the Agreement described in Section 7.24.12 above, regarding the sale of the Partnership's remaining rights in the Tamar and Dalit Leases, the Partnership shall remain entitled, also after the closing of the transaction, to receive the restitution amount to be awarded in favor of the Partnership, if any.

7.25.3 On December 25, 2016, the participation unit holders in Avner prior to the merger (in this section: the "**Petitioners**"), filed a motion for class certification (in this section: the "**Certification Motion**") based on the argument that the Merger transaction between the Partnership and Avner was approved in an unfair proceeding, and the consideration that was paid to the holders of the minority units in Avner, as determined in the Merger agreement, is unfair. The motion was filed against Avner, the general partner of Avner and the members of the board of directors thereof, Delek Group as the holder of control in Avner (indirectly), and against PricewaterhouseCoopers Consulting Ltd. (PwC) as the economic consultants of an independent board committee that was established by Avner (in this section: the "**Respondents**"). According to the motion, *inter alia*, the committee members, the board of Avner and the General Partner breached the duty of care vis-à-vis Avner, and Avner conducted itself in a manner that was oppressive to the minority. The total damage was estimated by the petitioners to be in the amount of ILS 320 million.

On February 13, 2017 the court approved a stipulation whereby the Certification Motion will be amended by adding an argument of minority oppression by Delek Group. On July 6, 2017, the court ordered to add the Partnership as a respondent in accordance with the Partnership's motion. Trial hearings were held on March 9, 2021 and March 10, 2021, at the conclusion of which it was determined that by March 17, 2021, the parties will file a stipulation regarding the method of conduct of the summations stage. According to the agreed stipulation, the petitioners filed their summations on August 16, 2021, and the date for the filing of the Respondents' summations is by April 10, 2022.

The Partnership estimates, based on the opinion of the legal advisors, that the chances that the Certification Motion will be accepted are lower than 50%.

7.25.4 On February 4, 2019, a class action and a motion for certification thereof (in this section: the "**Certification Motion**") was filed with the Tel Aviv District Court (Economic Department) by a shareholder of Tamar Petroleum and the Public Representatives Association (in this section collectively: the "**Petitioners**"), against Tamar Petroleum, the Partnership, the CEO of the General Partner of the Partnership and the Chairman of the Board of Tamar Petroleum on the date of the offering, the CEO of Tamar Petroleum, the CFO of Tamar Petroleum and Leader Issues (1993) Ltd. (in this section collectively: the "**Respondents**"), in connection with the issue of the shares of Tamar Petroleum in July 2017 (in this section: the "**IPO**").

According to the Petitioners, in essence, the Respondents misled the investing public in the IPO with respect to the ability of Tamar Petroleum to distribute a dividend to its shareholders, for the period commencing on the IPO date and ending at the end of 2021 (in this section: the "**Period**"), and breached duties under various laws, *inter alia* the duty of care of the said officers and the Partnership's duties as shareholder and holder of control of Tamar Petroleum before the IPO.

The remedies sought in the said class action mainly included a financial remedy in the sum of at least $53 million which is, according to the Petitioners, the difference between the total dividend which Tamar Petroleum was expected to distribute for the Period, as stated in the offering to institutional investors document of July 12, 2017, and the total dividend which, according to an expert opinion that was attached to the Certification Motion, Tamar Petroleum is expected to distribute for the Period.

On August 13, 2019, the court ordered the Petitioners to deliver the pleadings in the file to the Attorney General in order that he give notice by September 15, 2019 of whether he wishes to be joined to the proceeding, and on February 6, 2020, the Attorney General gave notice that at this stage he does not deem fit to join the proceeding. On November 1, 2020, the Petitioners filed a motion to amend the Certification Motion (in this section: the "**Amendment Motion**"), in the context of which they sought to add to the Certification Motion an additional petitioner who participated in the IPO, unlike the current Petitioners who did not participate therein and they also sought to increase the amount of the alleged damage to $153 million. On April 6, 2021, the court granted the Petitioners' motion to amend the Certification Motion, and ruled that the Petitioners are entitled to file the amended Certification Motion in accordance with the language filed with the court subject to payment of expenses to the Respondents in the sum total of ILS 100,000. On May 9, 2021, the court granted the Respondents' motion for stay of proceedings in the case due to the fact that they intend to file a motion for leave to appeal from the decision to approve the amendment of the Certification Motion. On June 3, 2021, the Respondents filed a motion for leave to appeal from the decision to approve the amendment of the Certification Motion, and on July 13, 2021, the Petitioners filed their response to the motion for leave to appeal. On November 7, 2021, the motion for leave to appeal was denied, and on January 23, 2022, an amended Certification Motion was filed. A pretrial on the case is scheduled to take place on July 4, 2022.

In the Partnership's estimation, based on the opinion of its legal counsel, the chances of the Certification Motion being granted are lower than 50%.

7.25.5 On February 27, 2020 the Partnership learned of the filing of a class action and a motion for class certification (in this section: the "**Certification Motion**"), which was filed with the Tel Aviv District Court by an electricity consumer (in this section: the "**Petitioner**") against the Partnership and Chevron and against the other holders in 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 the IEC and in connection with a possible amendment to the agreement for the supply of gas from the Tamar Project to the IEC, as agreed by Isramco, Tamar Petroleum, Dor and Everest (collectively in this section: the "**Other Holders in the Tamar Project**"), without involvement on the part of the Partnership and Chevron (in this section: the "**Amendment to the Tamar Agreement**").

The Petitioner's principal arguments are, that the bids made by the Other Holders in the Tamar Project and the holders in the Leviathan project in the competitive process amount to abuse of monopoly power and to a restrictive arrangement, as defined in the Economic Competition Law; the Partnership's and Chevron's not signing the Amendment to the Tamar Agreement also amounts to abuse of monopoly power; the price determined in the agreement for the supply of gas from the Leviathan project to the IEC further to the competitive process is an unfair price; and profits made and which shall be made by the Partnership and Chevron under this agreement, while harming competition, amount to unjust enrichment. The Petitioner alleges that such actions of the Partnership and Chevron have caused and are expected to cause damage to the classes he seeks to represent in the sum of approx. ILS 1.16 billion, which he seeks for the classes he seeks to represent, and according to which the Court is moved to award compensation and fees. The main remedy that is sought in the said class action is a ruling by the court that the Partnership and Chevron are not entitled to prevent the other holders in the Tamar Project from signing the Amendment to the Tamar Agreement.

On December 22, 2020 the other holders of the Tamar project filed a motion for summary omission thereof, and on September 9, 2021 the Court approved their omission. Furthermore, on November 17, 2021, the court approved Ratio's stipulation to be omitted from the Certification Motion. A pretrial hearing in the Certification Motion was set for April 24, 2022.

On December 9, 2021, the Partnership and Chevron filed their response to the Certification Motion as well as a motion to remove the legal opinion that was attached to the Certification Motion, and on February 27, 2022, the Court decided that this motion will be heard at the hearing set for April 24, 2022. On February 28, 2022, the Petitioner filed a response to the Respondents' response to the Certification Motion.

In the Partnership's estimation, based on the opinion of its legal counsel, the chances of the Certification Motion being granted are lower than 50%.

7.25.6 On January 6, 2019, the supervisor on behalf of the holders of the Participation Units in the Partnership, filed with the Tel Aviv District Court (Economic Department) a complaint and an urgent motion for a provisional injunction (in this section: the "**Complaint**" or the "**Supervisors' Claim**" and the "**Motion for a Provisional Injunction**", respectively) pursuant to Section 65W(b) of the Partnerships Ordinance, against the Partnership, the General Partner, Delek Group, Delek Energy and Tomer Energy Royalties (Delek Group, Delek Energy and Tomer Energy Royalties,[133] jointly in this section: the "**Royalty Interest Owners**").
In the Complaint, the supervisor moves the court to declare that the calculation of the "Investment Recovery Date" in the Tamar Project must include the payments that the Partnership is required to make to the State by virtue of the Taxation of Profits from Natural Resources Law; to declare that the Investment Recovery Date in the Tamar Project has not yet arrived; to determine from what date the Royalty Interest Owners are entitled to receive the overriding royalty at the increased rate (a rate of 6.5% in lieu of a rate of 1.5%); and to declare that the Royalty Interest Owners are required to return the amounts that they were overpaid to the Partnership, plus linkage differentials and interest.

On April 4, 2019, the Royalty Interest Owners filed an answer and a counter-complaint against the Partnership, the General Partner and the supervisor (in this section: the "**Counterclaim**"). In the Counterclaim, the Royalty Interest Owners argue, *inter alia*, that the Partnership's calculation of the Investment Recovery Date in respect of the Tamar project included expenses that were "loaded" onto the calculation, and *inter alia*, financial expenses of the Partnership itself, future expenses of uncertain amount with respect to the retirement and disposal of facilities, headquarter expenses of the Partnership and any expense intended for stages of the project that are subsequent to the "wellhead". The Royalty Interest Owners argue that, discounting such expenses, the Investment Recovery Date in respect of the Tamar project had already occurred in August 2015, or alternatively – in 2016, or further alternatively – in 2017. Accordingly, the Royalty Interest

[133] On June 13, 2021, Delek Royalties (2012) Ltd. announced the change of its name to Tomer Energy Royalties (2012) Ltd. ("**Tomer Energy Royalties**").

Owners move the Court to declare which expenses should be taken into account in the calculation of the Investment Recovery Date, order the Partnership to recalculate the Investment Recovery Date based on the aforesaid, as well as the royalties that the Royalty Interest Owners are entitled to receive, and to deliver the said calculation to the Royalty Interest Owners.

On October 2, 2019, the answers were filed on behalf of the Partnership and the General Partner – both an answer in relation to the Supervisors' Claim and a counter-answer in relation to the Counterclaim – in which it was asserted that both of the claims should be simultaneously dismissed with prejudice.

On April 5, 2021, a pre-trial hearing took place, during which the parties were offered to refer to mediation, following which the parties agreed to apply to former Supreme Court Justice Yoram Danziger as a mediator. As of the report approval date, the mediation process has not yet been exhausted.

The Partnership estimates, based on the opinion of its legal counsel, that the chances of the Counterclaim being accepted are lower than 50%.

7.25.7 Following the decision of the Competition Commissioner (in this section: the "**Commissioner**"), pursuant to Section 20(b) of the Economic Competition Law, to approve, under specific conditions, a merger between EMG and EMED, in the framework of several agreements signed in order to allow the export of gas to Egypt , as specified in Section 7.24.4 above, on September 8, 2019, Lobby 99 Ltd. (CIC) and Hatzlacha – For Promotion of a Fair Society (R.A.), filed an administrative appeal with the Competition Court at the Jerusalem District Court against the Commissioner (as a respondent) and against EMED and EMG. In summary, the administrative appeal asserts that the Merger will enable the Partnership and Chevron to block any possibility of importing natural gas from Egypt that will compete with the gas produced from the Leviathan and Tamar reservoirs as the same were owned by them on the administrative appeal filing date, and that the conditions imposed in the context of the approval for the Merger are not implementable and do not remedy the competitive damage that may be caused, according to them, by approval of the Merger. In the administrative appeal, the court was moved to revoke or modify the Commissioner's decision.

On December 15, 2020 a preliminary hearing was held in the administrative appeal and trial hearings were scheduled for June-July of 2022.
The Partnership estimates, based on the opinion of its legal counsel, that the chances of the administrative appeal being accepted are lower than 50%.

7.25.8 On April 23, 2020, a holder of participation units of the Partnership (in this section: the "**Petitioner**") filed a class action and motion for class certification against the Partnership, the General Partner, Delek Group, Yitzhak Sharon (Tshuva), the directors of the General Partner (including the former chairman of the board) and the CEO of the General Partner (in this section: the "**Certification Motion**" and the "**Respondents**", respectively), with the Economic Department of the Tel Aviv District Court.

The Certification Motion alleges that the Respondents refrained from disclosing, in the Partnership's reports, the existence of a clause in the agreements for the sale of natural gas from the Leviathan and Tamar reservoirs to Blue Ocean (formerly, Dolphinus Holdings Limited) (in this section: the "**Sale Agreements**" and the "**Buyer**", respectively), according to which in a year in which the average daily Brent barrel price (as defined in the Sale Agreements) is lower than $50 per barrel, the Buyer is entitled to reduce the minimum annual quantity purchased under the Sale Agreements, to 50% of the annual contract quantity (the "**Reduction Clause**"). According to the Petitioner, the alleged non-disclosure in the Partnership's reports establishes causes of action by virtue of various sections of the Securities Law, by virtue of the tort of breach of statutory duty, and by virtue of the tort of negligence.

The main remedy sought in the Certification Motion is compensation of the class which the Petitioner intends to represent, for the alleged damage incurred thereby, which is assessed, according to the opinion attached to the Certification Motion, at approx. ILS 55.5 million. The Petitioner also moved for any other remedy in favor of the class, as the court deems fit under the circumstances.

On January 17, 2021, the Respondents filed their response to the Certification Motion, accompanied by an expert opinion that states, *inter alia*, that during the period relevant to the Certification Motion, the Reduction Clause was never material and therefore was not required to be disclosed to the public, and that there is no proximate cause between the disclosure of the Reduction Clause and the decrease observed in the prices of the Partnership's participation units. On January 2, 2022, the Attorney General, after being required to do so by the court, notified that at this stage, he did not deem it fit to take a position in the proceeding. Trial hearings in the proceeding are scheduled for June 2022.

In the Partnership's estimation, based on an opinion of its legal counsel, the chances of the motion being granted are lower than 50%.

7.25.9 In relation to the Reduction Clause in the Export to Egypt Agreements, with respect to which the motion for class action certification described in Section 7.25.8 above, was filed, on July 20, 2020 the Partnership received a letter of request from the ISA to provide information and documents as part of an administrative inquiry conducted by the ISA in this regard. On November 10, 2020, the Partnership filed a response to the said letter of request. As of the report approval date, the Partnership did not learn whether a decision was made on the opening of an administrative enforcement proceeding.

7.25.10 On June 18, 2020, the Partnership and Chevron which held the Alon D license, as provided in Section 7. 8.2 above, filed a petition with the Supreme Court, sitting as the High Court of Justice (in this section: the "**Petitioners**" and the "**Petition**", respectively). In the Petition, the Court was moved to issue an order nisi ordering the Minister of Energy and the Petroleum Commissioner to give reasons why the Minister's decision denying the appeal should not be revoked, why the license should not be extended or the Petitioners granted a substitute license in its stead, and why the Petitioners should not be allowed to realize their economic interest

in the natural gas from the Karish North reservoir, part of which lies within the license area. A motion was also made for an interim order preventing the expiration of the license, or alternatively prohibiting the launch of a competitive process for a new license for the license area (or part thereof) or the granting of such license to a third party pending decision of the Petition, and a preliminary order pending decision of the motion for the interim order. On the same day, a decision was issued ordering the Minister of Energy and the Petroleum Commissioner to file their answer to the motion for an interim order by June 28, 2020. In this decision, the court denied the motion for a preliminary order, and consequently the Alon D license expired on June 21, 2020.
Further to the aforesaid, on June 23, 2020, the Ministry of Energy announced a competitive process for a license for natural gas and oil exploration in Block 72, the area of which was covered by the license.

On May 13, 2020, the State filed its preliminary response to the Petition, in which it argued, inter alia, that the Petition should be denied due to the failure to join Energean as a respondent, and on May 19, 2021, a hearing took place on the Petition, in which the parties reached an agreement whereby Energean will be joined as a respondent in the proceeding, will file a response on its behalf within 60 days, and on such date, the parties will also update on the progress of the competitive process in Block 72, based on the assumption that by such date, a winner will be selected in the competitive process, which is expected to affect the claims in the Petition. The court approved the stipulation between the parties. On August 19, 2021, Energean filed its response to the Petition and on October 25, 2021 the Petitioners filed their answer to the response of Energean. As of the report approval date, no decision has yet been made in the competitive process in Block 72 and following a motion filed by Energean, on March 16, 2022, the court ordered the deferral of the Petition's hearing date. As of the report approval date, a notice on an updated hearing date has not yet been issued.

7.25.11 On April 21, 2021, the nonprofit organization Adam Teva V'Din – Israel Union for Environmental Defense (in this section: the "**Petitioner**") filed an administrative petition with the Jerusalem District Court (sitting as the Court for Administrative Affairs), against the Tax Authority, the Officer in charge of the implementation of the Freedom of Information Law at the Tax Authority, Chevron, the Partnership, Ratio, Givot Olam Oil Exploration – Limited Partnership (1993), E.C.L. Group Ltd., Dead Sea Works Ltd. and Rotem Amfert Negev Ltd. (in this section: the "**Respondents in the Original Petition**"). In the petition, the court was moved to order the Tax Authority to provide the Petitioner with information about the receipts received from the State's revenues from national natural resources, together with general information about reports received by the Tax Authority and the processing thereof since the legislation of the Taxation of Profits from Natural Resources Law. According to the petition, it was filed following the Tax Authority's refusal in March 2021 to accommodate a freedom-of-information request that had been filed by the Petitioner, in which the Tax Authority was asked to deliver the sought information.

On May 6, 2021, having received the court's permission to do so, the Petitioner filed an amended petition, adding all of the partners in the Tamar project, which had not been listed in the original petition, as respondents (in this section, jointly with the respondents to the original petition: the "**Respondents**"). On July 15, 2021 and August 1, 2021, the Respondents filed their responses to the petition, by which they argued that the petition should be dismissed and the Petitioner should be denied the information requested thereby, *inter alia*, because such information is protected by the duty of fiscal secrecy, which applies to information that is provided to the tax authorities. A hearing of the petition took place on February 15, 2022, and a judgment was issued on February 22, 2022. The judgment partially granted the petition, such that the Tax Authority was instructed to reconsider its decision not to disclose the information.

7.25.12 On May 3, 2021, Haifa Port Company Ltd. (in this section: "**Haifa Port**") filed a claim against Chevron, Coral Maritime Services Ltd. (in this section: "**Coral**") and Gold-Line Shipping Ltd. (in this section: "**Gold-Line**"), in the amount of approx. ILS 77 million (in this section: the "**Primary Claim**"). According to Haifa Port's claim, the direct offloading of cargo onto the Leviathan platform, as done by Chevron, without first unloading such cargo in one of Israel's ports, is unlawful and was done to avoid making obligatory payments to the Port, thereby causing the Port a loss. As argued in the complaint, from July 2018 forward, Chevron engaged in such direct offloading, while declaring to the tax authorities that the Haifa Port was the "offloading port", although the offloaded cargoes did not actually go through the Haifa Port. The claim against the Coral and Gold-Line companies is that they acted, during the relevant times, as ship agents for Chevron, which, as argued by Haifa Port, gives rise to their duty to pay the handling fees on behalf of Chevron.

Chevron filed its answer on August 31, 2021, and on December 1, 2021, Haifa Port filed a reply. At the same time, Chevron filed a counter-complaint in the amount of ILS 4,405,842 against Haifa Port, seeking ILS 715,691 for handling fees and infrastructure fees actually charged by Haifa Port, in violation of the law, and seeking ILS 3,690,151 for mooring fees charged to Chevron without a 30%-reduction, in violation of the law, in cases of self-navigation by ships passing through the port area. Haifa Port filed a counter-answer on December 1, 2021. A pretrial hearing has been scheduled for September 11, 2022.

In the Partnership's estimation, based on an opinion of its legal counsel, it is more likely that the Primary Claim will be denied rather than accepted.

7.25.13 On April 7, 2021, the Partnership, together with the other Tamar Partners and Leviathan Partners, filed a petition against the Natural Gas Commission and the Ministry of Energy (in this section: the "**Respondents**"). The petition moves for annulment of the decision of the Natural Gas Commission (in this section: the "**Commission**"), decision no. 5/2020 of December 29, 2020 – Amendment to Commission decision 8/2019 - criteria and tariffs for operation of the transmission system in a flow control regime (Amendment no. 2), published on January 3, 2021, which is described in Section 7.22.5(c) above (in this section: the "**Decision**"). According to the Decision, the natural gas suppliers shall bear the cost of one half of the "Unaccounted For Gas Target (UFG-T)", which is defined in the Decision as a difference of up to 0.5% between the quantity of gas measured by the meter at the entrance to the national natural gas transmission system and the quantity measured by the meter at the exit therefrom. The petition argued that this Decision was issued without any lawful authority and is extremely unreasonable.

On October 26, 2021, Energean, which was joined as a respondent to the petition, filed its response according to which the petition is justified, and on October 27, 2021, INGL, which was also joined as a respondent to the petition, filed its response, in which it was argued that the petition is tainted with bad faith and unclean hands due to the concealment of material facts and failure to join entities which may be harmed by the petition, and that the Decision contemplated in the petition was adopted with authority and is reasonable. In addition, on November 5, 2021, the Respondents filed their responses to the petition, according to which the petition should be summarily dismissed with prejudice due to failure to join the gas consumers as respondents and the petition should also be dismissed on the merits because the Decision was adopted with authority and is reasonable on the merits. On November 14, 2021, the court granted the motion on behalf of the petitioners to file a reply on their behalf to the response of the Respondents, and on November 28, 2021 and December 26, 2021, such replies have been filed by the petitioners. On January 30, 2022, the court ordered that the petition be referred to a hearing before a panel, and a hearing on the petition has not yet been determined.

7.25.14 For details regarding a proceeding for approval of an arrangement under Sections 350 and 351 of the Companies Law, which is held at the District Court in Tel Aviv, see the "Goals and Business Strategy" chapter in Section 7.26 below.

7.26 <u>Goals and business strategy</u>

7.26.1 <u>General</u>

The Partnership's goals and accordingly also its business strategy, are exhaustion of the economic potential of the petroleum assets held thereby alongside examination of acquisition of additional petroleum assets, in and out of Israel, and examination of possibilities of using new technologies designed to streamline the activity of natural gas production and utilization. The said strategy is realized mainly through promotion of further development of the Leviathan reservoir, as well as improvement of the production and operation of the said reservoir, promotion of the development of non-producing petroleum assets held by the Partnership, and primarily the Aphrodite reservoir, as well as promotion of possibilities for the use, ownership, development and expansion of infrastructure for natural gas transmission from the Partnership's petroleum assets to the domestic market and to the export markets including in LNG form.

For this purpose, the Partnership acts, *inter alia*, for the increase of the demands for natural gas, both by means of expansion and assimilation of the use of natural gas in the domestic market and by means of natural gas export through the pipelines and/or liquefaction and/or compression of the natural gas and the marketing thereof to the global markets.

In addition, the Partnership is acting to exhaust the potential for additional gas and/or oil discoveries in its petroleum assets and/or in new licenses, in and/or outside of Israel, if and to the extent that it will engage in transactions for the purchase of petroleum assets and/or that they will be granted thereto. In this context, the Partnership is examining business opportunities that are connected to its business sector, in and outside of Israel, including the possibility of joining as a partner in petroleum assets in various stages of exploration, development and production, and is also examining technological developments that are connected to its business sector.

Furthermore, in view of the changes occurring in the energy industry, government policy in Israel and in the developed countries to encourage the transition to electricity production from alternative energies, and the desire to promote Environmental Social Governance (ESG) aspects of the Partnership's activity,[134] the Partnership is exploring possibilities for entering the alternative energies sector and the field of blue hydrogen combined with capture and treatment of the carbon emissions in a manner which may constitute a low-carbon substitute for energy consumers.

7.26.2 **<u>Natural Gas</u>**

The Partnership will continue to act to exhaust the economic potential of the petroleum assets held thereby alongside examination of acquisition of additional petroleum assets, including:

(a) <u>Leviathan Project</u>

1. Assurance of the supply of natural gas and condensate from the Leviathan reservoir, in accordance with agreements that have been signed, and the conduct of negotiations and engagement in additional agreements for the sale of natural gas and condensate to various potential consumers in Israel and in counties in the region, chiefly Egypt, Jordan and the Palestinian Authority.

2. Promotion of various alternatives for the development of Phase 1B of the Leviathan reservoir and increase the scope of production to approx. 21 BCM per year, as specified in Section 7.2.5(c)2 above, with the purpose of making a final investment decision (FID). The development alternatives may include development and expansion of the infrastructures for piping natural gas from the Leviathan reservoir to additional consumers in the target markets, primarily the Egyptian market, increase of the scope of supply to existing liquefaction facilities in Egypt, and promotion of the possibility of liquefaction of the natural gas through an FLNG facility for the

[134] ESG report posted on the Partnership's website. For details visit: http://newmedenergy.com/wp-content/uploads/2022/02/NewMed-Energy_ESG-Report-_2020-2021.pdf.

purpose of marketing it to global markets. For further details, see Section 7.11.2(h) above.

3. Promotion of the consideration of forming an exploration prospect to oil targets in the Leviathan Leases, as specified in Section 7.2.4 above.

(b) Block 12 – Cyprus

Promotion of the development plan of the Aphrodite reservoir in Cyprus, as stated in Section 7.3.6 above, and marketing of the natural gas to Egypt and to the global LNG market. At the same time, examination of other development options, including the option of combining the development of Aphrodite reservoir with existing facilities and/or development plans for adjacent reservoirs, including those for the Leviathan reservoir.

(c) Optimization of infrastructures

The Partnership is examining, jointly with its partners in the various petroleum assets and other owners of infrastructures, the possibilities for optimization of existing infrastructures in the various projects, including the joint transmission infrastructure for export of natural gas to the various target markets and *inter alia* for the purpose of reducing transmission costs and increasing the feasibility of advancing various projects. For instance, the Partnership is examining, together with its partners in the Leviathan project and the Aphrodite reservoir, the possibility of constructing a joint pipeline or using existing infrastructure in Egypt, for transmission of natural gas to consumers in Egypt. For details regarding the possibilities of piping the gas to Egypt which are being examined by the Partnership, see Section 7.11.2(d) above.

(d) Oil and gas explorations

Continued natural gas and oil exploration activity in the areas of the Partnership's petroleum assets and identification of business opportunities in new petroleum assets, mainly in and around the Mediterranean Basin countries. In this context, the Partnership is conducting negotiations to enter exploration licenses in Morocco.

(e) Increasing the demand for natural gas

The Partnership is working to increase demand for natural gas, *inter alia*, in the following methods:

1. Transportation: The Partnership is working to promote projects to increase the use of natural gas for transportation, including public transport vehicles and trucks powered by compressed natural gas, as well as electric transportation, such as electric buses, trains and passenger cars in the Israeli transportation market. In the Partnership's estimation, since the consumption of liquid fuels for transportation in Israel in 2019 was estimated at an equivalent of

approx. 3.6 BCM of natural gas per year, such projects may lead to an increase in the potential demand for natural gas.

2. Conversion of coal-fired power plants to use of natural gas: In the Partnership's estimation, the continuation of the Government's policy to reduce the use of polluting coal for the production of electricity, including discontinuation of all coal-fired electricity generation by 2025, in favor of transition to natural gas in power generation, may increase the use of natural gas in Israel in significant quantities, estimated at up to approx. 4.3 BCM per year.

3. Additional industries: To the best of the Partnership's knowledge, projects are being examined and promoted in Israel by various entrepreneurs, both in industries in which natural gas is used as a raw material, such as the production of ammonia and methanol, and in energy-intensive industries. In the Partnership's estimation, the establishment in Israel of plants in these areas, if established, may lead to a significant increase in the domestic use of natural gas.

7.26.3 **Alternative energies**

(a) Renewable energies

In July 2021, an amendment to the TASE rules was published, that allows oil and gas partnerships, under specific conditions, to incorporate investments in projects in the field of renewable energy into their activities.[135] Accordingly, the Partnership is exploring possibilities for entering the renewable energies sector in the global market, using the Partnership's knowledge in connection with the regional market, including entering joint ventures and/or acquiring existing active platforms.

(b) Production of "blue" hydrogen

Examination of the possibility of producing blue hydrogen from natural gas from the reservoirs in which the Partnership is a partner, combined with the capture and storage of the byproduct carbon. Hydrogen, the burning of which does not emit pollutants, may constitute a low-carbon substitute for energy consumers, and may also help, inter alia, in solving the climate crisis. For these reasons, interest in the production of hydrogen is growing. The Partnership is examining different technologies aimed at streamlining the activity for the production and utilization of natural gas, in a manner that will significantly reduce the emissions which are a byproduct of its combustion, as well as carbon storage technologies. In such context, the Partnership is examining a possible blue hydrogen venture, in which natural gas is split into hydrogen and carbon dioxide (CO2), with the carbon dioxide produced in the splitting process being collected and stored in designated subsurface storage sites (carbon capture and storage). Hydrogen is a clean fuel whose burning in a designated combustion engine emits only water vapor, and is currently

[135] https://maya.tase.co.il/reports/details/1384631

considered one of the main staples of a sustainable and prosperous low-carbon economy.

The scope and range of the Partnership's operations require the investment of significant financial resources, *inter alia*, for the purpose of establishing and deepening the commercial, technical, financial, legal, regulatory and other capabilities and knowledge. Therefore, the Partnership intends to consider and make use of the variety of resources available thereto for purposes of raising money, by way of debt and/or equity, in addition to using the future surplus income from the Leviathan project, and the surplus cash in its possession.

7.26.4 <u>Restructuring transaction</u>

On May 4, 2021, the General Partner and Limited Partner filed a motion with the Tel Aviv District Court pursuant to Sections 350 and 351 of the Companies Law for approval of the convening of a general meeting of the unit holders for approval of an arrangement which mainly concerns substitution of all of the issued participation units with ordinary shares of New Med Energy Plc., a new company incorporated in England ("**New Med**"), which is planned to hold all of the rights of the General Partner and the Limited Partner in the Partnership, such that upon the closing of the arrangement, the Partnership will become a private subsidiary partnership of New Med, and New Med's shares will be concurrently listed on the TASE and the London Stock Exchange (in this section: the "**Motion**" and the "**Arrangement**", respectively).

See, in this regard, the Partnership's immediate report regarding the institution of the proceeding of May 4, 2021, to which a copy of the Motion that was filed with the court was attached (Ref. no.: 2021-01-077190), and additional reports of the Partnership regarding the legal proceeding, which include, *inter alia*, a letter of objection on behalf of the participation unit holders, responses on behalf of TASE and the ISA, a motion to join the proceeding on behalf of Cohen Development Gas & Oil Ltd. and other royalty interest owners, various motions which were filed in the context of the proceeding, and the judgment that was issued by the court on December 27, 2021 (in this section: the "**Judgment**"), which was attached to the Partnership's immediate report of December 27, 2021 (Ref. no.: 2021-01-185460).

The Judgment approved the motion for the convening of a general meeting of the unit holders for approval of the Arrangement, and it was also determined that the right of Delek Group, the Partnership's control holder, to receive overriding royalties from the Partnership would not require repeat approvals in the future.

On February 23, 2022, an appeal from the Judgment and a motion for a stay of its execution were filed with the Supreme Court by the holders of the Partnership's participation units. For further details, see the Partnership's immediate report of February 24, 2022 (Ref. 2022-01-022645), the information included in which is presented herein by reference. The hearing on the appeal was set for June 27, 2022, and as of the report approval date, no decision on the motion for stay of execution of the Judgment has been issued.

It is emphasized that the approval and consummation of the arrangement require, *inter alia*, the receipt of regulatory approvals in Israel and abroad and are subject, *inter alia*, to approval by the general meeting of the unit holders, of publication of various prospectuses in Israel and the UK and procurement of approvals and performance of other acts, the feasibility of which is uncertain, and therefore it is uncertain whether the arrangement will be approved and/or consummated.

It is clarified that the Partnership's goals and strategy as specified above constitute general intentions and goals and therefore there is no certainty that they will be realized, *inter alia*, due to changes in the market conditions, geopolitical changes, changes in regulation and in tax laws, changes in priorities resulting from the results of the activity in the Partnership's projects as well as other developments, unpredicted events, the court's decision on the appeal filed in connection with the restructuring transaction, and the risk factors specified in Section 7.28 below. It is further clarified that realization of the goals and strategy specified above is subject to approvals by the Partnership's competent organs, which have not yet been obtained, including the general meeting of the unit holders, as well as third-party approvals.

7.27 **Insurance coverage**

From time to time, the Partnership takes out the insurance policies generally accepted for the energy sector for natural gas exploration, development and production, *mutatis mutandis* to the requirements of the law, the regulation (in Israel and overseas), the conditions of the licenses and the leases, the requirements of the financing entities and the scopes of the Partnership's operations and its exposures in Israel and overseas.

Some of the insurance policies are taken out in group insurance policies that cover several insured, which cover the assets and liabilities in the Partnership's various activities, only against some of the possible risks, as is the common practice in the industry of exploration, development and production of natural gas and products thereof, and all subject to the provisions of this section. The insurance system covers, *inter alia*, expenses for loss of control of well, certain coverage for political risks, property damage and certain consequential damage related to the insured property damage at the production phase, risks to construction work in the development of the assets (including during the maintenance period pertaining to the development of the Leviathan reservoir) as well as liabilities for third party bodily and property damage due to the activity of drilling, construction and production, including pollution damage resulting from accidental events.

It is noted that the Partnership and Chevron have taken out insurance coverage for physical damage to EMG's property in an 'all risks' policy, as well as in a policy for insurance of war and terror risks. In addition, the Leviathan Partners have taken out insurance coverage for interruptions in the supply of gas, caused by physical damage to the Egyptian transmission network in Sinai, due to acts of war and/or terror.

The insurance policies specified above have been taken out partly independently and partly in the framework of the operator's insurance system. The insurance policies are subject to the agreements of pledge and assignment of rights in accordance with financing agreements that are signed from time to time.

Furthermore, the Partnership monitors, from time to time, changes in the value of the insured property, and the amounts of the consequential damage that is entailed by damage to the insured property and/or to the property of a customer and/or of a supplier, in order to adjust the scope of the purchased insurance according to the exposure subject to the insurance costs and the global supply of insurance for the energy sector. Consequently, the Partnership can decide on a modification and/or decrease of the purchased coverage and/or a reduction of the sum of the purchased insurance and/or decide not to purchase any insurance at all for this risk or another.

It is further noted that the Partnership engaged with Delek Group (in this section: the "**Guarantor**") in an agreement, whereby the Guarantor granted a performance guarantee in favor of the Republic of Cyprus with respect to the Partnership's activity in Block 12 as specified in Section 7.4.3(c)(2)(k) above. For further details, see Section (d) of Regulation 22 to Chapter D of this report. As a condition for granting the aforesaid guarantee, the Partnership was required to take out additional insurance to the Guarantor's satisfaction, beyond the insurance system applicable thereat, so as to cover, within higher liability caps at the stage of performing the drilling work, with respect to the insurance of liabilities to third parties as well as expenses for regaining control over an out-of-control well, including coverage of bodily and property damage and cleaning expenses resulting from the risks of accidental pollution.

For details with respect to the risk in the absence of sufficient insurance coverage, see Section 7.28.11 below.

7.28 Risk factors

Below is a concise summary of the threats, weaknesses and other risk factors of the Partnership, which derive from the general environment ("**Macro Risks**"), the business sector ("**Sectoral Risks**") and the unique characteristics of the Partnership's operations ("**Special Risks**"). It is clarified that the following risk factors are not an exhaustive list of the risks related to the Partnership and its operations, and that the Partnership has other risks that derive from the Partnership's business and assets as described in this Chapter A, as well as risks which, as of the date of approval of the report, are not yet known to the Partnership.

7.28.1 COVID-19 Pandemic

As specified in Section 6.8 above, as of the report approval date, it is not possible to estimate how the Covid pandemic will develop in the upcoming year and what the extent of its long-term impact will be on the global and domestic economy, on demand, prices of natural gas and the other energy products. In these circumstances, the Covid crisis constitutes a global macroeconomic risk which creates uncertainty as to the future economic activity in the world and in the domestic market and the anticipated impact on the financial markets, interest margins, currency exchange rates and the prices of commodities in the energy sector, and may adversely affect many sectors, including the energy sector in which the Partnership operates.

In addition, if the Covid Crisis deteriorates, restrictions and actions that shall be employed by the Israeli government and other countries for tackling the Covid Crisis may have a material negative impact on the Partnership's business and its work plans. As a consequence thereof, delays may be caused in the entry of foreign experts and in the supply of designated equipment into the State of Israel, due to restrictions which apply to the movement of citizens between sites and countries and due to restrictions on production or transportation which apply in the various countries, which may, *inter alia*, disrupt the regular production activity, the said work plans, and also impose additional unexpected costs. In view of the aforesaid, notwithstanding the precautions taken by the partners in the Leviathan project, the reservoir's operation may be adversely affected.

7.28.2 Fluctuations in the linkage components in the natural gas price formulas in the supply contracts

The gas price is determined in the natural gas supply agreements according to price formulas which include various linkage components, including linkage to the Brent barrel price, linkage to the Electricity Production Tariff, and linkage to the ILS/$ exchange rate. A considerable portion of the natural gas supply agreements in which the Partnership engaged, also specify, along with the price formulas, price floors that limit, to a certain extent, the exposure to fluctuations in the linkage components. However, there is no certainty that the Partnership will also be able to determine such price floors in new agreements to be signed thereby in the future.

Moreover, a decrease in the Brent prices and/or a decrease in the Electricity Production Tariff and/or a rise in the ILS/$ exchange rate (depreciation of the ILS versus the dollar) may adversely affect the Partnership's income from the existing and future gas sale agreements.

It is noted that the frequent methodological changes made by the Electricity Authority in the method of calculation of the Electricity Production Tariff render it difficult to predict, and may lead to between the gas suppliers and the customers disputes in relation to the method of calculation thereof. It is noted in this context that, for some of the private power plants (including plants sold by the IEC), the Electricity Authority has applied regulation referred to as SMP (System Marginal Price), whereby, the wholesale electricity price is determined every 30 minutes according to the marginal cost of production of an additional KW/-hour in the sector, based on half-hour tenders conducted by the Electricity System Manager between the various electricity producers, every day. Such pricing method may have an effect on the prices of natural gas to be sold by the Partnership to electricity producers in the domestic market, in the event that the gas prices in future contracts are linked to such pricing.

7.28.3 Changes in demand and in the prices of the energy products

The demand for natural gas from the Partnership's customers and the price thereof are affected, *inter alia*, by significant changes in the prices of oil, natural gas, including LNG, and the prices of other sources of energy, including coal, sources of renewable energy and other alternatives to the produced natural gas marketed by the Partnership, both in the domestic market and in the international markets. Thus, for example, low LNG prices in the international markets may lead to increased import of LNG to Israel and/or to the regional markets, reduce the demand for natural gas in the markets relevant to the Partnership, and harm the Partnership's revenues from the Leviathan reservoir.

An increase in supply, a decrease in demand or a decrease in the prices of energy sources alternative to natural gas, including coal, sources of renewable energy and other products, in the domestic market or in the international markets, may reduce demand by existing and potential customers and lead to a decrease in the price of the natural gas sold by the Partnership, which may adversely affect the Partnership, its financial position and results of operations.

Reforms and decisions relating to the electricity sector and in the energy sector, including changes in the environmental laws, may also reduce the demand for the natural gas sold by the Partnership and/or affect its price.

In addition, major events in the global economy, such as an economic slowdown, recession, inflation, irregular volatility in foreign exchange rates, trade wars, impairment of the efficient functioning of the global manufacturing and supply chains in general, and in the segments of engineering, manufacture and supply of components for the oil and gas industry in particular, as well as weather conditions, including global warming, the outbreak of epidemics such as Covid-19 and natural disasters, may also reduce the demand for the natural gas sold by the Partnership and/or affect its price and/or adversely affect the Partnership's revenues from the existing and future gas sale agreements, as well as the making of decisions on investment in new natural gas projects and/or expansion of existing projects.

7.28.4 Global macroeconomic factors

The Partnership's ability to sell the natural gas produced, as well as the signing of new long-term agreements for the sale of natural gas, and the making of investment decisions with respect to new natural gas production projects and/or expansion of existing projects, is dependent, *inter alia*, on various global macroeconomic factors or on major events in the large economies, such as the U.S., China and the European Union. Among the macroeconomic factors that may have a significant impact on the Partnership's business are, *inter alia*, changes in the growth rate or a global economic slowdown, a global recession, global inflation, irregular volatility in foreign exchange rates, the global trade situation, a rise in interest margins, efficient functioning of the global manufacturing and supply chains in general, and in the segments of engineering, manufacture and supply of components for the oil and gas industry in particular, climate and weather changes – including global warming, which contributes to the creation of warmer-than-expected weather conditions, as well as trade wars, such as the US-China trade war, which has led to a slowdown in economic activity; natural disasters, the outbreak of epidemics such as Covid-19, and global political and social processes that may destabilize regimes. Global macroeconomic factors of this type, which in the majority of cases are unforeseeable, may cause significant harm to the global economy, increase uncertainty in the markets, damage the confidence of investors, the business community and consumers, result in a decline in global consumption of energy products, including oil and natural gas, and make it difficult to refinance.

Naturally, the Partnership is unable to influence factors with a global impact of this type, and it is difficult to assess and estimate how factors of this type may evolve and affect the Partnership's business.

For details regarding the invasion of Russian Military into Ukraine on February 24, 2022, as part of an initiated campaign, see Section 7.1.4 above.

7.28.5 Geopolitics

The general security, economic and political situation in the Middle East, and specifically in Israel, Egypt and Jordan, may affect the willingness of foreign entities and countries, including in the Middle East, to enter into business relationships with Israeli bodies, including the Partnership, together with its partners in the different projects. Therefore, any deterioration in the geopolitical situation in the Middle East and/or deterioration in the relations between Israel and its neighbors in the relevant target markets, for security and/or political and/or economic reasons, may materially impair the Partnership's revenues from agreements of export of gas to Egypt and to Jordan, i.e. to Blue Ocean and to NEPCO, which are key customers of the Partnership, as well as its ability to promote its business with countries and additional entities in the neighboring countries.

7.28.6 Difficulties in obtaining financing

For the promotion of additional development phases in the development plan of the Leviathan reservoir or the development of additional reservoirs in the future, such as the Aphrodite reservoir, if it is decided to drill the same, the Partnership will need additional significant financial sources, and the Partnership may be required to raise capital or additional financing, including through a future raising of bank debt or a private or public bond offering.

Raising of additional financing may be difficult, particularly in the event of an economic crisis that is expressed in a reduction of the available credit sources and the tightening of requirements of the finance providers for provision of the financing. As of the report approval date, against the backdrop of the Covid-19 Crisis, a grave global economic crisis may develop which will adversely affect the Partnership's ability to raise capital.

7.28.7 Competition in gas supply

NEWMEDENERGY

The Partnership is exposed to competition in the supply of natural gas to the domestic market and to export markets, which competition has recently intensified significantly, including competition with existing competing has reservoirs, or new reservoirs that may be discovered in the future in Israel or in neighboring countries, and competition posed by alternative energy sources such as coal, liquid fuels (such as diesel oil and fuel oil) and renewable energy sources (such as solar energy and wind energy). The intensification in competition may lead to a drop in demand and in natural gas prices that will be determined in new supply agreements, which may lead to a material negative effect on the Partnership's revenues and business.

In recent years a number of considerable gas reservoirs have been discovered in Israel, in scopes that materially exceed the Ministry of Energy's estimates with respect to the demand for gas in the domestic market. In Egypt and in Jordan, to which the Partnership exports natural gas under the Blue Ocean and NEPCO supply agreements, the Partnership is exposed to competition that may intensify in the future by reservoirs that have been discovered (In Israel and in the region, such as the Zohr natural gas field in Egypt) or new reservoirs to be discovered in the future, and also by suppliers of alternative energy products.

The Tamar reservoir and the partners therein are competitors of the Partnership. As of the report approval date, in addition to the Leviathan and Tamar reservoirs, which are presently producing in Israel, the Tanin and Karish reservoirs, which are owned by Energean, are in advanced development stages and to the best of the Partnership's knowledge and based on Energean's releases, the first one is expected to commence gas supply in Q3/2022. These reservoirs, which are organized under one production system, are expected to serve as an additional significant natural gas supplier in the domestic market.

As of the report approval date, the gas from the Leviathan reservoir is jointly marketed by all of the Leviathan Partners. However, under the JOA each partner is entitled, subject to certain conditions, to take its share of the gas produced from the reservoir and market the same separately from the other partners, which, if and to the extent it occurs, may lead to increased competition.

In view of the limited scope of the demand for natural gas in the domestic market, the entry of additional competitors to the domestic gas market, the restrictions on the scope of exportable gas, and incentives granted to the development of new sources of renewable energy, the Partnership may face considerable competition in selling the gas reserves that are attributed to its petroleum assets.

For further details regarding the competition in the business sector, see Section 7.13 above.

7.28.8 Restrictions on export

The results of the Partnership's activity are dependent, to a great extent, on the possibility of exporting gas from the natural gas reservoirs in which the Partnership is a partner, and selling it in the regional and international market. The

Government Resolutions on Export, which is specified in Section 7.22.9 above, limits the quantity of gas that may be exported. Should a decision be adopted regarding a further reduction of the quantities of natural gas permitted for export, this may lead to significant damage to the Partnership's business.

It is noted that due to the delays in the commencement of flow from the Karish reservoir and the uncertainty regarding the date of commencement of commercial production from this reservoir, excess demand for natural gas may arise in the domestic and export markets during the peak months relative to the production capacity from the Leviathan and Tamar reservoirs. In such a case, the Leviathan Partners may be required to supply the domestic demand at the expense of quantities designated for export. For details on the amendment to the Export to Egypt Agreement, see Section 7.10.3(d) above. This is also true with respect to a decrease in the ability to supply natural gas from the Tamar reservoir and/or the Karish reservoir (after commencement of commercial production from this reservoir).

In addition, the possibility of exporting and selling the gas depends on many highly uncertain factors, such as the foreign relations between the State of Israel and the Republic of Cyprus with countries that are potential target markets for gas export, construction of an export and transportation system and receipt of the relevant regulatory authorizations and the functioning thereof, the economic merit of constructing such a system, identifying potential customers in the international market, finding sources for financing the investments required for the development and construction of the export system, and competition with local and international suppliers in the relevant target markets.

7.28.9 Dependence on the development and functioning of the transmission system

The Partnership's ability to supply the gas produced from its assets to the existing customers and to additional potential customers in and outside of Israel, is contingent, *inter alia*, on the development and functioning of the national transmission system for gas supply, the regional distribution networks, and transmission pipelines to consumers in neighboring countries (in this section: the "**Transmission Systems**"). Any significant malfunction of or disruption to the Transmission Systems that are used and/or shall be used by the Partnership in the future may limit the Partnership's ability to supply gas to its customers, while exposing it to loss of revenues and legal proceedings which may have an adverse effect on the Partnership's business and operation results.

In addition, a delay in implementation of the development and expansion plan for the gas transmission system may impair the Partnership's ability to meet its forecasts in connection with natural gas sales.

7.28.10 Operational risks

Oil and natural gas exploration, development and production activity in deep water entails considerable risks, including, *inter alia*, an uncontrolled outburst of liquids and gas from a well, explosion, collapse and combustion of a well, breakdowns, accidents and other events that may disrupt the functioning of the production and transmission systems. Performance below the expected or efficient level may also be caused, *inter alia*, as a consequence of the contractor or the operator errors, work disputes or disruptions, injuries, a delay or non-receipt of permits, approvals or licenses, a breach of requirements of permits or the licenses, a shortage of manpower, equipment or spare parts, delays in the delivery of equipment or spare parts, security breaches, cyberattacks, acts of terrorism, and natural disasters.

The occurrence of any one of the events as aforesaid may significantly reduce or halt the production or supply of the natural gas, prejudice the timetable and the budget for the activity, damage the quality of the sold hydrocarbons, and consequently lead to the imposition of penalties due to non-supply and even to termination of the existing gas sale agreements of the Partnership.

In addition, drilling in deep water requires use of advanced drilling technologies, and generally takes longer and its costs are higher than its onshore equivalent, due to the considerable complexity of the activity and due to the need to hold and maintain long supply systems.

7.28.11 Lack of sufficient insurance coverage

Even though the Partnership is insured with coverage of various kinds of damage that may be caused in connection with its operations, not all of the possible risks are or can be fully covered by the various insurance policies that were taken out, and therefore, the insurance payments, if received, will not necessarily cover the entire scope of the damage and/or all of the possible losses, with respect to third party damage (including during the crossing of infrastructures), with respect to possible loss of income, with respect to the costs of the construction and restoration of the production system in the case of an event due to which damage is caused to the production system, including due to terror, war, cyber and loss of control of the well, and with respect to damage to any kind of property in the well. In addition, there are certain insurance policies which the Partnership may decide not to purchase at all for various reasons, such as lack of economic merit, nor is there any certainty that it will be possible to purchase suitable insurance policies in the future with reasonable commercial terms or at all.

In addition, the Partnership's activity in Jordan (as specified in Section 7.12.5(b) above) and in Egypt (as specified in Section 7.24.4 above) exposes the Partnership to risks that cannot be insured at all or can only by partially insured, including, *inter alia*, consequential damage associated with damage of any type to property and/or associated with damage to property of a supplier and/or a customer and/or a breach of agreements and termination of agreements for a reason that is not permitted by the agreement and/or modification of legislation and/or directives of competent authorities in Jordan and in Egypt, which may damage the Partnership's business and property.

Therefore, in the case of large-scale loss or damage, the insurance policies taken out may be insufficient for covering all of the damage to the Partnership and/or third parties, including during infrastructuring crossing and including with respect to environmental pollution damage. These risks, if they materialize, may cause postponements and delays in the Partnership's exploration, development and production activities, damage the Partnership's business or have a material adverse effect on the Partnership's business, financial position, results of operations or its forecasts, and in an extreme case may even lead the Partnership to insolvency.

It is noted that the decision on the type and scope of the insurance is usually made separately for each activity, taking into consideration, *inter alia*, the type of prospect in which the well is expected to be drilled, the insurance costs, type and scope of the offered coverage, the regulatory requirements, the ability to obtain suitable coverage in the insurance market, the capacity available to the Partnership and the project in the insurance market and the foreseeable risks.

7.28.12 Construction risks, dependence on contractors and on professional service and equipment suppliers

In Israel there are currently no contractors qualified to perform most of the actions performed in the Partnership's assets, and therefore the Partnership engages through the operator with foreign contractors for the performance of such work. Moreover, the number of drilling rigs that are capable of drilling and performing development activities offshore, in general, and in deep-water, in particular, is relatively small and there is no certainty that a suitable facility will be found for performing the aforesaid actions on the dates to be scheduled therefor. Consequently, the aforesaid actions may entail high costs and/or considerable delays may be caused in the schedule that is determined for the performance of the work. In addition, most of the equipment and manpower that are suitable for the performance of the aforesaid actions may not be ordered within short periods of time and therefore it is necessary to order professional equipment and manpower services from overseas a considerable time in advance, which significantly increases the costs of and delays the activities. The engagement with foreign contractors for the performance of offshore oil and/or natural gas exploration, development and production (including contractors for the performance of maintenance and repair work) may encounter difficulties also due to the political and security situation of the State of Israel. It is noted that the price of the services and the costs of exploration, development and production activities is determined according to the supply and demand in the markets that are affected *inter alia* by the commodity prices, regulation changes, supply of alternative products and level of activity in the industry.

7.28.13 Risks of exploration activity and reliance on partial and estimated data, estimates and evaluations

Oil and gas exploration activity entails a high level of risk, *inter alia*, in the event of failure in exploration and appraisal wells, and may result in a total loss of the entire investment. The geological and geophysical means do not provide an exact projection of the location, form, characteristics or size of oil or gas reservoirs, such that the determination of the exploration goals and the estimates concerning the size of the reservoirs and the gas and/or petroleum resources therein are based to a great extent on partial or estimated data and assumptions. It is of course impossible to guarantee that as a result of this exploration any oil or gas will be discovered, or such that may be commercially produced and exploited. Furthermore, there is a lack of direct geological and geophysical information regarding some of the areas of the Partnership's petroleum assets, *inter alia* due to the small number of wells drilled in relevant depths and/or areas.

The estimation of the quantity of resources in the producing petroleum asset Leviathan is examined on a continuous basis, and may be updated based on the works of the operator, an opinion of independent reserve evaluators and additional information accrued regarding the reservoir. An estimate of the quantities of resources attributed to the petroleum assets of the Partnership is a subjective process which is based on various assumptions and estimates and on partial information, and therefore the estimates regarding the same reservoirs that are carried out by different experts may sometimes be materially different.

In view of the aforesaid, it is noted that the information appearing in the report regarding the quantities of resources that are attributed to the petroleum assets of the Partnership is an estimate only, and should not be deemed as information on exact quantities of natural gas and petroleum liquids that will be recoverable from the various reservoirs. It is further noted that an estimate of the quantity of natural gas reserves is used to determine the rate of amortization of the producing assets in the Partnership's financial statements, and in view of the significance of the amortization of the assets, the above-described changes may have a material effect on the Partnership's results of operations and financial position.

In addition, the discounted cash flow figures that are attributed to the Leviathan project are based on various assumptions many of which are not controlled by the Partnership, *inter alia* in relation to the quantities of gas and condensate that shall be produced, the rate of production and sales and the sale prices, which there is no certainty will materialize. For details regarding the main assumptions underlying the Leviathan project cash flows, see the Partnership's immediate report of February 20, 2022 (Ref.: 2022-01-020062), the information appearing in which is incorporated herein by reference.

7.28.14 Merely estimated costs and timetables and the eventuality of lack of means

Estimated costs for performing exploration, development, operation and maintenance activities, and estimated timetables for performance thereof, are based on past experience and general estimates, and thus considerable deviations may occur therein, including due to events that are beyond the Partnership's control. In addition, development and exploration plans may change considerably, *inter alia*, following findings arising from such activities, and cause considerable deviations in the estimated timetables and costs of such activities. Faults during exploration, development, operation or maintenance activities as well as other factors may cause the timetable to be extended far beyond the plan, and the actual expenditure required for completion of the activities to be considerably higher than the costs planned therefor.

7.28.15 Forfeiture of the Partnership's rights in its petroleum assets and the financial strength of the partners in the petroleum assets

The activities of exploration, development and expansion/maintenance of the capability to supply gas in the Partnership's petroleum assets, entail considerable financial expenses, which the Partnership may not have the means to cover. According to the joint operation agreements, failing to pay on time the Partnership's share in an approved budget for the performance of an approved work plan constitutes a breach that may lead to the loss of the Partnership's share in the petroleum asset/s to which the operation agreement and/or agreements applies and/or apply.

In addition, in a situation where other parties to the joint operating agreements shall not have paid amounts that they were supposed to pay, the Partnership may be required to pay amounts that considerably exceed its proportionate share in such petroleum assets. Due to the especially high cost of development expenses and offshore drillings, these additional costs may lead to the Partnership's being unable to meet its financial obligations and as a result, it will lose its rights in the petroleum assets.

In view of the aforesaid, the financial strength of the partners in the petroleum assets held by the Partnership may have repercussions, *inter alia*, on its cash flow.

7.28.16 Dependence on obtaining regulatory and other approvals

Exploration, development and production activity in the Partnership's petroleum assets requires receipt of many regulatory approvals are required in the Partnership's field of business in Israel, mainly from the entities authorized pursuant to the Petroleum Law and the Natural Gas Sector Law, as well as related approvals from the state authorities, including the Ministry of Defense, the environmental protection authorities, the tax authorities, the various planning authorities, the Ministry of Agriculture, the Ports Authority, and the Ministry of Transportation (in this section: the "**Approvals**"). The Approvals required for the activity of the partners in the petroleum assets prescribe validity conditions, a considerable number of which are not controlled by the partners. A breach of such conditions may lead, *inter alia*, to cessation of the production activity from the producing reservoirs, imposition of restrictions on the various activities, and exposure of the partners in the petroleum assets to financial, administrative or criminal sanctions. The partners in the petroleum assets have no control over the new Approvals that shall be required in the future and the conditions to be determined therein, and therefore, there is no certainty that it will be possible to obtain them or comply with their conditions.

7.28.17 Regulatory changes

In general, the scope of regulation applying to the field of business of the Partnership is constantly growing. The tightening of the regulation applying, *inter alia*, to activity of exploration, development and production of gas and petroleum, the terms of natural gas supply, natural gas export, taxation of oil and gas profits, rules for the allocation of new petroleum interests, insurance and guaranties, transfer and pledge of petroleum interests, antitrust, control of gas prices, planning regulation and so forth, may adversely affect the Partnership's business. In addition, if additional changes occur in any relevant law, regulation according to the Gas Framework, or any relevant regulations or policy, or if there is a delay in the receipt of regulatory approvals, or the Partnership or its customers do not receive the regulatory approvals required or do not fulfill the terms and conditions thereof, the Partnership or its customers may not be able to fulfill their undertakings according to the existing agreements for the sale of natural gas.

For details regarding the main regulation that applies to the Partnership's operations as of the report approval date, see Sections 7.21.2 and 7.22 above.

7.28.18 Potential control of natural gas prices

As stated in Section 7.22.2(a) above, the Partnership is subject to the Control of Prices of Commodities and Services Order, which imposes control on the gas sector in terms of profitability and price reporting. According to the order, it is necessary to report semiannually on the prices and on the profit margins of the sold natural gas. In the event that price control is imposed and a maximum price is determined, which is lower than the prices set forth in the Partnership's natural gas sale agreements, and insofar as such determination withstands judicial review, this may have an adverse effect on the Partnership's business, the scope of which shall be derived from the maximum price to be determined.

7.28.19 Appeal from the judgment rejecting the class certification motion regarding the gas price in the IEC agreement

On September 30, 2021, an appeal was filed with the Supreme Court from the judgment of the District Court which denied the class certification motion of an electricity consumer, in which it was claimed that the price of the gas sold from the Tamar reservoir to the IEC is an unfair and exaggerated price which constitutes abuse of the position of the Tamar Partners as a monopoly in the Israeli natural gas supply sector. If the appeal is granted in a final and non-appealable judgment against the Tamar Partners, this may have a material adverse effect on the Partnership which is liable vis-à-vis the buyers of its remaining interests in the Tamar project in connection with this appeal, as specified Section 7.25.1 above.

7.28.20 Applicable environmental regulation

The Partnership, in its field of business, is subject to various laws, regulations and guidelines concerning environmental protection, relating to various issues, such as: leakage of petroleum, natural gas or other pollutants into the sea, emission into the sea of pollutants and waste of different kinds (wastewater, remains of drilling equipment, drilling mud, mortar, etc.), chemical substances used in various stages of the work, emission of pollutants into the air, light and noise nuisances, construction of pipe infrastructure on the seabed and related facilities. In addition, the Partnership is required, through the operator in the assets, to obtain approvals for the activity of the operator from the competent entities under the Petroleum Law, the Natural Gas Sector Law and other laws (such as environmental protection laws).

Non-compliance with the provisions of such environmental regulation may expose the operator, the Partnership and its partners in the various petroleum assets, as well as the officers therein, to various enforcement measures, which also include lawsuits, penalties and various sanctions, including criminal, as well as to delays and even the discontinuation of the Partnership's activity. In addition, the Partnership may be responsible for the acts of others such as the operator or third-party contractors that are affiliated with the operator, and for pollution relating to the Partnership's facilities or deriving from its activity.

In addition, oil and natural gas exploration and production in deep water entail various risks, including the emission of hazardous waste and substances into the environment, and exposure of humans to such hazardous waste and substances. Consequently, the Partnership may be responsible for some or all of the repercussions deriving from the risks of exposure or emission of such hazardous waste and substances.

As stated in Section 7.21.2(f) above, in September 2016, the Ministry of Energy, together with the Ministry of Environmental Protection and other government ministries, published directives that regulate the environmental aspects of the offshore oil and natural gas exploration, development and production activity. Such directives may have an effect on the costs and manner of the Partnership's activity, the scope of which cannot be estimated as of the report approval date. There is no certainty that the costs that will be required from the Partnership in connection with the existing and foreseeable laws, regulations and guidelines in the field of environmental protection, and in connection with the repercussions deriving from the emission of substances into the environment, will not exceed the amounts allocated by the Partnership for these purposes, or that these costs will not have a material adverse effect on the financial position of the Partnership and its results of operations. It is noted that the interpretation and enforcement of the environmental laws and regulations change from time to time and may be stricter in the future. For details on the provisions of law and the instructions of competent authorities on environmental subjects which apply to the Partnership and about material administrative and legal proceedings in connection with environmental protection, see Sections 7.21.2 and 7.21.7 above, respectively.

7.28.21 Climate crisis

The climate crisis impacts the Partnership's operations both directly and indirectly. Directly, the increasing intensity and frequency of extreme climate events, whether occurring in the Partnership's assets or in areas through which the chain of supply to such assets runs, may, inter alia, disrupt and delay the operations in the assets and/or render them more expensive. Indirectly, in recent years, there has been increasing regulatory intervention whose purpose is to reduce the emission of greenhouse gases and promote the use of renewable energies, in the context of declared government policy for tackling the climate crisis, which is mainly prevalent among the developed countries. This intervention is expressed, *inter alia*, in the determination of targets for reduction of the use of fossil fuels and for increase of the use of clean and renewable energies, and it is implemented, *inter alia*, by giving positive incentives to producers and consumers of renewable energy sources and determining negative incentives for producers and consumers of fossil energy (such as the imposition of a 'carbon tax'). For details regarding decisions and notices published on this issue on behalf of the Israeli government and government ministers, see Section 7.22.10 above.

The regulatory intervention on this issue, which may be expressed, *inter alia*, in international agreements, legislation and other regulatory measures, may have a material negative effect on the Partnership's business and on its financial results, and may cause, *inter alia*, a considerable increase in expenses that are required for compliance with the new requirements, a significant increase in competition on the part of suppliers of renewable energy sources, and a decrease in demand for the natural gas produced by the Partnership from the Leviathan reservoir, and even a decrease in the value of the Partnership's assets.

In addition, the activity of organizations and activists that oppose the production and use of fossil fuels may adversely affect the Partnership's reputation and cause legal and other expenses that will be required in order to cope with such activity and its consequences.

7.28.22 Dependence on weather and sea conditions

Offshore activity is exposed to a variety of operating risks that are unique to the marine environment such as capsize, collision and damage or loss that are caused by harsh weather conditions and the sea conditions. Such conditions may cause significant damage to the facilities and disrupt the activity.

Furthermore, stormy sea conditions and unusual weather conditions may cause damage to the production and transmission system and to the (existing or under construction) exploration equipment as well as delays in the timetable planned for the work plan of the offshore projects and the prolongation of its execution period. Such delays may cause the increase of the projected costs and even non-compliance with timetables to which the Partnership is committed. See Section 7.1.3 above regarding the impact of weather on demand.

7.28.23 Cyber and information security risks

The partners in the Partnership's petroleum assets, including the Partnership and the operator thereof (directly and via subcontractors) (in this section: the "**Corporations**"), rely in their activity on IT systems. Thus, for example, in the context of the production from the Leviathan reservoir, use is made of industrial control systems, which are used for supervision, control and data collection in industry ("**ICS**"), which monitor and control large-scale processes which include, *inter alia*, monitoring of the natural gas and condensate transmission pipeline. ICS-based systems are exposed to a risk of cyberattacks. In addition, the Partnership and the operator are dependent on IT systems, including information systems and infrastructures with respect to the processing and documentation of financial and operating data, engagement with workers, consultants and business partners, analysis of seismic, geological and engineering information, estimate of oil and gas reserves and other activities relating to the Partnership's business. The Partnership's business partners, including suppliers, customers and financial institutions, are also dependent on IT systems, including information and infrastructure systems. As the dependency thereon increases, the potential exposure to cyber threats, both intentional and unintentional, also increases. In addition, there has been an increase in the severity of the cyber threats worldwide in terms of their sophistication and complexity, particularly at this time when, against the backdrop of the Covid-19 Crisis, many organizations have transitioned to activity that is primarily via remote connection to organizational networks, which create exposure to unauthorized access.

Faults and/or failures in IT systems, including in ICS, information systems, infrastructure and failures in the security of the information, hacking into the IT systems of the corporations or of outside entities or internal entities that have, *inter alia*, remote access to systems, infrastructures and information, may allow unauthorized access for the purpose of misuse of the Partnership's assets, and deliberate harm to the IT systems, the infrastructure and information systems of the corporations, which may cause damage to the administration networks of the Partnership and the operator, the leak of information to unauthorized entities, disruption of the information in the systems, damage to the integrity of the information, and damage to processes in connection with ICS. Damage to the current operation of the systems that support the business activity, in extreme cases, may even cause disruption or discontinuation of the supply of natural gas, loss of information, and material costs for restoration of the information systems, thus having a material adverse effect on the Partnership's business, financial position, results of operations or capabilities.

The Partnership acted for implementation of directives of the Privacy Protection Authority, including registering databases. The Partnership also acts to implement the recommendations of the National Cyber Directorate (the "Corporate Defense Methodology" and ongoing recommendations), for effective management of information security and cyber protection. The Partnership has established an information security and cyber protection policy which defines its position with respect to the Partnership's defense system in terms of cyber and information security, and is acting for implementation of this position in organizational procedures and procurement of systems, infrastructures and services.

The Partnership works on a routine basis to increase the level of the employees' awareness of aspects of cyber and information security, including phishing attacks, specific training, and remote work rules. In addition, the Partnership receives from a third party 24/7 monitoring and control services, 365 days a year, which are intended to flag irregular activity on the Partnership's network.

It is noted that the Partnership does not have access to the IT systems of the operator and of its other partners in the petroleum assets, and in this context, does not have control over the central ICS systems which monitor and control the production activity, that are under the operator's responsibility and control. To the best of the Partnership's knowledge, the operator is closely supervised by the National Cyber Directorate and implements adequate procedures and measures for effective management of information security and cyber protection in relation to these systems.

7.28.24 Changes in investment trends due to ESG-related considerations

In recent years, there has been a growing awareness among investors in Israel and around the world and among other stakeholders, such as suppliers, consumers, employees, credit providers, etc., of the climatic and environmental impacts of various activities. As part of this trend, existing and potential investors, as well as other stakeholders, are considering environmental, social and governance (ESG) aspects as part of their investment and business policies, including with regard to the provision of credit.

Simultaneously, a similar trend is emerging among regulators in Israel and around the world. For example, in July 2020, the Israel Securities Authority issued a call for proposals on corporate responsibility and ESG risk disclosures, which examines, inter alia, the establishment of voluntary or mandatory disclosure regarding the subject. In addition, in December 2020, the Supervisor of Banks issued a notice stating that banks are expected to take adequate operative measures to identify, monitor and manage environmental risks. Similar approaches are also included in documents of other supervision and regulation bodies in the world and particularly in Europe.

The implications of these trends may be manifested in various ways, including public opposition to operations in the Partnership's oil and gas assets, diminishing of the Partnership's appeal to potential employees, pressure from financing banks and investors to adapt the Partnership's operations to the targets of the Paris Agreement of December 2015 which aims to reduce greenhouse gas emissions, and difficulty in access to capital, including in debt raising, for external investments and financing of projects. In addition, these trends may also adversely affect the business and financial condition of the Partnership, and may lead, inter alia, to a decrease in the value of its assets, an increase in the price of debt and an erosion of the price of the participation units.

In February 2022, the Partnership published its first corporate responsibility report reviewing the years 2020-2021, which set initial targets for areas defined as material by stakeholders, according to the materiality test and in accordance with GRI standards.

7.28.25 Tax risks

Tax issues related to the Partnership's operations, including in regards to the manner of calculation of the mandatory payment under the Taxation of Profits from Natural Resources Law, have not yet been discussed in the case law of the courts in Israel and it is impossible to foresee or determine how the courts will rule if and when the aforesaid legal issued are brought to their decision. In addition, with respect to some of the legal issues, it is impossible to foresee the position of the tax authorities. In such context, note that in November 2021, an amendment to the Taxation of Profits from Natural Resources Law was approved, whereby, inter alia, according to the decision of an assessing officer, payment of 75% of the balance of a contested levy may be charged. For information regarding the amendment to the law as aforesaid and the disputes with the Tax Authority regarding tax assessments for the years 2016 onwards, see Sections 7.20.3(c) and 7.20 above.

Since the Partnership's business is subject to a unique tax regime, changes that result from changes in legislation, case law or a change in the position of the Tax Authority, as aforesaid, may have material repercussions on the tax regime that shall apply to the Partnership and its Unit Holders. However, in August 2021 an amendment to the Income Tax Regulations was approved. Pursuant to the amendment, the tax regime that applies to the Partnership will change as of the 2022 tax year, such that it will be taxed as a company. For further details see Section 7.20.1 above.

7.28.26 Financing-related undertakings

As specified in Section 7.19 above, the terms of the bonds issued by the Partnership's subsidiary, Leviathan Bond, define events of default and various undertakings, some of which are beyond the Partnership's control, and a breach thereof may give the bondholders grounds for acceleration of the debt and enforcement of the pledges on the Partnership's rights in the Leviathan project that were created to guarantee the repayment of the bonds.

7.28.27 Dependence on customers

Currently, NEPCO and Blue Ocean are the key customers of the Leviathan project, and in regards thereto, the Partnership is exposed to risks that are not under its control, including changes in the economic and political conditions in Jordan and Egypt which may affect these customers or their ability to meet their obligations under the gas supply agreements. For details regarding the Partnership's revenues from these customers, see Section 7.10.3 above.

It is noted that, in the agreement signed with Blue Ocean, dates were determined on which each party to the agreement may request adjustment of the price. In the event that Blue Ocean requests an adjustment of the price of the gas purchased thereby in accordance with the mechanism set forth in the agreement therewith, this may have a negative effect on the Partnership's business and on the results of its operations.

Furthermore, the Partnership is exposed to risks that are not under its control pertaining to the financial strength of its customers and their ability to meet their obligations under the gas supply agreements. Insofar as its customers in general and its key customers in particular fail to meet their obligations under the supply agreements, and if the Partnership shall be unable to sell the contract quantity determined in the supply agreement to other customers, this will have a material adverse effect on the Partnership's revenues and on its financial results.

7.28.28 Reliance on the operator

The Partnership relies to a great extent on the operators in its assets, Chevron in Leviathan and Block 12 in Cyprus and SOA in the New Ofek and New Yahel licenses, in accordance with the provisions of the joint operating agreements. The operator's resignation and/or removal, for whatever reason as specified in the operating agreements, or any change in its status and/or rights, such that it ceases to be the operator of the project, may impair the Partnership's ability to fulfill its undertakings according to the work plans of the petroleum assets and/or according to the gas sale agreements. In such a case, the Partnership cannot guarantee that a substitute operator will be found under the current terms and conditions or at all. The Partnership's failure to find a substitute operator may adversely affect the activity of the various projects, and in particular on the Partnerships' undertakings to supply gas in accordance with the existing gas sale agreements and consequently the Partnership's revenues may be impacted. Furthermore, in the event that the operators in the Partnership's assets fail to comply with their obligations as operators under the joint operating agreements or under agreements with third parties with which they engage as operators, the Partnership may then bear expenses and losses that may derive from the operators' acts (or omissions).

7.28.29 Risk in development and production in the case of a discovery

The process of making a decision to make an investment in the development of a field for the purpose of commercial production therefrom, interim actions until commercial production, and to perform the development and commercial production (if it is decided that there is room therefor) may take long periods of time and require the Partnership to invest considerable amounts. In this context, it is noted that there is no certainty that in every case of a discovery which was defined as a commercial discovery, the acts of development of the oil or gas field will be economic for the Partnership and financeable, *inter alia* due to the duty to pay royalties to third parties. It is further noted that, as aforesaid, the development and production of assets in deep water, such as those in which the bulk of the Partnership's assets are located, are complex and high-risk activities.

7.28.30 Revocation or expiration of petroleum interests and assets

Petroleum interests are granted under the Petroleum Law for a limited period of time and the validity thereof is contingent on fulfillment of obligations on dates set forth in the terms of the petroleum asset. In a case of non-compliance with such terms, the petroleum interest may be revoked, subject to the Petroleum Law. Furthermore, non-compliance with the terms set forth in the Petroleum Law may lead to the loss of the interests, and all of the money invested in such interests may be lost. In such context it is noted that the development plan of the Aphrodite reservoir prescribes, *inter alia*, that the partners are required to perform the A-3 appraisal drilling by November 2022, as specified in Section 7.3 above.

7.28.31 Overflow of reservoirs

Oil or natural gas reservoirs discovered or to be discovered in areas in which the Partnership holds rights, may "overflow" (in terms of spreading of the geological structure of the reservoir) into other areas in which the Partnership does not hold rights, and vice versa. In the event that the reservoir overflows into areas in which other parties hold rights, there may possibly be a need to reach agreements regarding joint utilization and production from the reservoir or an alternative indemnification arrangement, in order to achieve efficient utilization of the oil or natural gas resources, which may cause delays in various activities that the Partnership is due to perform.

For details on the mediation arrangement in connection with the Eran License, see Section 7.8.1 above.

7.28.32 Security risks

INGL's gas transmission facilities, the EMG Pipeline and other infrastructures used for the supply of gas to Egypt are located partly offshore and relatively close to the border between Israel and the Gaza Strip at sea and on land, and to the gas terminal and distribution infrastructure in Egypt which is connected to the EMG Pipeline in the Sinai, in consequence of which they are exposed to security risks, including terrorist attacks and sabotage. Furthermore, the facilities of the Leviathan project, the pipeline, the infrastructures and the facilities used for the supply of gas to Jordan and Egypt are also exposed to the aforesaid security risks.

Such security risks, if and insofar as they materialize, may, *inter alia*, disrupt the production of gas from the Leviathan reservoir and/or the supply of gas to customers in the domestic market and/or in the export markets, and in an extreme scenario, may also lead to the revocation of the gas supply agreements or the reduction of the sums the customers are required to pay due to a "*force majeure*" argument.

In addition, such risks may limit the ability of service and equipment providers to provide their services or the items required for the operation of the Leviathan project, and adversely affect the ability to recruit and retain the appropriate human capital.

The materialization of such security risks may lead to a significant negative effect on the Partnership's revenues and business, including its ability to execute activities that are contingent on prior coordination with the defense forces.

7.28.33 Fluctuations in the dollar exchange rate

Changes in the ILS/Dollar exchange rate may affect the Partnership's results in several ways, as follows: (a) The Partnership's functional currency is the Dollar.

Since some of the Partnership's expenses are stated in ILS or affected by the ILS/Dollar exchange rate, a decrease in the ILS/Dollar exchange rate (a strengthening of the ILS against the Dollar) increases such expenses in Dollar terms; (b) Since the gas prices in the agreements for the sale of gas from the Leviathan reservoir are determined by price formulas that include various linkage components, and, *inter alia*, linkage to the ILS/Dollar exchange rate and linkage to the electricity production tariff, which is partly affected by the ILS/Dollar exchange rate, a weakening of the ILS against the Dollar may have an immaterial negative effect on the Partnership's revenues; and (c) Since the Partnership reports its taxable income in ILS and pays the tax advances for the holders of the Partnership's participation units in ILS, changes in the ILS/dollar exchange rate affect the amount of the Partnership's taxable income and the amount of the cash flow which is used for payment of such tax advances.

7.28.34 <u>The Partnership's belonging to Delek Group and to the control holder thereof</u>

The Partnership's belonging to Delek Group and to the controlling shareholder thereof, and the financial position thereof, may have an adverse effect on the Partnership and its business.

The Partnership's belonging to Delek Group affects the Partnership's ability to raise credit, *inter alia*, due to the "single borrower" limitation, as a result of which the Partnership's credit sources in Israel may be limited, and there are also other regulatory restrictions imposed on the banking system and on institutional bodies by the Ministry of Finance and the Bank of Israel. In addition, a deterioration in the financial position of Delek Group may make it difficult for the Partnership to raise credit and/or adversely affect the commercial conditions according to which the credit required by the Partnership is provided. In addition, according to the Petroleum Commissioner's directives, a change in or transfer of control of the Partnership requires receipt of the Commissioner's approval.

It is further noted that according to the Production Sharing Contract that was signed with the Republic of Cyprus in the context of the Aphrodite project as specified in Section 7.3.3 above, a change of control of the Delek Group or the Partnership, directly or indirectly, requires prior approval of the Republic of Cyprus. In addition, according to the terms and conditions of the Production Sharing Contract and the requirement of the Republic of Cyprus, Delek Group has provided a performance guaranty for the Partnership's undertakings under the Production Sharing Contract.

7.28.35 <u>The Partnership's status as a monopoly</u>

As provided in Section 7.22.2(a) above, the Partnership was declared in the past to be a monopoly together with the other partners in Tamar, and it may be considered a monopoly in the field of supply of natural gas in Israel, also after the sale of the remainder of its interests in the Tamar and Dalit leases. It is noted that a monopolist may be subjected to restrictions and prohibitions under the

Economic Competition Law, and is subject, *inter alia*, to the prohibition on unreasonable refusal to supply natural gas to customers and the prohibition on abuse of the monopoly in a manner that may undermine business competition or damage the public (for example, by a determination of an unfair price level or by determining different engagement terms for similar transactions which may grant certain customers an unfair advantage over their competitors).

7.28.36 "*Force majeure*" events clause under the existing natural gas sale agreements

In most of the Partnership's natural gas sale agreements (hereinafter in this Section: the "**Agreements**"), the customers are obligated to pay for a minimum annual quantity of natural gas (Take or Pay) in accordance with the mechanisms set forth in the Agreements. However, the customers may be exempt from this obligation upon the occurrence of "*force majeure*" events, which prevent them from fulfilling their undertakings, as defined in the Agreements. A "*force majeure*" event is defined as an event beyond the customer's control, which prevents it from fulfilling its undertakings under the agreement, and which could not reasonably have been prevented in the circumstances. The Agreements specify a list of cases that shall not be deemed as a "*force majeure*" event, also where they are beyond the customer's control. It is noted that the Partnership may also be exempt from its obligations according to the natural gas sale agreements upon the occurrence of a "*force majeure*" event which prevents it from fulfilling its undertakings according to the Agreements.

If a "*force majeure*" event lasts for a prolonged period as determined in a natural gas sale agreement, it has a material effect on the ability of a party to the agreement to fulfill its undertakings as aforesaid, this may constitute grounds for termination of the agreement. Therefore, the occurrence of a "*force majeure*" event for a long period, which suspends a customer's undertakings to buy a significant quantity of natural gas, may have a material adverse effect on the Partnership's revenues.

* * *

The following table presents the above-described risk factors according to their nature (macro-risks, industry risks and risks specific to the Partnership), which were rated based on the estimates of the Partnership's General Partner, according to the magnitude of the effect thereof on the Partnership:

	Degree of Risk Factor's Effect on Partnership's Business		
	Significant Effect	Medium Effect	Small Effect
Macro Risks			
Covid-19 Pandemic		X	
Fluctuations in the Linkage Components in the Natural Gas Price Formulas in the Supply Contracts		X	
Changes in Demand and in the Energy Prices		X	
Global Macroeconomic Factors	X		
Geopolitics	X		
Industry Risks			
Difficulties in Obtaining Financing			X
Competition in Gas Supply	X		
Restrictions on Export		X	
Dependence on the Development and Functioning of the Transmission System	X		
Operational Risks		X	
Lack of Adequate Insurance Coverage		X	
Construction Risks, Dependence on Contractors and on Professional Service and Equipment Suppliers		X	
Risks of exploration activity and reliance on partial and estimated data, estimates and evaluations		X	
Only Estimated Costs and Timetables and the Eventuality of Lack of Means		X	
Forfeiture of the Partnership's Rights in its Petroleum Assets and the Financial Strength of the Partners in the Petroleum Assets			X
Dependence on Obtaining Regulatory and Other Approvals		X	
Regulatory Changes	X		
Potential Control of Natural Gas Prices		X	
Appeal from the Judgment Rejecting the Motion for Class Certification in Connection with the Gas Price in the IEC Agreement		X	
Applicable Environmental Regulation	X		
Climate Crisis		X	
Dependence on Weather and Sea Conditions			X
Cyber and Information Security Risks		X	
Changes in investment trends due to ESG considerations		X	

Risks Specific to the Partnership			
Tax Risks		X	
Financing-related Undertakings		X	
Dependence on Customers		X	
Reliance on the Operator	X		
Risk in Development and Production in the case of a Discovery			X
Revocation or Expiration of Petroleum Interests and Assets			X
Overflow of Reservoirs			X
Security Risks	X		
Fluctuations in the Dollar Rate		X	
The Partnership's Belonging to Delek Group and the Controlling Shareholder thereof		X	
The Partnership's Status as a Monopoly			X
"*Force majeure*" events clause under the existing natural gas sale agreements		X	

It is noted that the extent of the effect of the aforesaid risk factors on the Partnership's operations is based on estimation only and the actual extent of the effect may be different.

Glossary

Set forth below is a glossary of professional terminology, in alphabetical order. The explanations and interpretations are provided for readers' convenience. The official definitions may be found in the PRMS and in regulations of the Israel Securities Authority, as updated from time to time.

Professional terminology

Appraisal/Confirmation Well	A well that is designed to confirm the size, quality and continuity of a natural gas/oil field, that was discovered by a successful exploration well. Appraisal drilling is performed during the field evaluation stage, which formally culminates at FID for the field development. Depending on the size and complexity of the field, there may be more than one appraisal well in a field.
Commercial	According to the PRMS, a project is considered commercial when there is evidence for firm intent to develop a reservoir within a reasonable timeframe, and firm evidence that all contingencies (including technical, environmental, economic, social, political, legal, contractual and regulatory) are met.
Compressed Natural Gas (CNG)	Natural gas compressed at high pressure by a factor of 100 to 300 of its original volume, depending on the compression pressure. Compressing the gas enables its storage and transportation. CNG is mainly used as a fuel for natural gas-powered vehicles.
Condensate	Hydrocarbon mixture that is found in a gas state at reservoir conditions, but condenses to a liquid on its way to the surface, as a consequence of the decrease in pressure and temperature.
Contingent Resources	Defined by the PRMS as the quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from known accumulations, but which commerciality is contingent on one or more contingencies. Such contingencies may be, inter alia, technical, commercial and/or regulatory. Contingent resources are reported based on the certainty associated with the estimates, to low estimate (1C), best estimate (2C) and high estimate (3C).
Development	All activities required to facilitate production of gas/condensate/oil from a reservoir, including drilling and completing of production wells, installing of a transmission system to a processing facility, installing of processing facilities as required, and installing of a transmission system from the processing facility to the clients.
Dry Gas	Natural gas composed primarily of methane, and in general contains less than 10 barrels of condensate per million cubic feet of gas.

Exploration Well	A well that is designed to prove the existence of natural gas/oil in a prospect, and the verification of the geological model that led to its drilling. It is the peak of the exploration activity. Depending on the size and complexity of the field, there may be more than one exploration well in a field.
Floating Production, Storage and Offloading (FPSO)	A floating processing and storage facility for oil and/or gas, which generally resembles a ship. Equipped with facilities for processing and separation of oil and/or gas and/or water and other liquids, that are produced from subsea wells and are connected to the facility through dedicated pipes (risers). The facility has a storage capacity of tens or hundreds of thousands of barrels of fluids, which are offloaded by tankers periodically.
Gas/Oil Initially In Place (GIIP/OIIP)	the total volume of gas or oil in the reservoir, prior to production, commonly reported at standard pressure and temperature. The actual volume of "in place" gas is independent of the development plan, and does not change, though estimates pertaining to it might change. They quantity of in-place gas is always greater than the quantity of recoverable gas (see also "recovery factor" and "recoverable gas/oil).
Hydrocarbons	Compounds composed of hydrogen and carbon. In this report, this term is used to refer mainly to natural gas and/or oil and/or condensate.
Jacket	Structure fixed to the seabed and extending above the sea level, on to which the platform topsides are installed.
Lean Natural Gas	In the context of the production systems of Leviathan, the term refers to the processed natural gas stream, *after* removal of liquids (e.g., water and MEG)
Liquefied Natural Gas (LNG)	Natural gas condensed by cooling to approximately 160°C below zero to a liquid state, and thus shrunk by a factor of 600. Liquifying natural gas enables its transportation to distant clients, without the need for a pipeline.
Logs	(a) Different types of tests and measurements conducted during drilling operations, to continuously characterize and record the properties of the drilled rocks and the fluids within them. (b) The tools utilized for the aforementioned tests and measurements. Logs are divided to those utilized while drilling (Logging While Drilling, LWD) and installed on the drill string, and to those utilized when the drill string is removed from the borehole, and are carried by wireline (wireline logging).
Low/ Best/ High Estimate	according to the PRMS, the low estimate is defined as a value where there is a 90% probability that the actual volume will be equal or greater than it; the best estimate is defined as the value where there is

	a 50% probability that the actual volume will be equal or greater than it; the high estimate is defined as the value where there is a 10% probability that the actual volume will be equal or greater than it.
Manifold	A structure consisting of pipes and valves, used for controlling, routing and monitoring flow of various products. In the Tamar and Leviathan projects, the manifold is subsea, and routes the flow from pipelines arriving from several wells into the long tie-back pipelines that connect it to the production platforms.
Natural Gas	Gaseous mixture of hydrocarbons, generated by natural processes.
Oil/Gas Exploration	All activities geared to identifying oil/gas reservoirs and proving their existence, including, *inter alia*, geological, geophysical, engineering, geochemical surveys and analyses etc. By convention, the exploration phase terminates following a successful exploration well, and after the explorationists succeeded in proving the economic viability of the discovery, which sometimes requires drilling additional wells.
Oil/Gas Field	A subsurface accumulation or accumulations of oil, often consisting of a reservoir rock capped by a sealing layer. This term usually refers to reservoirs that are likely economic.
Petroleum	Natural mixture of hydrocarbons in solid, liquid or gas state. Petroleum may also contain components which are not hydrocarbons, such as carbon dioxide, nitrogen and sulfur. In this report, this term is used to refer mainly to natural gas and/or oil and/or condensate
Petroleum Asset	Possession, whether directly or indirectly, of a preliminary permit, license or lease. Outside Israel, a possession, whether directly or indirectly, of an interest with an equivalent essence, granted by an authorized entity. Among petroleum rights are the right to benefit based on the possession, whether directly or indirectly, of a petroleum asset or of a right with an equivalent essence.
Petroleum Resources Management System (PRMS)	The guiding document for reliable and standard definition, classification and reporting of petroleum resources, developed and promulgated by the major professional associations in the industry. The most recent edition was released in 2018. (Replacing the edition of 2007).
Production and Processing Platform	A facility that is used for processing of produced fluids (natural gas/condensate/associated water, etc.), and sometimes also for remote control on the production wells and the connecting pipelines array. In the Yam Tethys, Tamar and Leviathan projects, the production and processing platforms are located offshore.
Prospective Resources	Defined by the PRMS as the quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from *undiscovered*

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	accumulations. Prospective resources are reported based on the certainty associated with the estimates, to low estimate (1U), best estimate (2U) and high estimate (3U).
Recoverable Gas/Oil	The volumes of gas/oil that can be produced through commercial or sub-commercial development projects, as of a given day.
Recovery Factor	The ratio of recoverable to initially in-place oil or gas, as defined here. The recovery factor ranges from 0 to 1, generally lower for oil than for gas.
Reserves	Defined by the PRMS as quantities of hydrocarbons anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must satisfy four criteria: discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are reported, in accordance with the range of uncertainty associated with the estimates, as proven (P1), probable (P2) and possible (P3) quantities. The low estimate (1P) consists of P1; the best estimate (2P) of P1 and P2; and high estimate (3P) of P1, P2 and P3.
Rich Natural Gas	In the context of the production systems of the Tamar and Leviathan projects, the term refers to the processed natural gas stream, *before* removal of liquids (e.g., water and MEG)
Seismic Survey	Methodology based on sound waves, that enables imaging of the subsurface and detection of geological structures, and is the main tool in petroleum exploration. Generally, seismic surveys are divided into those that provide a two-dimensional (2D) image of the subsurface, and to those that provide a three-dimensional (3D) image. The raw data are processed in various techniques. The geological interpretation is commonly performed on the processed products.
Topsides	A structure that contains the production and processing facilities, as well as other related facilities, situated above sea level, and installed on top of a jacket in the case of a fixed-leg platform, or on top of a floating facility in the case of an FPSO.
Umbilical Cables	In the context of the production systems of the Tamar and Leviathan projects, the term refers to control and command cables through which the wells are operated, as well as conduits of liquids to the wells. In the Tamar and Leviathan projects, there are umbilical cables connecting the production platform to the subsea distribution assembly (SDA), and in-field cables, connecting the SDA to the production wells.
Wet Gas	Natural gas consisting of, compared to dry gas, less light hydrocarbons (mainly methane and ethane) and more heavier hydrocarbons. By

	convention, gas is considered "wet" where methane content is below 85%.
Working Interest	The interest in a petroleum asset granting its owner the right to participate, proportionally to its stake in a joint venture, in utilization of the asset for petroleum exploration, development and production subject to proportional participation in whatever expenditures, following the acquisition of the working interest.

Preliminary permit, priority right to receive a license, petroleum right, petroleum, license	As defined in the Petroleum Law.
Discovered; Discovery; On Production; Approved for Development; Justified for Development; Development Pending; Development Unclarified or on Hold; Well Abandonment; Development not Viable; Dry Hole	As defined in the PRMS.

<u>Units</u>

BCF - Billion Cubic Feet

BCM - Billion Cubic Meters

TCF - Trillion Cubic Feet

MMCF - Million Cubic Feet

MMBBL - Million Barrels

MMBTU - Million British Thermal Units

Below are conversion coefficients used in this report:

BCM	BCF	MMCF
1	.353147	35,314.7

BCF	MMCF	BCM
1	1000	0.0283

MMCF	BCF	BCM
1	0.001	0.00003

<u>Abbreviations, partial list</u>

AFE – Authority For expenditure

AOT– Ashdod Onshore terminal

ACQ – Annual Contract Quantity

EGAS – Egyptian Natural Gas Holding Company

EMG – Eastern Mediterranean Gas Company S.A.E

FEED – Front-End Engineering Design

FID – Final Investment Decision

FLNG – Floating LNG

FPSO – Floating Production, Storage and Offloading

IEC – Israel Electric Corp.

JOA – Joint Operating Agreement

JV – Joint Venture

MEG – Monoethyleneglycol (anti-freeze liquid)

NEPCO – Natural Electric Power Company (Jordanian national electric company)

NSAI – Netherland Sewel and Associates Inc.

PRMS – Petroleum Resources Management System

SPC – Special Purpose Company

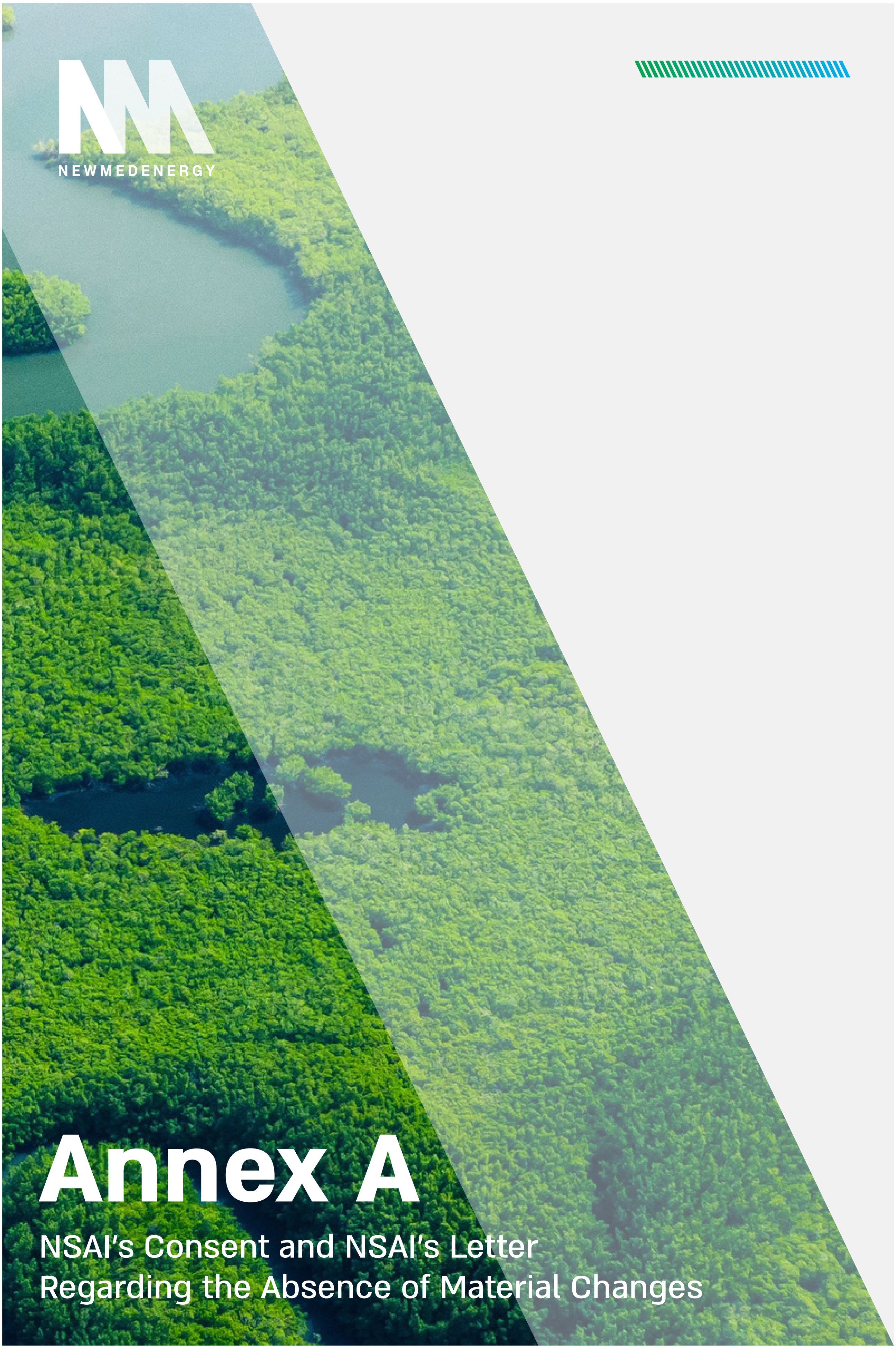
TCQ – Total Contract Quantity

TEG – Triethylen Glycol (Water-annexing liquid, used to dry natural gas)

Geological ages and periods, appearing in the report

According to the International Commission on Stratigraphy, 2020 (in million years before present):

- Miocene: 5.3 - 23.0
- Oligocene: 23.0 - 33.9
- Upper Cretaceous: 66.0 - 100.5
- Lower Cretaceous: 100.5 - 145.0
- Jurassic: 145.0 - 201.3
- Triassic: 201.3 - 251.9
- Permian: 251.9 - 298.9



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Annex A

NSAI's Consent and NSAI's Letter Regarding the Absence of Material Changes

March 23, 2022

NewMed Energy – Limited Partnership
19 Abba Eban Boulevard
Herzliya 4612001
Israel

Ladies and Gentlemen:

As independent consultants, Netherland, Sewell & Associates, Inc. (NSAI) hereby grant permission to NewMed Energy – Limited Partnership (NewMed Energy) to use the following NSAI reports in the 2021 Annual Report of NewMed Energy to be published in March 2022 and in public reports to be filed with the Israel Securities Authority and the Tel Aviv Stock Exchange (including by way of reference):

- The report dated February 20, 2022, which sets forth our estimates of the proved, probable, and possible reserves and future revenue, as of December 31, 2021, to the Delek Drilling interest in certain gas properties located in Leviathan Field, Leases I/14 and I/15, offshore Israel. The February 20 report also sets forth our estimates of the contingent resources and cash flow, as of December 31, 2021, to the Delek Drilling interest in these properties.

- The report dated March 14, 2021, which sets forth our estimates of the unrisked contingent and prospective resources, as of December 31, 2020, to the Delek Drilling working interest in discoveries and prospects located in the Aphrodite Field Area, Block 12, offshore Cyprus.

- The report dated January 21, 2020, which sets forth our estimates of the unrisked prospective resources, as of December 31, 2019, to the Delek Drilling working interest in two Leviathan Deep prospects located in Leases I/14 and I/15, offshore Israel.

Since our February 20 report, we have received daily well production data for Leviathan Field through March 21, 2022. This daily well production data has been reviewed by NSAI and it is our opinion that there are no material changes to the production profile for each category or the proved, proved plus probable, and proved plus probable plus possible reserves referenced in our February 20 report.

As of the date hereof, nothing has come to our attention regarding the Aphrodite Field Area and Leviathan Deep prospects that could cause us to make any revisions in our March 14 and January 21 reports or in our conclusions based on data available when our reports were prepared. It is our opinion that there are no material changes to the unrisked contingent and prospective resources referenced in our March 14 report and the unrisked prospective resources referenced in our January 21 report.

Sincerely,

NETHERLAND, SEWELL & ASSOCIATES, INC.

By: Richard B. Talley, Jr.
Richard B. Talley, Jr., P.E.
Senior Vice President

RBT:PNH

Annex B

Glossary of Terms Used in Resources Evaluations

Appendix A—Glossary of Terms Used in Resources Evaluations

This Glossary provides high-level definitions of terms used in resources evaluations. Where appropriate, sections within the PRMS document are referenced to best show the use of selected terms in context.

TERM	See PRMS Section	DEFINITION
1C	2.2.2	Denotes low estimate of Contingent Resources.
2C	2.2.2	Denotes best estimate of Contingent Resources.
3C	2.2.2	Denotes high estimate of Contingent Resources.
1P	2.2.2	Denotes low estimate of Reserves (i.e., Proved Reserves). Equal to P1.
2P	2.2.2	Denotes the best estimate of Reserves. The sum of Proved plus Probable Reserves.
3P	2.2.2	Denotes high estimate of reserves. The sum of Proved plus Probable plus Possible Reserves.
1U	2.2.2	Denotes the unrisked low estimate qualifying as Prospective Resources.
2U	2.2.2	Denotes the unrisked best estimate qualifying as Prospective Resources.
3U	2.2.2	Denotes the unrisked high estimate qualifying as Prospective Resources.
Abandonment, Decommissioning, and Restoration (ADR)	3.1.2	The process (and associated costs) of returning part or all of a project to a safe and environmentally compliant condition when operations cease. Examples include, but are not limited to, the removal of surface facilities, wellbore plugging procedures, and environmental remediation. In some instances, there may be salvage value associated with the equipment removed from the project. ADR costs are presumed to be without consideration of any salvage value, unless presented as “ADR net of salvage.”
Accumulation	2.4	An individual body of naturally occurring petroleum in a reservoir.
Aggregation	4.2.5	The process of summing well, reservoir, or project-level estimates of resources quantities to higher levels or combinations, such as field, country or company totals. Arithmetic summation of incremental categories may yield different results from probabilistic aggregation of distributions.
Appraisal	1.2	The phase that may follow successful exploratory drilling. Activities to further evaluate the discovery, such as seismic acquisition, geological studies, and drilling additional wells may be conducted to reduce technical uncertainties and commercial contingencies.
Approved for Development	2.1.3.5, Table I	All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is underway. A project maturity sub-class of Reserves.
Analog	4.1.1	Method used in resources estimation in the exploration and early development stages (including improved recovery projects) when direct measurement is limited. Based on evaluator’s assessment of similarities of the analogous reservoir(s) together with the development plan.
Analogous Reservoir	4.1.1	Reservoirs that have similar rock properties (e.g., petrophysical, lithological, depositional, diagenetic, and structural), fluid properties (e.g., type, composition, density, and viscosity), reservoir conditions (e.g., depth, temperature, and pressure) and drive mechanisms, but are typically at a more advanced stage of development than the reservoir of interest and thus may provide insight and comparative data to assist in estimation of recoverable resources.
Assessment	2.1.2	See Evaluation.

Associated Gas	Table 3	A natural gas found in contact with or dissolved in crude oil in the reservoir. It can be further categorized as gas cap gas or solution gas.
Basin-Centered Gas	2.4	An unconventional natural gas accumulation that is regionally pervasive and characterized by low permeability, abnormal pressure, gas-saturated reservoirs, and lack of a down dip water leg.
Barrel of Oil Equivalent (BOE)	3.2.9	The term allows for a single value to represent the sum of all the hydrocarbon products that are forecast as resources. Typically, condensate, oil, bitumen, and synthetic crude barrels are taken to be equal (1 bbl = 1 BOE). Gas and NGL quantities are converted to an oil equivalent based on a conversion factor that is recommended to be based on a nominal heating content or calorific value equivalent to a barrel of oil.
Basis for Estimate	1.2	The methodology (or methodologies) and supporting data on which the estimated quantities are based. (Also referenced as basis for the estimation.)
Behind-Pipe Reserves	2.1.3.6	Reserves that are expected to be recovered from zones in existing wells, which will require additional completion work or future re-completion before the start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling and completing a new well including hook-up to allow production.
Best Estimate	2.2.2	With respect to resources categorization, the most realistic assessment of recoverable quantities if only a single result were reported. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate.
C1	2.2.2	Denotes low estimate of Contingent Resources. C1 is equal to 1C.
C2	2.2.2	Denotes Contingent Resources of same technical confidence as Probable, but not commercially matured to Reserves.
C3	2.2.2	Denotes Contingent Resources of same technical confidence as Possible, but not commercially matured to Reserves.
Chance	1.1	Chance equals 1-risk. Generally synonymous with likelihood. (See Risk)
Chance of Commerciality	2.1.3	The estimated probability that the project will achieve commercial maturity to be developed. For Prospective Resources, this is the product of the chance of geologic discovery and the chance of development. For Contingent Resources and Reserves, it is equal to the chance of development.
Chance of Development	2.1.3	The estimated probability that a known accumulation, once discovered, will be commercially developed.
Chance of Geologic Discovery	2.1.3	The estimated probability that exploration activities will confirm the existence of a significant accumulation of potentially recoverable petroleum.
Coalbed Methane (CBM)	2.4	Natural gas contained in coal deposits. Coalbed gas, although usually mostly methane, may be produced with variable amounts of inert or even non-inert gases. [Also called coal-seam gas (CSG) or natural gas from coal (NGC).]
Commercial	2.1.2	A project is commercial when there is evidence of a firm intention to proceed with development within a reasonable time-frame. Typically, this requires that the best estimate case meet or exceed the minimum evaluation decision criteria (e.g., rate of return, investment payout time). There must be a reasonable expectation that all required internal and external approvals will be forthcoming. Also, there must be evidence of a technically mature, feasible development plan and the essential social, environmental, economic, political, legal, regulatory, decision criteria, and contractual conditions are met.
Committed Project	2.1.3.1	Project that the entity has a firm intention to develop in a reasonable time-frame. Intent is demonstrated with funding/financial plans, but FID has not yet been declared (See also Final Investment Decision.)

Completion	2.1.3.6	Completion of a well. The process by which a well is brought to its operating status (e.g., producer, injector, or monitor well). A well deemed to be capable of producing petroleum, or used as an injector, is completed by establishing a connection between the reservoir(s) and the surface so that fluids can be produced from, or injected into, the reservoir.
Completion Interval	2.1.3.6	The specific reservoir interval(s) that is (are) open to the borehole and connected to the surface facilities for production or injection, or reservoir intervals open to the wellbore and each other for injection purposes.
Concession	3.3	A grant of access for a defined area and time period that transfers certain entitlements to produced hydrocarbons from the host country to an entity. The entity is generally responsible for exploration, development, production, and sale of hydrocarbons that may be discovered. Typically granted under a legislated fiscal system where the host country collects taxes, fees, and sometimes royalty on profits earned. (Also called a license.)
Condensate	3.2	A mixture of hydrocarbons (mainly pentanes and heavier) that exist in the gaseous phase at original temperature and pressure of the reservoir, but when produced, are in the liquid phase at surface pressure and temperature conditions. Condensate differs from NGLs in two respects: (1) NGL is extracted and recovered in gas plants rather than lease separators or other lease facilities, and (2) NGL includes very light hydrocarbons (ethane, propane, or butanes) as well as the pentanes-plus that are the main constituents of condensate.
Confidence Level	4.2	A measure of the estimated reliability of a result. As used in the deterministic incremental method, the evaluator assigns a relative level of confidence (high/moderate/low) to areas/segments of an accumulation based on the information available (e.g., well control and seismic coverage). Probabilistic and statistical methods use the 90% (P90) for the high confidence (low value case), 50% (P50) for the best estimate (moderate value case), and 10% (P10) for the low (high value case) estimate to represent the chances that the actual value will equal or exceed the estimate.
Constant Case	3.1.2	A descriptor applied to the economic evaluation of resources estimates. Constant-case estimates are based on current economic conditions being those conditions (including costs and product prices) that are fixed at the evaluation date and held constant, with no inflation or deflation made to costs or prices throughout the remainder of the project life other than those permitted contractually.
Consumed in Operations (CiO)	3.2.2	That portion of produced petroleum consumed as fuel in production or lease plant operations before delivery to the market at the reference point. (Also called lease fuel.)
Contingency	1.1	A condition that must be satisfied for a project in Contingent Resources to be reclassified as Reserves. Resolution of contingencies for projects in Development Pending is expected to be achieved within a reasonable time period.
Contingent Project	1.1	A project that is not yet commercial owing to one or more contingencies that have not been resolved.
Contingent Resources	1.1 Table 1	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable owing to one or more contingencies.
Continuous-Type Deposit	2.4	A petroleum accumulation that is pervasive throughout a large area and that generally lacks well-defined OWC or GWC. Such accumulations are included in unconventional resources. Examples of such deposits include “basin-centered” gas, tight gas, tight oil, gas hydrates, natural bitumen, and oil shale (kerogen) accumulations.

Conventional Resources	2.4	Resources that exist in porous and permeable rock with buoyancy pressure equilibrium. The PIIP is trapped in discrete accumulations related to a localized geological structural feature and/or stratigraphic condition, typically with each accumulation bounded by a down dip contact with an aquifer, and is significantly affected by hydrodynamic influences such as buoyancy of petroleum in water**.**
Cost Recovery	3.3	Under a typical production-sharing agreement, the contractor is responsible for the field development and all exploration and development expenses. In return, the contractor recovers costs (investments and operating expenses) out of the production stream. The contractor normally receives an entitlement interest share in the petroleum production and is exposed to both technical and market risks.
Crude Oil	3.2.9	Crude oil is the portion of petroleum that exists in the liquid phase in natural underground reservoirs and remains liquid at atmospheric conditions of pressure and temperature (excludes retrograde condensate). Crude oil may include small amounts of non-hydrocarbons produced with the liquids but does not include liquids obtained from the processing of natural gas.
Cumulative Production	1.1	The sum of petroleum quantities that have been produced at a given date. (See also Production). Production is measured under defined conditions to allow for the computation of both reservoir voidage and sales quantities and for the purpose of voidage also includes non-petroleum quantities.
Current Economic Conditions	3.1.2	Economic conditions based on relevant historical petroleum prices and associated costs averaged over a specified period. The default period is 12 months. However, in the event that a step change has occurred within the previous 12-month period, the use of a shorter period reflecting the step change must be justified and used as the basis of constant-case resources estimates and associated project cash flows.
Defined Conditions	3.0	Forecast of conditions to exist and impact the project during the time period being evaluated. Forecasts should account for issues that impact the commerciality, such as economics (e.g., hurdle rates and commodity price); operating and capital costs; and technical, marketing, sales route, legal, environmental, social, and governmental factors.
Deposit	2.4	Material laid down by a natural process. In resources evaluations, it identifies an accumulation of hydrocarbons in a reservoir. (See Accumulation.)
Deterministic Incremental Method	4.2	An assessment method based on defining discrete parts or segments of the accumulation that reflect high, moderate, and low confidence regarding the estimates of recoverable quantities under the defined development plan.
Deterministic Method	4.2	An assessment method based on discrete estimate(s) made based on available geoscience, engineering, and economic data and corresponds to a given level of certainty.
Deterministic Scenario Method	4.2	Method where the evaluator provides three deterministic estimates of the quantities to be recovered from the project being applied to the accumulation. Estimates consider the full range of values for each input parameter based on available engineering and geoscience data, but one set is selected that is most appropriate for the corresponding resources confidence category. A single outcome of recoverable quantities is derived for each scenario.
Developed Reserves	2.1.3.5 Table 2	Reserves that are expected to be recovered from existing wells and facilities. Developed Reserves may be further sub-classified as Producing or Non-Producing.
Developed Producing Reserves	2.1.3.5 Table 2	Developed Reserves that are expected to be recovered from completion intervals that are open and producing at the effective date. Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing Reserves	2.1.3.5 Table 2	Developed Reserves that are either shut-in or behind-pipe. (See also Shut-In Resources and Behind-Pipe Reserves.)
Development On Hold	2.1.3.5 Table 1	A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay. A project maturity sub-class of Contingent Resources.
Development Not Viable	2.1.3.5 Table 1	A discovered accumulation for which there are contingencies resulting in there being no current plans to develop or to acquire additional data at the time due to limited commercial potential. A project maturity sub-class of Contingent Resources.
Development Pending	2.1.3.5 Table 1	A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future. A project maturity sub-class of Contingent Resources.
Development Plan	2.1.3.6	The design specifications, timing, and cost estimates of the appraisal and development project(s) that are planned in a field or group of fields. The plan will include, but is not limited to, well locations, completion techniques, drilling methods, processing facilities, transportation, regulations, and marketing. The plan is often executed in phases when involving large, complex, sequential recovery and/or extensive areas.
Development Unclarified	2.1.3.5 Table 1	A discovered accumulation where project activities are under evaluation and where justification as a commercial development is unknown based on available information. This sub-class requires appraisal or study and should not be maintained without a plan for future evaluation. The sub-class should reflect the actions required to move a project toward commercial maturity. A project maturity sub-class of Contingent Resources.
Discovered	2.1.1	A petroleum accumulation where one or several exploratory wells through testing, sampling, and/or logging have demonstrated the existence of a significant quantity of potentially recoverable hydrocarbons and thus have established a known accumulation. In this context, “significant” implies that there is evidence of a sufficient quantity of petroleum to justify estimating the in-place volume demonstrated by the well(s) and for evaluating the potential for technical recovery. (See also Known Accumulation.)
Discovered Petroleum Initially-In-Place	1.1	Quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations before production. Discovered PIIP may be subdivided into commercial, sub-commercial, and the portion remaining in the reservoir as Unrecoverable.
Discovered Unrecoverable	2.1.1	Discovered petroleum in-place resources that are evaluated, as of a given date, as not able to be recovered by the commercial and sub-commercial projects envisioned.
Dry Gas	3.2.3	Natural gas remaining after hydrocarbon liquids have been removed before the reference point. It should be recognized that this is a resources assessment definition and not a phase behavior definition. (Also called lean gas.)
Economic	3.1.2	A project is economic when it has a positive undiscounted cumulative cash flow from the effective date of the evaluation, the net revenue exceeds the net cost of operation (i.e., positive cumulative net cash flow at discount rate greater than or equal to zero percent).
Economic Interest	3.3	Interest that is possessed when an entity has acquired an interest in the minerals in-place or a license and secures, by any form of legal relationship, revenue derived from the extraction of the mineral to which he must look for a return.
Economic Limit	3.1.2	Defined as the time when the maximum cumulative net cash flow (see Net Entitlement) occurs for a project.

Economically Not Viable Contingent Resources	2.1.3.7	Those quantities for which development projects are not expected to yield positive cash flows under reasonable forecast conditions. May also be subject to additional unsatisfied contingencies.
Economically Viable Contingent Resources	2.1.3.7	Those quantities associated with technically feasible projects where cash flows are positive under reasonable forecast conditions but are not Reserves because it does not meet the other commercial criteria
Economically Producible	3.1.2	Refers to the situation where the net revenue from an ongoing producing project exceeds the net expenses attributable to a certain entity's interest. The ADR costs are excluded from the determination.
Effective Date	1.2	Resource estimates of remaining quantities are "as of the given date" (effective date) of the evaluation. The evaluation must take into account all data related to the period before the "as of date."
Entitlement	3.3	That portion of future production (and thus resources) legally accruing to an entity under the terms of the development and production contract or license.
Entity	3.0	A legal construct capable of bearing legal rights and obligations. In resources evaluations, this typically refers to the lessee or contractor, which is some form of legal corporation (or consortium of corporations). In a broader sense, an entity can be an organization of any form and may include governments or their agencies.
Established Technology	2.3.4	Methods of recovery or processing that have proved to be successful in commercial applications.
Estimated Ultimate Recovery (EUR)	1.1	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable plus those quantities that have been already produced. For clarity, EUR must reference the associated technical and commercial conditions for the resources; for example, proved EUR is Proved Reserves plus prior production.
Evaluation	3.0	The geosciences, engineering, and associated studies, including economic analyses, conducted on a petroleum exploration, development, or producing project resulting in estimates of the quantities that can be recovered and sold and the associated cash flow under defined forward conditions. (Also called assessment.)
Evaluator	1.2	The person or group of persons responsible for performing an evaluation of a project. These may be employees of the entities that have an economic interest in the project or independent consultants contracted for reviews and audits. In all cases, the entity accepting the evaluation takes responsibility for the results, including its resources and attributed value estimates.
Exploration	2.1.3.5	Prospecting for undiscovered petroleum using various techniques, such as seismic surveys, geological studies, and exploratory drilling.
Field	1.2	In conventional reservoirs, a field is typically an area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impermeable rock, laterally by local geologic barriers, or both. The term may be defined differently by individual regulatory authorities. For unconventional reservoirs without hydrodynamic influences, a field is often defined by regulatory or ownership boundaries as necessary.
Final Investment Decision (FID)	2.1.3.1	Project approval stage when the participating companies have firmly agreed to the project and the required capital funding.
Flare Gas	3.2.2	The total quantity of gas vented and/or burned as part of production and processing operations (but not as fuel).

Flow Test	2.1.1	An operation on a well designed to demonstrate the existence of recoverable petroleum in a reservoir by establishing flow to the surface and/or to provide an indication of the potential productivity of that reservoir (such as a wireline formation test). May also demonstrate the potential of certain completion techniques, particularly in unconventional reservoirs.
Fluid Contacts	4.2	The surface or interface in a reservoir separating two regions characterized by predominant differences in fluid saturations. Because of capillary and other phenomena, fluid saturation change is not necessarily abrupt or complete, nor is the surface necessarily horizontal.
Forecast Case	3.1.2	A descriptor applied to a scenario when production and associated cash-flow estimates are based on those conditions (including costs and product price schedules, inflation indexes, and market factors) forecast by the evaluator to reasonably exist throughout the evaluation life (i.e., defined conditions). Inflation or deflation adjustments are made to costs and revenues over the evaluation period.
Gas Balance	3.2.8	In gas production operations involving multiple working interest owners, maintaining a statement of volumes attributed to each, depending on each owner's portion received. Imbalances may occur that must be monitored over time and eventually balanced in accordance with accepted accounting procedures.
Gas Cap Gas	Table 3	Free natural gas that overlies and is in contact with crude oil in the reservoir. It is a subset of associated gas.
Gas Hydrates	2.4	Naturally occurring crystalline substances composed of water and gas, in which a solid water lattice accommodates gas molecules in a cage-like structure or clathrate. At conditions of standard temperature and pressure, one volume of saturated methane hydrate will contain as much as 164 volumes of methane gas. Gas hydrates are included in unconventional resources, but the technology to support commercial maturity has yet to be developed.
Gas/Oil Ratio	4.1.4	Ratio that is calculated using measured natural gas and crude oil volumes at stated conditions. The gas/oil ratio may be the solution gas/oil ratio, *Rs*; produced gas/oil ratio, *Rp*; or another suitably defined ratio of gas production to oil production.
Geostatistical Methods	4.2.2	A variety of mathematical techniques and processes dealing with the collection, methods, analysis, interpretation, and presentation of large quantities of geoscience and engineering data to (mathematically) describe the variability and uncertainties within any reservoir unit or pool, specifically related here to resources estimates.
High Estimate	2.2.2	With respect to resources categorization, this is considered to be an optimistic estimate of the quantity that will actually be recovered from an accumulation by a project. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate.
Hydrates	2.4	See Gas Hydrates.
Hydrocarbons	1.1	Hydrocarbons are chemical compounds consisting wholly of hydrogen and carbon molecules.
Improved Recovery	2.3.4	The extraction of additional petroleum, beyond primary recovery, from naturally occurring reservoirs by supplementing the natural forces in the reservoir. It includes waterflooding and gas injection for pressure maintenance, secondary processes, tertiary processes, and any other means of supplementing natural reservoir recovery processes. Improved recovery also includes thermal and chemical processes to improve the in-situ mobility of viscous forms of petroleum. (Also called enhanced recovery.)
Injection	3.2.5	The forcing, pumping, or natural flow of substances into a porous and permeable subsurface rock formation. Injected substances can include either gases or liquids.

Justified for Development	2.1.3.5 Table 1	A development project that has reasonable forecast commercial conditions at the time of reporting and there are reasonable expectation that all necessary approvals/ contracts will be obtained. A project maturity sub-class of Reserves.
Kerogen	2.4	The naturally occurring, solid, insoluble organic material that occurs in source rocks and can yield oil upon heating. Kerogen is also defined as the fraction of large chemical aggregates in sedimentary organic matter that is insoluble in solvents (in contrast, the fraction that is soluble in organic solvents is called bitumen). (See also Oil Shales.)
Known Accumulation	2.1.1	An accumulation that has been discovered.
Lead	2.1.3.5 Table 1	A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation to be classified as a Prospect. A project maturity sub-class of Prospective Resources.
Learning Curve	2.4	Demonstrated improvements over time in performance of a repetitive task that results in efficiencies in tasks to be realized and/or in reduced time to perform and ultimately in cost reductions.
Likelihood	1.1	Likelihood (the estimated probability or chance) is equal (1- risk). (See Probability and Risk.)
Low/Best/High Estimates	2.2.2	Reflects the range of uncertainty as a reasonable range of estimated potentially recoverable quantities.
Low Estimate	2.2.2	With respect to resources categorization, this is a conservative estimate of the quantity that will actually be recovered from the accumulation by a project. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate.
Lowest Known Hydrocarbons (LKH)	4.1.2	The deepest documented occurrence of a producible hydrocarbon accumulation as interpreted from well log, flow test, pressure measurement, core data, or other conclusive and reliable evidence.
Market	1.1	A consumer or group of consumers of a product that has been obtained through purchase, barter, or contractual terms.
Marketable Quantities	2.0	Those quantities of hydrocarbons that are estimated to be producible from petroleum accumulations and that will be consumed by the market. (Also referred to as marketable products.)
Mean	4.2.5	The sum of a set of numerical values divided by the number of values in the set.
Measurement	3.2	The process of establishing quantity (volume, mass, or energy content) and quality of petroleum products delivered to a reference point under conditions defined by delivery contract or regulatory authorities.
Mineral Lease	3.3	An agreement in which a mineral owner (lessor) grants an entity (lessee) rights. Such rights can include (1) a fee ownership or lease, concession, or other interest representing the right to extract oil or gas subject to such terms as may be imposed by the conveyance of the lease; (2) royalty interests, production payments payable in oil or gas, and other non-operating interests in properties operated by others; and/or (3) those agreements with foreign governments or authorities under which a reporting entity participates in the operation of the related properties or otherwise serves as producer of the underlying reserves (as opposed to being an independent purchaser, broker, dealer, or importer).
Monte Carlo Simulation	4.2	A type of stochastic mathematical simulation that randomly and repeatedly samples input distributions (e.g., reservoir properties) to generate a resulting distribution (e.g., recoverable petroleum quantities).

Multi-Scenario Method	4.2	An extension of the deterministic scenario method. In this case, a significant number of discrete deterministic scenarios are developed by the evaluator, with each scenario leading to a single deterministic outcome. Probabilities may be assigned to each discrete input assumption from which the probability of the scenario can be obtained; alternatively, each outcome may be assumed to be equally likely.
Natural Bitumen	2.4	The portion of petroleum that exists in the semi-solid or solid phase in natural deposits. In its natural state, it usually contains sulfur, metals, and other non-hydrocarbons. Natural bitumen has a viscosity greater than 10,000 mPa·s (or 10,000 cp) measured at original temperature in the deposit and atmospheric pressure, on a gas free basis. In its natural viscous state, it is not normally recoverable at commercial rates through a well and requires the implementation of improved recovery methods such as steam injection. Natural bitumen generally requires upgrading before normal refining.
Natural Gas	3.2.3	Portion of petroleum that exists either in the gaseous phase or is in solution in crude oil in a reservoir, and which is gaseous at atmospheric conditions of pressure and temperataure. Natural gas may include some amount of non-hydrocarbons.
Natural Gas Liquids (NGLs)	3.2.3	A mixture of light hydrocarbons that exist in the gaseous phase in the reservoir and are recovered as liquids in gas processing plants. NGLs differ from condensate in two principal respects: (1) NGLs are extracted and recovered in gas plants rather than lease separators or other lease facilities, and (2) NGLs include very light hydrocarbons (ethane, propane, or butanes) as well as the pentanes-plus that are the main constituents of condensates.
Net Entitlement	1.1 3.3	That portion of future production (and thus resources) legally accruing to an entity under the terms of the development and production contract or license. Under the terms of PSCs, the producers have an entitlement to a portion of the production. This entitlement, often referred to as “net entitlement” or “net economic interest,” is estimated using a formula based on the contract terms incorporating costs and profits.
Net Pay	4.1.1	The portion (after applying cutoffs) of the thickness of a reservoir from which petroleum can be produced or extracted. Value is referenced to a true vertical thickness measured.
Net Revenue Interest	3.3.1	An entity’s revenue share of petroleum sales after deduction of royalties or share of production owing to others under applicable lease and fiscal terms. (See also Entitlement and Net Entitlement)
Netback Calculation	3.2.1	Term used in the hydrocarbon product price determination at reference point to reflect the revenue of one unit of sales after the costs associated with bringing the product to a market (e.g., transportation and processing) are removed.
Non-Hydrocarbon Gas	3.2.4	Associated gases such as nitrogen, carbon dioxide, hydrogen sulfide, and helium that are present in naturally occurring petroleum accumulations.
Non-Sales	1.1	That portion of estimated recoverable or produced quantities that will not be included in sales as contractually defined at the reference point. Non-sales include quantities CiO, flare, and surface losses, and may include non-hydrocarbons.
Oil Sands	2.4	Sand deposits highly saturated with natural bitumen. Also called “tar sands.” Note that in deposits such as the western Canada oil sands, significant quantities of natural bitumen may be hosted in a range of lithologies, including siltstones and carbonates.
Oil Shales	2.4	Shale, siltstone, and marl deposits highly saturated with kerogen. Whether extracted by mining or in-situ processes, the material must be extensively processed to yield a marketable product (synthetic crude oil). (Often called kerogen shale.)

On Production	2.1.3.5 Table 1	A project maturity sub-class of Reserves that reflects the operational execution phase of one or multiple development projects with the Reserves currently producing or capable of producing. Includes Developed Producing and Developed Non-Producing Reserves.
Overlift/Underlift	3.2.8	Production entitlements received that vary from contractual terms resulting in overlift or underlift positions. This can occur in annual records because of the necessity for companies to lift their entitlement in parcel sizes to suit the available shipping schedules as agreed upon by the parties. At any given financial year-end, a company may be in overlift or underlift. Based on the production matching the company's accounts, production should be reported in accord with and equal to the liftings actually made by the company during the year and not on the production entitlement for the year.
P1	1.1	Denotes Proved Reserves. P1 is equal to 1P.
P2	1.1	Denotes Probable Reserves.
P3	1.1	Denotes Possible Reserves.
Penetration	Table 3	The intersection of a wellbore with a reservoir.
Petroleum	1.0	Defined as a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid, or solid phase. Petroleum may also contain non-hydrocarbon compounds, common examples of which are carbon dioxide, nitrogen, hydrogen sulfide, and sulfur. In rare cases, non-hydrocarbon content of petroleum can be greater than 50%.
Petroleum Initially-in-Place (PIIP)	1.1	The total quantity of petroleum that is estimated to exist originally in naturally occurring reservoirs, as of a given date. Crude oil in-place, natural gas in-place, and natural bitumen in-place are defined in the same manner.
Pilot Project	2.3	A small-scale test or trial operation used to assess technology, including recovery processes, for commercial application in a specific reservoir.
Play	2.1.3.5 Table 1	A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation to define specific Leads or Prospects. A project maturity sub-class of Prospective Resources.
Pool	4.2.2	An individual and separate accumulation of petroleum in a reservoir within a field.
Possible Reserves	2.2.2	An incremental category of estimated recoverable quantities associated with a defined degree of uncertainty. Possible Reserves are those additional reserves that analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
Primary Recovery	2.3.4	The extraction of petroleum from reservoirs using only the natural energy available in the reservoirs to move fluids through the reservoir rock to other points of recovery.
Probability	2.2.1	The extent to which an event is likely to occur, measured by the ratio of the favorable cases to the whole number of cases possible. PRMS convention is to quote cumulative probability of exceeding or equaling a quantity where P90 is the small estimate and P10 is the large estimate. (See also Uncertainty.)
Probabilistic Method	4.2.3	The method of estimation of resources is called probabilistic when the known geoscience, engineering, and economic data are used to generate a continuous range of estimates and their associated probabilities.

Probable Reserves	2.2.2	An incremental category of estimated recoverable quantities associated with a defined degree of uncertainty. Probable Reserves are those additional Reserves that are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
Production	1.1	The cumulative quantities of petroleum that have been recovered at a given date. Production can be reported in terms of the sales product specifications, but project evaluation requires that all production quantities (sales and non-sales), as measured to support engineering analyses requiring reservoir voidage calculations, are recognized.
Production Forecast	2.1.3.7	A forecasted schedule of production over time. For Reserves, the production forecast reflects a specific development scenario under a specific recovery process, a certain number and type of wells and particular facilities and infrastructure. When forecasting Contingent or Prospective Resources, more than one project scope (e.g., wells and facilities) is frequently carried to determine the range of the potential project and its uncertainty together with the associated resources defining the low, best, and high production forecasts. The uncertainty in resources estimates associated with a production forecast is usually quantified by using at least three scenarios or cases of low, best, and high, which lead to the resources classifications of, respectively, 1P, 2P, 3P and 1C, 2C, 3C or 1U,2U and 3U.
Production- Sharing Contract (PSC)	3.3.2	A contract between a contractor and a host government in which the contractor typically bears the risk and costs for exploration, development, and production. In return, if exploration is successful, the contractor is given the opportunity to recover the incurred investment from production, subject to specific limits and terms. Ownership of petroleum in the ground is retained by the host government; however, the contractor normally receives title to the prescribed share of the quantities as they are produced. (Also termed production-sharing agreement (PSA).
Project	1.2	A defined activity or set of activities that provides the link between the petroleum accumulation's resources sub-class and the decision-making process, including budget allocation. A project may, for example, constitute the development of a single reservoir or field, an incremental development in a larger producing field, or the integrated development of a group of several fields and associated facilities (e.g. compression) with a common ownership. In general, an individual project will represent a specific maturity level (sub-class) at which a decision is made on whether or not to proceed (i.e., spend money), suspend, or remove. There should be an associated range of estimated recoverable resources for that project. (See also Development Plan.)
Property	1.2	A defined portion of the Earth's crust wherein an entity has contractual rights to extract, process, and market specified in-place minerals (including petroleum). In general, defined as an area but may have depth and/or stratigraphic constraints. May also be termed a lease, concession, or license.
Prospect	2.1.3.5 Table 1	A project associated with an undrilled potential accumulation that is sufficiently well defined to represent a viable drilling target. A project maturity sub-class of Prospective Resources.
Prospective Resources	1.1 Table 1	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects.

Proved Reserves	2.2.2 Table 3	An incremental category of estimated recoverable quantities associated with a defined degree of uncertainty. Proved Reserves are those quantities of petroleum that, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term "reasonable certainty" is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.
Pure Service Contract	3.3	Agreement between a contractor and a host government that typically covers a defined technical service to be provided or completed during a specific time period. The service company investment is typically limited to the value of equipment, tools, and expenses for personnel used to perform the service. In most cases, the service contractor's reimbursement is fixed by the contract's terms with little exposure to either project performance or market factors. No Reserves or Resources can be attributed to these activities.
Qualified Reserves Auditor	1.2	A reserves evaluator who (1) has a minimum of ten years of practical experience in petroleum engineering or petroleum production geology, with at least five years of such experience being in responsible charge of the estimation and evaluation of Reserves information; and (2) either (a) has obtained from a college or university of recognized stature a bachelor's or advanced degree in petroleum engineering, geology, or other discipline of engineering or physical science or (b) has received, and is maintaining in good standing, a registered or certified professional engineer's license or a registered or certified professional geologist's license, or the equivalent, from an appropriate governmental authority or professional organization. (see SPE 2007 "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information")
Qualified Reserves Evaluator	1.2	A reserves evaluator who (1) has a minimum of five years of practical experience in petroleum engineering or petroleum production geology, with at least three years of such experience being in the estimation and evaluation of Reserves information; and (2) either (a) has obtained from a college or university of recognized stature a bachelor's or advanced degree in petroleum engineering, geology, or other discipline of engineering or physical science or (b) has received, and is maintaining in good standing, a registered or certified professional engineer's license or a registered or certified professional geologist's license, or the equivalent, from an appropriate governmental authority or professional organization. (modified from SPE 2007 "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information")
Range of Uncertainty	2.2	The range of uncertainty of the in-place, recoverable, and/or potentially recoverable quantities; may be represented by either deterministic estimates or by a probability distribution. (See Resources Categories.)
Raw Production	3.2.1	All components, whether hydrocarbon or other, produced from the well or extracted from the mine (hydrocarbons, water, impurities such as non-hydrocarbon gases, etc.).
Reasonable Certainty	2.2.2	If deterministic methods for estimating recoverable resources quantities are used, then reasonable certainty is intended to express a high degree of confidence that the estimated quantities will be recovered. Typically attributed to Proved Reserves or 1C Resources quantities.
Reasonable Expectation	2.1.2	Indicates a high degree of confidence (low risk of failure) that the project will proceed with commercial development or the referenced event will occur. (Differs from reasonable certainty, which applies to resources quantity technical confidence, while reasonable expectation relates to commercial confidence.).

Recoverable Resources	1.1 Table 1	Those quantities of hydrocarbons that are estimated to be producible by the project from either discovered or undiscovered accumulations.
Recovery Efficiency	1.2	A numeric expression of that portion (expressed as a percentage) of in-place quantities of petroleum estimated to be recoverable by specific processes or projects, most often represented as a percentage. It is estimated using the recoverable resources divided by the hydrocarbons initially in-place. It is also referenced to timing; current and ultimate (or estimated ultimate) are descriptors applied to reference the stage of the recovery. (Also called recovery factor.)
Reference Point	3.2.1	A defined location within a petroleum extraction and processing operation where quantities of produced product are measured under defined conditions before custody transfer (or consumption). Also called point of sale, terminal point, or custody transfer point.
Report	2.0	The presentation of evaluation results within the entity conducting the assessment. Should not be construed as replacing requirements for public disclosures under guidelines established by regulatory and/or other government agencies.
Reserves	1.1 Table 1	Those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of a given date) based on the development project(s) applied.
Reservoir	1.2	A subsurface rock formation that contains an individual and separate natural accumulation of petroleum that is confined by impermeable barriers, pressure systems, or fluid regimes (conventional reservoirs), or is confined by hydraulic fracture barriers or fluid regimes (unconventional reservoirs).
Resources	1.1	Term used to encompass all quantities of petroleum (recoverable and unrecoverable) naturally occurring in an accumulation on or within the Earth's crust, discovered and undiscovered, plus those quantities already produced. Further, it includes all types of petroleum whether currently considered conventional or unconventional. (See Total Petroleum Initially-in-Place.)
Resources Categories	2.2 Table 3	Subdivisions of estimates of resources to be recovered by a project(s) to indicate the associated degrees of uncertainty. Categories reflect uncertainties in the total petroleum remaining within the accumulation (in-place resources), that portion of the in-place petroleum that can be recovered by applying a defined development project or projects, and variations in the conditions that may impact commercial development (e.g., market availability and contractual changes). The resource quantity uncertainty range within a single resources class is reflected by either the 1P, 2P, 3P, Proved, Probable, Possible, or 1C, 2C, 3C or 1U, 2U, 3U resources categories.
Resources Classes	2.1 Table 1	Subdivisions of resources that indicate the relative maturity of the development projects being applied to yield the recoverable quantity estimates. Project maturity may be indicated qualitatively by allocation to classes and sub-classes and/or quantitatively by associating a project's estimated likelihood of commerciality.
Resources Type	2.4	Describes the accumulation and is determined by the combination of the type of hydrocarbon and the rock in which it occurs.
Revenue-Sharing Contract	3.3.2	Contracts that are very similar to the PSCs with the exception of contractor payment in these contracts, the contractor usually receives a defined share of revenue rather than a share of the production.
Risk	2.1.3	The probability of loss or failure. Risk is not synonymous with uncertainty. Risk is generally associated with the negative outcome, the term "chance" is preferred for general usage to describe the probability of a discrete event occurring.

Risk and Reward	3.3	Risk and reward associated with oil and gas production activities are attributed primarily from the variation in revenues cause by technical and economic risks. The exposure to risk in conjunction with entitlement rights is required to support an entity's resources recognition. Technical risk affects an entity's ability to physically extract and recover hydrocarbons and is usually dependent on a number of technical parameters. Economic risk is a function of the success of a project and is critically dependent on cost, price, and political or other economic factors.
Risk Service Contract (RSC)	3.3	Agreements that are very similar to the production-sharing agreements in that the risk is borne by the contractor but the mechanism of contractor payment is different. With a RSC, the contractor usually receives a defined share of revenue rather than a share of the production.
Royalty	3.3.1	A type of entitlement interest in a resource that is free and clear of the costs and expenses of development and production to the royalty interest owner. A royalty is commonly retained by a resources owner (lessor/host) when granting rights to a producer (lessee/contractor) to develop and produce that resource. Depending on the specific terms defining the royalty, the payment obligation may be expressed in monetary terms as a portion of the proceeds of production or as a right to take a portion of production in-kind. The royalty terms may also provide the option to switch between forms of payment at discretion of the royalty owner.
Sales	3.2	The quantity of petroleum and any non-hydrocarbon product delivered at the custody transfer point (reference point) with specifications and measurement conditions as defined in the sales contract and/or by regulatory authorities.
Shale Gas	2.4	Although the terms shale gas and tight gas are often used interchangeably in public discourse, shale formations are only a subset of all low-permeability tight formations, which include sandstones and carbonates, as well as shales, as sources of tight gas production
Shale Oil	2.4	Although the terms shale oil and tight oil are often used interchangeably in public discourse, shale formations are only a subset of all low-permeability tight formations, which include sandstones and carbonates, as well as shales, as sources of tight oil production
Shut-In Resources	2.1.3.6 Table 2	Resources planned to be recovered from (1) completion intervals that are open at the time of the estimate, but which have not started producing; (2) wells that were shut-in for market conditions or pipeline connections; or (3) wells not capable of production for mechanical reasons that can be remediated at a limited cost compared to the cost of the well.
Split Classification	2.2	A single project should be uniquely assigned to a sub-class along with its uncertainty range, For example, a project cannot have quantities categorized as 1C, 2P, and 3P. This is referred to as "split classification." If there are differing commercial conditions, separate sub-classes should be defined.
Split Conditions	2.2	The uncertainty in recoverable quantities is assessed for each project using resources categories. The assumed commercial conditions are associated with resource classes or sub-classes and not with the resources categories. For example, the product price assumptions are those assumed when classifying projects as Reserves, and a different price would not be used for assessing Proved versus Probable reserves. That would be referred to as "split conditions."
Stochastic	4.2.3	Adjective defining a process involving or containing a random variable or variables or involving likelihood or probability, such as a stochastic simulation.

Sub-Commercial	1.1	A project subdivision that is applied to discovered resources that occurs if either the technical or commercial maturity conditions of project have not yet been achieved. A project is sub-commercial if the degree of commitment is such that the accumulation is not expected to be developed and placed on production within a reasonable time-frame. Sub-commercial projects are classified as Contingent Resources.
Sunk Cost	3.1.2	Money spent before the effective date and that cannot be recovered by any future action. Sunk costs are not relevant to future business decisions because the cost will be the same regardless of the outcome of the decision. Sunk costs differ from committed (obligated) costs, where there is a firm and binding agreement to spend specified amounts of money at specific times in the future (i.e., after the effective date).
Synthetic Crude Oil	3.2.9	A mixture of hydrocarbons derived by upgrading (i.e., chemically altering) natural bitumen from oil sands, kerogen from oil shales, or processing of other substances such as natural gas or coal. Synthetic crude oil may contain sulfur or other non-hydrocarbon compounds and has many similarities to crude oil.
Taxes	3.1.1	Obligatory contributions to the public funds, levied on persons, property, or income by governmental authority.
Technical Forecast	2.1.2	The forecast of produced resources quantities that is defined by applying only technical limitations (i.e., well-flow-loading conditions, well life, production facility life, flow-limit constraints, facility uptime, and the facility's operating design parameters). Technical limitations do not take into account the application of either an economic or license cutoff. (See also Technically Recoverable Resources).
Technical Uncertainty	2.2	Indication of the varying degrees of uncertainty in estimates of recoverable quantities influenced by the range of potential in-place hydrocarbon resources within the reservoir and the range of the recovery efficiency of the recovery project being applied.
Technically Recoverable Resources	1.1	Those quantities of petroleum producible using currently available technology and industry practices, regardless of commercial or accessibility considerations.
Technology Under Development	2.1.1	Technology that is currently under active development and that has not been demonstrated to be commercially viable. There should be sufficient direct evidence (e.g., a test project/pilot) to indicate that the technology may reasonably be expected to be available for commercial application.
Tight Gas	2.4	Gas that is trapped in pore space and fractures in very low-permeability rocks and/or by adsorption on kerogen, and possibly on clay particles, and is released when a pressure differential develops. It usually requires extensive hydraulic fracturing to facilitate commercial production. Shale gas is a sub-type of tight gas.
Tight Oil	2.4	Crude oil that is trapped in pore space in very low-permeability rocks and may be liquid under reservoir conditions or become liquid at surface conditions. Extensive hydraulic fracturing is invariably required to facilitate commercial maturity and economic production. Shale oil is a sub-type of tight oil.
Total Petroleum Initially-in-Place	1.1	All estimated quantities of petroleum that are estimated to exist originally in naturally occurring accumulations, discovered and undiscovered, before production.
Uncertainty	2.2	The range of possible outcomes in a series of estimates. For recoverable resources assessments, the range of uncertainty reflects a reasonable range of estimated potentially recoverable quantities for an individual accumulation or a project. (See also Probability.)

Unconventional Resources	2.4	Unconventional resources exist in petroleum accumulations that are pervasive throughout a large area and lack well-defined OWC or GWC (also called "continuous-type deposits"). Such resources cannot be recovered using traditional recovery projects owing to fluid viscosity (e.g., oil sands) and/or reservoir permeability (e.g., tight gas/oil/CBM) that impede natural mobility. Moreover, the extracted petroleum may require significant processing before sale (e.g., bitumen upgraders).
Undeveloped Reserves	2.1.3.5 Table 2	Those quantities expected to be recovered through future investments: (1) from new wells on undrilled acreage in known accumulations, (2) from deepening existing wells to a different (but known) reservoir, (3) from infill wells that will increase recovery, or (4) where a relatively large expenditure (e.g., when compared to the cost of drilling and completing a new well) is required to recomplete an existing well.
Undiscovered Petroleum Initially-in-Place	1.1	That quantity of petroleum estimated, as of a given date, to be contained within accumulations yet to be discovered.
Unrecoverable Resources	1.1	Those quantities of discovered or undiscovered PIIP that are assessed, as of a given date, to be unrecoverable by the currently defined project(s). A portion of these quantities may become recoverable in the future as commercial circumstances change, technology is developed, or additional data are acquired. The remaining portion may never be recovered owing to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.
Upgrader	2.4	A general term applied to processing plants that convert extra-heavy crude oil and natural bitumen into lighter crude and less viscous synthetic crude oil. While the detailed process varies, the underlying concept is to remove carbon through coking or to increase hydrogen by hydrogenation processes using catalysts.
Wet Gas	3.2.3	Natural gas from which no liquids have been removed before the reference point. The wet gas is accounted for in resources assessments, and there is no separate accounting for contained liquids. It should be recognized that this is a resources assessment definition and not a phase behavior definition.
Working Interest	3.3	An entity's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms.

NEWMEDENERGY

Part B

Board report

This report is a translation of NewMed Energy – Limited Partnership's Hebrew-language Board of Directors' Report of the General Partner. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

March 23, 2022

NewMed Energy – Limited Partnership
(Formerly, Delek Drilling Limited Partnership)

Report of the Board of Directors of the General Partner
for the Year Ended December 31, 2021

The board of directors of NewMed Energy Management Ltd. (formerly, Delek Drilling Management (1993) Ltd., the "**General Partner**") hereby respectfully submits the board of directors' report for the year ended December 31, 2021 (the "**Report Year**").

Part One – Explanations of the Board of Directors on the State of the Partnership's Business

1. Main figures from the description of the Partnership's business

For a description of the Partnership's business and the developments that occurred in the Report Year – see Chapter A of this report (Description of the Partnership's Business).

2. Results of operations

A. General

As of the date of approval of the report, the Partnership operates in the energy sector and mainly engages in the exploration, development, production and marketing of natural gas, condensate and oil in Israel and in Cyprus, as well as in the promotion of various natural gas-based projects, with the aim of increasing the volume of sales of the natural gas produced by the Partnership. At the same time, the Partnership explores business opportunities in the area of the exploration, development, production, and marketing of natural gas, condensate and oil in additional countries, and also explores possibilities for entering the renewable energies sector and the field of blue hydrogen which is produced from natural gas and may constitute a low-carbon substitute for energy consumers.

In December 2021, the Partnership completed the sale of its remaining interests at the rate of 22% in the Tamar and Dalit leases (the "**Tamar Sale Transaction**"). The sale proceeds, together with the amounts of money released in the context of closing of the transaction, were used by the Partnership, *inter alia*, for the purpose of repayment of the Tamar Bond bonds and the Series A bonds of the Partnership. For details see Section 3C1 below.

The Partnership's net profit for 2021 amounted to approx. $405 million, compared with approx. $365 million last year. The increase in profit mainly derives from an increase in the gas quantities that were sold during the year and from the profit in the amount of approx. $145 million recorded by the Partnership from the Tamar Sale Transaction (for details see Section 3C1 below). Conversely, in the Report Year, an accounting provision was recorded for deferred taxes, in the sum of approx. $208 million, due to a change in the tax regulations that apply to oil and gas partnerships (for details see Note 20A to the financial statements (Chapter C of this report)).

The Partnership's net profit in Q4/2021 totaled approx. $218 million, compared with approx. $142 million in the same quarter last year. The increase in the net profit in the quarter mainly derived from the increase in production of gas from the Leviathan reservoir for the domestic market and regional markets and from the Tamar Sale Transaction. Conversely, financial income decreased as a result of revaluation of royalties receivable from Karish and Tanin.

B. Analysis of statements of comprehensive income

Below are main figures with regards to the Partnership's statements of comprehensive income (dollars in thousands):

	1-3/21	4-6/21	7-9/21	10-12/21	2021	10-12/20 [1]	2020[1]
Revenues							
From natural gas and condensate sales	216,455	221,578	243,240	201,264	882,537	150,562	587,086
Net of royalties	32,164	32,902	36,569	27,123	128,758	21,258	86,327
Revenues, net	**184,291**	**188,676**	**206,671**	**174,141**	**753,779**	**129,304**	**500,759**
Expenses and costs:							
Cost of natural gas and condensate production	26,910	28,438	28,073	34,961	118,382	28,317	89,673
Depreciation, depletion and amortization expenses	21,034	27,776	19,841	44,432	113,083	18,817	79,446
Other direct expenses	766	1,143	630	1,667	4,206	601	3,410
G&A expenses	3,022	4,649	4,217	5,295	17,183	3,581	14,630
Total expenses and costs	**51,732**	**62,006**	**52,761**	**86,355**	**252,854**	**51,316**	**187,159**
The Partnership's share in the losses of a company accounted for at equity	(1,215)	(1,220)	(1,218)	(844)	(4,497)	(3,934)	(7,707)
Operating income	**131,344**	**125,450**	**152,692**	**86,942**	**496,428**	**74,054**	**305,893**
Financial expenses	(51,073)	(51,173)	(51,053)	(58,007)	(211,306)	(51,380)	(231,847)
Financial income	12,920	10,632	5,981	1,935	31,468	65,716	87,985
Financial income (expenses), net	(38,153)	(40,541)	(45,072)	(56,072)	(179,838)	14,336	(143,862)
Profit before taxes on income	**93,191**	**84,909**	**107,620**	**30,870**	**316,590**	**88,390**	**162,031**
Deferred taxes on income	-	-	(216,251)	8,414	(207,837)	-	-
Income (loss) from continuing operations	**93,191**	**84,909**	**(108,631)**	**39,284**	**108,753**	**88,390**	**162,031**
Income from discontinued operations	21,548	37,257	58,772	34,159	151,736	54,048	203,089
Income from the sale of natural gas and oil assets	-	-	-	144,583	144,583	-	-
Total income from discontinued operations, net	**21,548**	**37,257**	58,772	**178,742**	**296,319**	54,048	203,089
Net profit (loss)	**114,739**	**122,166**	**(49,859)**	**218,026**	**405,072**	**142,438**	**365,120**
Other comprehensive income (loss) from continuing operations:							
Amounts which may subsequently be reclassified to profit or loss:							
Profit (loss) in respect of cash flow	-	-	-	-	-	-	(4,757)

[1] Reclassified to reflect discontinued operations, for details see Note 7C1 to the financial statements (Chapter C of this report).

hedging transactions							
Carried to profit or loss in respect of cash flow hedging transactions	-	-	-	-	-	-	7,360
Comprehensive income (loss) from continuing operations	**93,191**	**84,909**	**(108,631)**	**39,284**	**108,753**	**88,390**	**164,634**
Other comprehensive income (loss) from discontinued operations:							
Amounts which will not be subsequently reclassified to profit or loss:							
Profit (loss) from investment in equity instruments designated for measurement at fair value through other comprehensive income	9,086	4,511	-	-	13,597	4,524	(29,322)
Comprehensive income from discontinued operations	**30,634**	**41,768**	**58,772**	**178,742**	**309,916**	**58,572**	**173,767**
Total comprehensive income (loss)	**123,825**	**126,677**	**(49,859)**	**218,026**	**418,669**	**146,962**	**338,401**

Net revenues in the Report Year amounted to approx. $754 million, compared with approx. $501 million last year, up around 50%. The increase mainly derives from the increase in the natural gas quantities sold from the Leviathan reservoir, from a quantity of approx. 7.3 BCM last year to a quantity of approx. 10.7 BCM in the report period.

Net revenues in Q4/2021 totaled approx. $174 million compared with approx. $129 million in the same period last year, up around 35%. The increase mainly derives from the increase in the natural gas quantities sold from the Leviathan reservoir, from a quantity of approx. 1.9 BCM in Q4/2020 to a quantity of approx. 2.4 BCM in Q4/2021.

Below is a table specifying the gas quantities (100%) sold from the Leviathan reservoir in the report period according to the customers' geographic location:

2021 (BCM)				
	Israel	Jordan	Egypt	Total
Q1	1.2	0.7	0.8	2.7
Q2	1.4	0.6	0.8	2.8
Q3	1.1	0.8	0.9	2.8
Q4	0.9	0.6	0.9	2.4
Total	**4.6**	**2.7**	**3.4**	**10.7**

2020 (BCM)				
	Israel	Jordan	Egypt	Total
Q1	0.7	0.6	0.3	1.6
Q2	1.2	0.2	0.1	1.5
Q3	1.1	0.5	0.7	2.3
Q4	0.5	0.6	0.8	1.9
Total	**3.5**	**1.9**	**1.9**	**7.3**

***** The figures are rounded off to one-tenth of a BCM

Cost of natural gas and condensate production mainly includes expenses of management and operation of the Leviathan project which include, *inter alia*, expenses of haulage and transport, salaries, consulting, maintenance, environment, insurance and the cost of transmission of natural gas to Egypt. The cost of gas and condensate production in 2021 totaled approx. $118 million, compared with approx. $90 million last year, an increase of approx. 31%. The increase in the report period mainly derives from the increase in the natural gas sales and the transmission costs due thereto and from an increase in the environment and maintenance expenses.

The cost of gas and condensate production in Q4/2021 amounted to approx. $35 million, compared with approx. $28 million in the same quarter last year. The increase mainly derived from the reasons stated above.

Depreciation, depletion and amortization expenses in the Report Year amounted to approx. $113 million, compared with approx. $79 million last year, an increase of around 43%. The increase mainly derives from an increase in the gas quantities produced from the Leviathan reservoir and from an increase in the Yam Tethys asset decommissioning obligation. Conversely, one-time inventory write-downs were recorded last year.

Depreciation and amortization expenses in Q4/2021 amounted to approx. $44 million, compared with approx. $19 million in the same quarter last year. The increase mainly derives from an update of the Yam Tethys asset decommissioning obligations and the increase in the natural gas quantities produced from the Leviathan reservoir.

Other direct expenses in 2021 totaled approx. $4 million compared with approx. $3 million last year. The expenses include, *inter alia*, expenses of geologists, engineers and consulting as well as G&A expenses of various projects which are not at a production stage.

Other direct expenses in Q4/2021 amounted to approx. $2 million, compared with approx. $1 million in the same period last year.

G&A expenses in the Report Year amounted to approx. $17 million, compared with approx. $15 million last year, and include, *inter alia,* expenses for professional services and payroll expenses and management fees for the General Partner. In addition, G&A expenses include expenses in the sum of approx. $4 million (approx. $3 million last year) recorded against a capital reserve for transactions between the General Partner and the controlling interest holder, and which mainly derive from costs that are financed by the General Partner, which, according to the partnership agreement, are not borne by the Partnership. The increase in the report period essentially derived from an increase in D&O insurance expenses and from an increase in expenses of an agreement for provision of management services to the General Partner by Delek Group, including director services, through the directors also holding office as officers of Delek Group as provided in Note 21E7 to the financial statements (Chapter C of this report). In this context it is noted that from May 2021, the Partnership did not transfer to the General Partner management fees against the management services which the General Partner continues to provide to the Partnership. For further details, see Note 13G to the financial statements (Chapter C of this report).

G&A expenses in Q4/2021 amounted to approx. $5 million, compared with approx. $4 million in the same quarter last year. The increase in Q4/2021 compared with the same quarter last year, derives from the reasons stated above.

The Partnership's share in the losses of a company accounted for at equity in the Report Year totaled a loss of approx. $4 million, compared with a loss of approx. $8 million last year. The loss in the period derived from the company accounted for at equity EMED Pipeline B.V. ("**EMED**") which holds 39% of the shares of Eastern Mediterranean Gas Company S.A.E ("**EMG**").

The Partnership's share in the losses of a company accounted for at equity in Q4/2021 amounted to a loss of approx. $1 million, compared with a loss of approx. $4 million in the same quarter last year.

Financial expenses in 2021 totaled approx. $211 million, compared with approx. $232 million last year. Most of the financial expenses in the Report Year mainly derived from interest in respect of bonds in the sum of approx. $207 million. The financial expenses last year derived from interest in respect of bonds and liabilities to banking corporations in the sum of approx. $122 million and approx. $107 million, respectively. The decrease in financial expenses mainly derived from the offering of Leviathan Bond bonds concurrently with repayment of the liabilities to banking corporations in connection with the Leviathan project and from repayment of Tamar Bond bond principal in the sum of $320 million in December 2020.

Financial expenses in Q4/2021 amounted to approx. $58 million, compared with approx. $51 million in the same quarter last year. Most of the financial expenses in Q4 derived from interest in respect of bonds in the sum of approx. $56 million. The financial expenses in the same quarter last year mainly derived from interest in respect of bonds. The increase in the financial expenses compared with the same quarter last year mainly derived from write-down of the balance of the expenses for the Tamar Bond bond offering, which were repaid in full in December 2021, incidentally to the closing of the Tamar Sale Transaction.

Financial income in the Report Year amounted to approx. $31 million, compared with approx. $88 million last year. The decrease in financial income mainly derives from an update of the income from revaluation of the royalties and the annual payments receivable from the Karish and Tanin leases in the sum of approx. $26 million, compared with approx. $83 million last year. For further details, see Note 8B to the financial statements (Chapter C of this report), Annex B to the Board of Directors' Report and the valuation attached below.

Financial income in Q4/2021 amounted to approx. $2 million and mainly derived from income due to the update of royalties receivable from the Karish and Tanin leases, compared with income in the sum of approx. $66 million, which mainly derived from revaluation of royalties receivable from the Karish and Tanin leases last year.

Deferred taxes on income were recognized for the first time in 2021 and totaled approx. $208 million following the amendment to the Income Tax Regulations "Rules for the Calculation of Tax due to the Holding and Sale of Participation Units in Oil Exploration Partnerships" (the "**Amendment to the Income Tax Regulations**"). Further to the Amendment to the Income Tax Regulations, effective from 2022 the Partnership's tax regime will change and it will be taxed as a company. For further details, see Note 20A to the financial statements (Chapter C of this report).

Net income from discontinued operations in the report period amounted to approx.

$152 million, compared with approx. $203 million in the same period last year, and derives from the Partnership's holdings in the Tamar project (for details see Section 3C1 below regarding the Tamar Sale Transaction). The decrease in income compared with last year mainly derived from a decrease in revenues from the sale of natural gas and condensate from the Tamar project, and from payment of the oil and gas profit levy in the Tamar project, which was offset by non-recording of depreciation, depletion and amortization expenses in Q2, Q3 and Q4 of 2021, due to classification of the holding as discontinued operations.
In 2021, until the date of closing of the Tamar Sale Transaction in December 2021, approx. 7.8 BCM was sold from the Tamar reservoir, compared with approx. 8.2 BCM last year.

Net income from discontinued operations, net, in Q4/2021, totaled approx. $34 million, compared with approx. $54 million in the same quarter last year. The decrease in income compared with the same quarter last year mainly derived from the reasons stated above. In Q4/2021 until the sale closing date, approx. 1.6 BCM was sold from the Tamar reservoir, compared with approx. 2.5 BCM last year.
For further details, see Note 7C1 to the financial statements (Chapter C of this report).

Income from the sale of natural gas and oil assets amounted in 2021 to approx. $145 million and derived from the proceeds from the Tamar Sale Transaction in the amount of approx. $965 million net of the cost of the assets and liabilities transferred to the buyer and transaction costs of approx. $820 million (for additional details see Section 3C1 below).

3. Financial position, liquidity and financing sources

A. Financial position

The main changes in the items of the statement of financial position as of December 31, 2021, compared with the statement of financial position as of December 31, 2020, are specified below:

Total assets as of December 31, 2021 amounted to approx. $3,850 million, compared with approx. $4,585 million as of December 31, 2020.

Current assets as of December 31, 2021 amounted to approx. $581 million compared with approx. $418 million as of December 31, 2020. The change mainly derived from the following factors:

(1) **Cash and cash equivalents** as of December 31, 2021 totaled approx. $220 million, compared with approx. $70 million as of December 31, 2020. The increase mainly derives from the Partnership's proceeds from the sale of natural gas from the Leviathan project, proceeds from the Tamar Sale Transaction and from the sale of shares held by the Partnership of Tamar Petroleum Ltd. ("**Tamar Petroleum**") as specified in Notes 7C1 and 8C to the financial statements (Chapter C of this report), and from proceeds for repayment of a loan given to Energean Oil & Gas plc ("**Energean**") received in March 2021. Conversely, the Partnership distributed profits of approx. $200 million, paid tax for individual holders and paid a balancing payment to non-individual holders in the sum of approx. $36 million, paid tax advances for the participation unit holders in the sum of approx. $69 million, made a final repayment of principal and interest in respect of the Series A bonds and the Tamar Bond bonds, and invested money in the Leviathan project, in short-term investments and in other projects.

(2) **Short-term investments** as of December 31, 2021 totaled approx. $121 million, compared with approx. $169 million as of December 31, 2020, and primarily consist of a deposit which serves as a safety cushion for the Leviathan Bond bonds in the sum of approx. $100 million and investments in ETFs in the sum of approx. $20 million. The decrease in this item mainly derived from the fact that last year the item included deposits which served as a safety cushion for the Tamar Bond bonds, which were repaid in full incidentally to the Tamar Sale Transaction.

(3) **Trade receivables item** as of December 31, 2021 totaled approx. $153 million, compared with approx. $146 million as of December 31, 2020. The increase mainly derived from an increase in the trade receivables balance of the Leviathan project.

(4) **Other receivables item** as of December 31, 2021 totaled approx. $87 million, compared with approx. $33 million as of December 31, 2020. The increase mainly derives from an increase in receivables due to classification of receivables from royalties from the Karish and Tanin project as short-term, from an increase in the debt balances of the operator in the Ratio-Yam (Leviathan) and Yam Tethys transactions, and from balances receivable from the final accounting of the proceeds from the Tamar Sale Transaction.

Non-current assets as of December 31, 2021 totaled approx. $3,269 million, compared with approx. $4,167 million on December 31, 2020, as specified below:

(1) **Investments in oil and gas assets** as of December 31, 2021 totaled approx. $2,570 million, compared with approx. $3,440 million as of December 31, 2020. The change in the Report Year mainly derived from disposition of the Partnership's holdings in the Tamar project in the sum of approx. $830 million due to the write-off thereof, depreciation, depletion and amortization expenses in the Leviathan project in the sum of approx. $74 million. Conversely, the Partnership recorded investments in the Leviathan project in the sum of approx. $30 million and in evaluation and exploration assets in the sum of approx. $6 million.

(2) **Investment in the company accounted for at equity** as of December 31, 2021 totaled approx. $63 million compared with approx. $67 million as of December 31, 2020, and is due to the investment in shares of EMED. The decrease derived from the recording of a loss for an investment in a company accounted for at equity in the report period that derived mainly from depreciation of the excess purchase cost. For details see Note 6 to the financial statements (Chapter C of this report).

(3) **Long-term bank deposits** as of December 31, 2021 totaled approx. $101 million, similarly to as of December 31, 2020, which mainly serve as a safety cushion for the Leviathan Bond bonds.

(4) **Other long-term assets** as of December 31, 2021 totaled approx. $535 million, compared with approx. $559 million as of December 31, 2020. The decrease mainly derived from the sale of the Partnership's holdings in Tamar Petroleum shares, reduction of access fees in respect of the export to Egypt agreement and classification of royalties receivable in respect of the Karish and Tanin leases as short-term. Conversely, there was an increase mainly in the long-term assets

item in the context of the joint ventures (mainly in connection with the costs of construction of a transmission pipeline from Israel to Jordan and to Egypt).

Current liabilities as of December 31, 2021 totaled approx. $385 million, compared with approx. $566 million as of December 31, 2020, as specified below:

(1) **Bonds** – Included, on December 31, 2020, the Series A bonds in the sum of approx. $394 million (net of issue expenses) which were partly repaid in the context of a buyback plan as specified in Section E below, and mostly repaid in a timely manner in December 2021.

(2) **Provision for balancing and tax payments** – In December 2021, the Partnership announced tax payments for individual holders and a balancing payment to non-individual holders in the sum of approx. ILS 268 million (approx. $86 million) (last year based on an assessment of taxable income for 2020: approx. ILS 117 million (approx. $36 million)), which were made in January 2022 (last year January 2021) and were based on an assessment of taxable income for the tax year 2021.

(3) **Trade and other payables** as of December 31, 2021 totaled approx. $271 million, compared with approx. $74 million as of December 31, 2020. The increase mainly derives from a provision for a payment of tax on capital gains from the Tamar Sale Transaction in the sum of approx. $154 million, which were paid in January 2022, and from an increase in the positive balances of the operator of the joint ventures in the Leviathan and Yam Tethys projects.

(4) **Other short-term liabilities** as of December 31, 2021 totaled approx. $28 million compared with approx. $63 million as of December 31, 2020, and derive from the oil and gas asset retirement obligation in the Yam Tethys project. The decrease in the balance of the liability derived from the progress of the abandonment actions during 2021.

Non-current liabilities as of December 31, 2021 totaled approx. $2,527 million, compared with approx. $3,021 million as of December 31, 2020, as specified below:

(1) **Bonds** as of December 31, 2021 totaled approx. $2,225 million and include the Leviathan Bond bonds (net of issue expenses) (for details see Part Four below), compared with approx. $2,855 million as of December 31, 2020. The decrease derived from repayment of the Tamar Bond bonds in December 2021 incidentally to the closing of the Tamar Sale Transaction.

(2) **Deferred tax liability** as of December 31, 2021 totaled approx. $208 million. The initial recognition of the deferred taxes on income liability derived from publication of the Amendment to the Income Tax Regulations. For further details, see Note 20A to the financial statements (Chapter C of this report).

(3) **Other long-term liabilities** as of December 31, 2021 totaled approx. $94 million, compared with approx. $166 million as of December 31, 2020. The decrease mainly derives from write-off of the asset retirement obligation in the Tamar project in the context of the sale of the Partnership's remaining interests in the project.

The capital of the limited partnership as of December 31, 2021 totaled approx. $939 million, compared with approx. $998 million as of December 31, 2020. The change in capital mainly derives from comprehensive income recorded in the Report Year in the sum of approx. $419 million from tax income in respect of previous years of approx. $31 million as well as from an increase in a capital reserve for benefits from the control holder in the sum of approx. $4 million, which was offset by distributed profits and payable tax payments and balancing payments in the sum total of approx. $285 million and income tax advances on account of the tax owed by the holders of the participation units of the Partnership, net, in the sum of approx. $228 million.

B. Cash flow

(1) The cash flows generated by the Partnership from operating activities amounted in the report period to approx. $454 million, compared with approx. $329 million last year. The increase mainly derived from the increase in pre-tax profit for the period.

(2) The cash flows that derived from investment activities amounted in the report period to approx. $982 million, compared with cash flows used for investment activities of approx. $242 million last year. In the report period, the Partnership invested approx. $30 million, mainly in the Leviathan project, approx. $20 million in ETFs (in accordance with the investment policy and the Partnership Agreement), and approx. $34 million in long-term assets, mainly in connection with expansion of infrastructures for transmission to Egypt. Conversely, approx. $955 million were received in the context of the Tamar Sale Transaction, approx. $14 million were received from repayment on account of a loan in the context of the transaction for the sale of the Karish and Tanin leases, approx. $69 million decrease, net, in deposits which served as a safety cushion for the bonds and approx. $31 million from the sale of a financial asset available for sale (the Tamar Petroleum shares).

(3) The cash flows used for financing activities amounted in the report period to approx. $1,285 million, compared with approx. $188 million last year. The cash flows from financing activities in the report period were used mainly for a profit distribution and for tax and balancing payments as well as for repayment of the Tamar Bond bonds and the Series A bonds.

The balance of cash and cash equivalents as of December 31, 2021 amounted to approx. $220 million, compared with approx. $70 million as of December 31, 2020.

C. Financing

(1) On December 9, 2021, the transaction for the sale of the Partnership's remaining interests in the Tamar project was closed according to the sale agreement described in Section 7.24.11 of Chapter A of this report (Description of the Partnership's Business). In consideration for the object of sale, the Partnership received the sum of approx. $965 million[2]. Following the closing of the Tamar

[2] The consideration was calculated in accordance with certain adjustments in respect of income and expenses which the Partnership had in connection with the leases. In addition, according to the sale agreement, if oil and gas profit levy assessments for 2021, the reports in respect of which will be submitted by the end of April 2022, are either higher or lower by more than $1 million versus the

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Sale Transaction, pledges that were created to secure the Tamar Bond bonds were removed, and money accrued in pledged accounts in the sum of approx. $170 million was released[3]. In addition, the Partnership received back various guaranties which it was required to provide in the context of the Tamar project in the sum total of approx. ILS 60 million.

The consideration for the object of sale together with the money that was released in the context of the closing of the transaction was used by the Partnership, *inter alia*, for repayment of the Tamar Bond bonds and the Series A bonds of the Partnership. According to an estimate made by the Partnership, the Partnership paid, in January 2022, a capital gain tax advance in respect of the sale in the sum of approx. $154 million.

(2) On April 27, 2021, the Partnership entered into an agreement with a third party for the off-TASE sale of all of its holdings (22.6%) in Tamar Petroleum, in consideration for a total cash amount of approx. ILS 100 million (approx. $31 million), reflecting a price per share of 500.035 Agorot (the "**Transaction**"). On May 5, 2021, the said Transaction was closed and in the context thereof, the shares were transferred against payment of the consideration.

(3) On December 5, 2021, the Partnership signed facility documents for the provision of bank credit that it received from an Israeli bank, intended to be used by the Partnership in its operating activities. In accordance with the terms and conditions of the credit facility, the Partnership will be able, for a period that commenced on December 6, 2021 and ending on December 6, 2022, to draw down, from time to time, U.S. dollar ("**$**"/"**Dollar**") loans up to a total sum of $100 million. LIBOR interest plus a margin of 2.7% per annum, will apply to utilization of the credit facility, a non-drawdown fee of 0.65% per year of the undrawn balance to be paid each quarter, and a 0.75% commitment fee, payable by December 6, 2023. As of the date of approval of the report, the Partnership has not yet drawn the said credit facility (in whole or in part).

For further details see also Part Five below.

D. **Profit distributions, tax payments and balancing payments:**

(1) On January 20, 2021, the Partnership made a payment of approx. ILS 117 million (ILS 0.0998676 per participation unit) (approx. $36 million), which was approved by the General Partner's board of directors on December 25, 2020. The said payment includes tax payments for individual eligible holders and balancing payments to non-individual holders.

(2) On May 27, 2021, the General Partner's board of directors approved a distribution to the limited partner in the sum of ILS 1 million (approx. $308 thousand), which will be used for payment of the supervisor's fees and the trustee's fees and expenses, in accordance with the provisions of the trust agreement.

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amounts underlying the accounting of the sale agreement, another accounting will be performed between the parties to the agreement.

[3] It is noted that the said amount does not include income (net) of the Partnership in respect of sales from the Tamar project which were made in November 2021, the payment for which was transferred to the Partnership after the closing of the transaction.

(3) On October 13, 2021, the Partnership performed a profit distribution to the participation unit holders in the sum of $100 million ($0.08519 per participation unit), which was approved by the General Partner's board of directors on September 22, 2021.

(4) On December 23, 2021, the Partnership performed a profit distribution to the participation unit holders in the sum of $100 million ($0.08519 per participation unit), which was approved by the General Partner's board of directors on December 9, 2021.

(5) On January 20, 2022, the Partnership made a payment of approx. ILS 268 million (ILS 0.2283281 per participation unit) (approx. $86 million), which was approved by the General Partner's board of directors on December 23, 2021. The said payment includes tax payments for individual eligible holders and balancing payments to non-individual holders.

(6) On March 23, 2022 the General Partner's board of directors approved a distribution to the limited partner in the sum of ILS 1 million (approx. $310 thousand), which will be used for payment of the supervisor's fees and the trustee's fees and expenses, in accordance with the provisions of the trust agreement.

E. Buyback plan:

At its meeting of August 12, 2021, the board of directors of the Partnership's General Partner adopted a plan to buy back Series A bonds for a total estimated cost of up to $100 million (the "**Plan**"), according to the directive of the Israel Securities Authority of July 26, 2010 (Position 199-8) regarding the "safe harbor" protection in the buyback of securities by a corporation (the "**Safe Harbor Directive**"). The purchases will be made from time to time in the period from the date of the signing of an agreement with the TASE member for its implementation thereby (i.e. September 3, 2021) until December 31, 2021, in transactions on or off TASE, by a trustee through a TASE member (the "**TASE Member**") which has no material business ties with the Partnership, with which the Partnership engaged for implementation of the Plan, including by way of a blind trust, all according to the absolute discretion of the TASE Member and without the Partnership's involvement.

The board of directors approved the buyback plan for the following main reasons:

2. In the current market situation, a buyback of the Partnership's bonds is a good business and economic opportunity for the Partnership.

3. The Plan will enable the reduction of the Partnership's debt.

4. The Plan is not expected to affect the cash flow forecast and the profit distribution capacity of the Partnership.

5. The Plan is not expected to adversely affect compliance with the financial covenants undertaken by the Partnership.

6. The Plan meets the provisions of the Partnership's indenture on the basis of which the Partnership's Series A bonds were issued, and approval of the Plan does not constitute a breach of the Partnership's undertakings to the Partnership's Series A bondholders.

7. The Plan meets the conditions set forth in the buyback procedure adopted by the Partnership, as well as the Safe Harbor Directive.

8. Approval of the Plan under the Safe Harbor Directive will reduce the risk that decisions and actions taken thereunder will be interpreted as a breach of the law, including the prohibition on the use of inside information.

Further to the said decision of the board of directors, until the date of final repayment of the bonds in December 2021, the Partnership performed buybacks of ILS 76,006,633 par value of Series A bonds in a total amount of approx. $20 million.

F. Further to Note 20A to the financial statements (Chapter C of this report) regarding the Amendment to the 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 "**Amended Language of the Regulations**"), and according to the Amended Language of the Regulations, *inter alia*, from the tax year 2022, the Partnership will be taxed as a company (i.e. by a two-stage method).
Further to the approval of the Amended Language of the Regulations, and according to the Partnership's estimate, a deferred tax liability was recorded in the sum of approx. $208 million against an expense in the Statement of Comprehensive Income.
The amount of the said liability is in respect of temporary differences created until the date of the financial statements, mainly in respect of differences between the depreciation on oil and gas assets recognized for tax purposes and the depreciation recorded in the financial statements.

It is noted that from January 1, 2022 forth, the Partnership will record current tax expenses in the Statement of Comprehensive Income, in addition to the update of the provision for deferred tax expenses, as aforesaid.

G. The Covid pandemic and its impact on the Partnership's business

At the end of 2019 and during Q1/2020, Covid-19 began to spread throughout the world, and in March 2020 it was defined by the WHO as a global pandemic (the "**Covid Crisis**").

During H1/2020, international markets recorded very sharp declines in oil and natural gas prices which are attributed to the Covid Crisis, as well as other causes and factors affecting the demand for and supply of energy products. However, towards the end of 2020 and during 2021, steep recovery was felt in the prices of energy products worldwide, including in oil and LNG prices, and in particular in the natural gas prices in international natural gas hubs, to price levels significantly exceeding pre-Covid levels.

It is noted that even though the Covid Crisis continues, an increase in the demand for natural gas was recorded in 2021 compared with the same period last year.

As of the date of approval of the report, it is difficult to estimate how the Covid Crisis will continue to develop in the coming years, what the extent of the impact of the Covid Crisis on the global and the domestic economy will be, and what its effect will be on demand and the prices of natural gas and the other energy products. In these circumstances, the Covid Crisis constitutes a global macroeconomic risk which creates uncertainty as to the future economic activity in the world and in the domestic market and the anticipated impact on the financial markets, interest margins, currency exchange rates and the prices of commodities in the energy sector, and may adversely affect many sectors, including the energy sector in which the Partnership operates.

In addition, if the Covid Crisis deteriorates, restrictions and actions that shall be employed by the Israeli government and other countries for tackling the Covid Crisis may have a material negative impact on the Partnership's business and its work plans. As a consequence of these measures, delays may be caused in the entry of foreign experts and in the supply of designated equipment into the State of Israel, due to restrictions which apply to the movement of citizens between sites and countries and restrictions on production or transportation which apply in the various countries, which may, *inter alia*, disrupt the regular production activity, the work plans of the operator, and also impose additional unexpected costs, and notwithstanding the precautions taken by the partners.

H. Military conflict between Russia and Ukraine and its possible impact on the Partnership's business

On February 24, 2022, the Russian army invaded Ukraine in an initiated campaign which included mobilization of ground forces, while also launching air and artillery assaults. As a result, the United States and the member states of the European Union imposed a series of economic punitive measures against Russia, which included, among others, sanctions on trade with Russia and with key Russian figures, a decision to cancel the Nord Stream 2 project intended to double the volume of gas exported from Russia to Germany, the halt of some of the collaborations with Russian entities by international companies, including significant companies in the fields of natural gas and oil production, and more.

Following the above and in light of Russia's status as a major global supplier of natural gas and oil, the concern of a long-term shortage of natural gas and oil has arisen, leading to a further rise in energy prices. As of the report approval date, the Partnership cannot estimate how the aforesaid crisis will develop and what long-term effect it will have on the energy markets in general and on its operations in particular. However, in 2021 Russia supplied approx. 150 BCM of natural gas to countries in Europe, which constitute approx. 40% of the total European gas consumption. However, it seems that many European countries are seeking to diversify their sources of natural gas, with the aim of reducing the dependence on natural gas from Russia, which may lead to significant additional demand for natural gas from areas with the option of connecting to the pipeline for the transport of gas to Europe, as well as additional demand for liquefied natural gas. The Partnership, together with its partners in the Leviathan and Aphrodite projects, is examining the impact of such factors on the options for development of its assets.

Caution concerning forward-looking information – The Partnership's assessments regarding the possible consequences of Covid and the military conflict between Russia and Ukraine constitute forward-looking information, as defined in Section 32A of the Securities Law, 5728-1968. This information is based, *inter alia*, on the Partnership's assessments and estimates as of the date of approval of the report and on reports published in Israel and around the world on this issue and directives of the relevant authorities, the materialization of which is uncertain, in whole or in part, and beyond the Partnership's control.

I. Restructuring

As of the date of approval of the report, the Partnership is promoting a possible restructuring, by way of approval of an arrangement pursuant to Sections 350 and 351 of the Companies Law, 5759-1999 (the "**Companies Law**") which mainly concerns substitution of all of the participation units of the Partnership with ordinary shares of a new company incorporated in England, which will hold all of the rights of the General Partner and the limited partner in the Partnership, and whose shares will be concurrently listed on the Tel Aviv Stock Exchange and the London Stock Exchange.

Part Two – Exposure to and Management of Market Risks

Report on exposure to and management of market risks

1. **The person in charge of market risk management in the Partnership**

   The person in charge of market risk management at the Partnership is VP Finance, Mr. Tzach Habusha.

2. **Description of the main market risks to which the Partnership is exposed**

   a. **The exchange rate risk**

   Changes in the ILS/Dollar exchange rate may affect the Partnership's results in several ways, as follows: (1) The Partnership's functional currency is the Dollar. Since some of the Partnership's expenses are stated in ILS or affected by the ILS/Dollar exchange rate, a decrease in the ILS/Dollar exchange rate (a strengthening of the ILS against the Dollar) increases such expenses in Dollar terms; (2) Since the gas prices in the agreements for the sale of gas from the Leviathan reservoir are determined by price formulas that include various linkage components, and, *inter alia*, linkage to the ILS/Dollar exchange rate and linkage to the electricity production tariff, which is partly affected by the ILS/Dollar exchange rate. A weakening of the ILS against the Dollar may have an immaterial negative effect on the Partnership's revenues; and (3) Since the Partnership reports its taxable income in ILS and pays the tax advances for the holders of the participation units in the Partnership in ILS, changes in the ILS/Dollar exchange rate affect the amount of the Partnership's taxable income and the amount of the cash flow which is used for payment of such tax advances.

   b. **The natural gas and condensate price risk**

   The price of gas in the agreements for natural gas supply, was determined according to price formulas that include various linkage components, including linkage to the Brent barrel price, linkage to the electricity production tariff and linkage to the ILS/Dollar exchange rate. In a significant part of the agreements for natural gas supply in which the Partnership engaged, floor prices were set alongside the price formulas, which to some extent limit the exposure to fluctuations in the linkage components. However, there is no certainty that the Partnership will be able to set floor prices as aforesaid also in new agreement to be signed thereby in the future.

   In addition, a decrease in the Brent prices and/or a decrease in the electricity production tariff and/or an increase in the ILS/Dollar exchange rate (devaluation of the ILS against the Dollar) may adversely affect the Partnership's revenues from the existing and future gas sale agreements.

   It is noted that the frequent methodological changes made by the PUA-E to the method of calculation of the electricity production tariff make its predictability difficult, and may lead to disputes between gas suppliers and customers in connection with the method of calculation thereof. In this context, it is noted that in relation to some of the private power plants (including plants which were sold by the IEC), the PUA-E instituted SMP regulation (System-Marginal Price) according to which every half hour the wholesale electricity tariff is determined by the marginal cost for the production of one additional kWh in the sector, based on half-hour tenders that are held by the manager of the electricity system between the various electricity producers, every day. The aforesaid pricing method may have an effect on the prices of the natural gas which is sold by the Partnership to the electricity producers in the domestic market, in the event that the gas prices are linked to the aforesaid pricing in futures contracts.

The demand for natural gas from the Partnership's customers and its price are affected, *inter alia*, by significant changes in the prices of oil, natural gas, including LNG, and the prices of other sources of energy, including coal, sources of renewable energy and other alternatives to the produced natural gas marketed by the Partnership, both in the domestic market and in the international markets. Thus, for example, low LNG prices in the international markets may lead to an increase in the import of LNG to Israel and/or the regional markets, reduce natural gas demand in markets that are relevant to the Partnership and impair the Partnership's revenues from the Leviathan reservoir.

An increase in supply, a decrease in demand or a decrease in the prices of alternative energy sources for natural gas, including coal, sources of renewable energy and other products, in the domestic market or international markets may reduce demand from existing and potential customers and lead to a decrease in the price of the natural gas sold by the Partnership, which may adversely affect the Partnership, its financial position and the results of its operation.

Reforms and decisions relating to the electricity sector, and the energy sector, including changes in the environmental laws, may also reduce the demand for the natural gas sold by the Partnership and/or affect its price.

In addition, material events in the global economy such as an economic slowdown, recession, inflation, irregular volatility in foreign exchange rates, trade wars, an impairment of the efficient functioning of the global manufacture and supply chains in general, and the segments of engineering, manufacture and supply of components for the oil and gas industry in particular, as well as weather conditions, including global warming, the eruption of epidemics such as Coronavirus and natural disasters, may also reduce the demand for the natural gas sold by the Partnership and/or affect its price and/or adversely affect the Partnership's revenues from the existing and future agreements for the sale of the gas, as well as the making of decisions on investment in new natural gas projects and/or expansion of existing projects.

3. <u>The Partnership's policy on exchange rate market risk management</u>

a. The Partnership invests its surplus liquidity in accordance with the provisions of the Partnership Agreement with the aim of obtaining appropriate yield with a suitable yield/risk ratio.

b. The Partnership's funds are intended, *inter alia*, for exploration activities in its oil and gas assets and for their development. In view of the aforesaid, the

General Partner, which manages the Partnership, invested the Partnership's available funds in Dollar-denominated financial assets, which mainly include (as of the date of the statement of financial position) bank deposits and ETFs.

c. When the Partnership is aware of material payments in foreign currency or ILS it aspires to protect the payment and hedge against currency rate changes.

d. No events have been determined regarding which there is an obligation to adopt a special resolution at the board of directors with regard to market risks.

4. Means of supervision and implementation of the policy

The Partnership's investment policy is set forth in the Partnership Agreement. On November 20, 2018, the board of directors of the General Partner decided to approve the setup of an investment committee, the purpose of which is to hold thorough discussions on the Partnership's investments and recommend methods of action on such issue to the board of directors of the Partnership's General Partner. The committee was established in view of the need for professional and thorough discussions by a special forum (designated by the board of directors of the General Partner). The investment committee convenes at least once every six months and when necessary. The committee's powers are as follows: To discuss the Partnership's investment portfolio, *inter alia*, in order to ascertain that the method of investment of the Partnership's available cash is in keeping with the investment policy set forth in Section 9.4 of the Partnership Agreement of July 1, 1993 (as amended from time to time); to determine the mix and structure of the Partnership's investment portfolio according to the management's recommendation and insofar as the investment committee believes that there is need to modify the investment policy, and to recommend such change to the board of directors of the General Partner. The committee is required to report its recommendations to the board of directors on an ongoing basis and also report the mix and structure of the Partnership's investment portfolio as part of the annual report.

The members of the investment committee, as of the date of approval of the report, are: Messrs. Efraim Sadka (Chairman of the Investment Committee, external director), Jacob Zack (external director) and Amos Yaron (external director).

The handling of currency and interest risk exposure, formulation of hedging strategies and supervision of the performance thereof is entrusted to the board of directors of the General Partner.

5. Sensitivity tests

In accordance with Amendment 5767 to the provisions of the Second Schedule to the Securities Regulations (Immediate and Periodic Reports), 5730-1970, the Partnership carried out tests of sensitivity to changes in risk factors affecting the fair value of "sensitive instruments".

Description of parameters, assumptions and models

Parameters:

Parameter	Source/Manner of Treatment
ILS/Dollar exchange rate	Representative rate as of December 31, 2021
Dollar interest	According to the LIBOR curve

a. For details regarding an analysis of the sensitivity of the value of royalties and a loan to Energean from the sale of the Karish and Tanin leases to changes in the cap rate, see Note 22 and 2 to the financial statements (Chapter C of this report).

b. For details regarding an analysis of the sensitivity of the value of royalties receivable from the Karish and Tanin leases to changes in the price of natural gas and condensate, see Note 22F4 to the financial statements (Chapter C of this report).

c. For details regarding an analysis of the sensitivity of financial instruments with variable interest see Note 22 and 2 to the financial statements (Chapter C of this report).

d. For details regarding an analysis of the sensitivity of ETNs to a change in the prices of securities, see Note 22F4 to the financial statements (Chapter C of this report).

e. Tests of sensitivity to changes in the Dollar/ILS exchange rate ($ in thousands):

Sensitive Instrument	Profit/(Loss) from Changes		Fair Value	Profit/(Loss) from Changes	
	10%	5%		-5%	-10%
	3.421	3.266	3.110	2.955	2.799
Cash and cash equivalents	(611)	(305)	6,109	305	611
Bank deposits	(23)	(11)	225	11	23
Provision made for tax and balancing payments	8,618	4,309	(86,178)	(4,309)	(8,618)
Trade and other payables	43	22	(431)	(22)	(43)
Total	**8,027**	**4,015**	**(80,275)**	**(4,015)**	**(8,027)**

6. <u>Report on linkage bases in Dollars in thousands, as of December 31, 2021:</u>

	Financial Balances			
Assets	In dollars or dollar-linked	In non-linked ILS	Non-financial balances	Total
Cash and cash equivalents	214,079	6,109	-	220,188
Short-term investments	120,432	225	-	120,657
Trade receivables	152,534	-	-	152,534
Other receivables	73,408	-	13,979	87,387
Investments in oil and gas assets	-	-	2,570,453	2,570,453
Investment in company accounted for at equity	-	-	62,796	62,796
Long-term deposits	100,667	-	-	100,667
Other long-term assets	305,340	-	230,114	535,454
Total assets	**966,460**	**6,334**	**2,877,342**	**3,850,136**
Liabilities				
Trade and other payables	5,038	431	265,257	270,726
Other short-term liabilities	-	-	27,649	27,649
Provision for balancing and tax payments	-	-	86,178	86,178
Bonds	2,224,813	-	-	2,224,813
Deferred tax liability	-	-	207,837	207,837
Other long-term liabilities	-	-	94,395	94,395
Total liabilities	**2,229,851**	**431**	**681,316**	**2,911,598**
Total net balance sheet balance	**(1,263,391)**	**5,903**	**2,196,026**	**938,538**

7. Report on linkage bases in Dollars in thousands, as of December 31, 2020:

	Financial Balances				
Assets	In dollars or dollar-linked	In non-linked ILS	Non-linked	Non-financial balances	Total
Cash and cash equivalents	63,351	6,628	-	-	69,979
Short-term investments	169,149	218	-	-	169,367
Trade receivables	145,681	-	-	-	145,681
Other receivables	20,212	-	-	12,664	32,876
Investments in oil and gas assets	-	-	-	3,439,902	3,439,902
Investment in company accounted for at equity	-	-	-	67,288	67,288
Long-term deposits	100,529	-	-	-	100,529
Other long-term assets	323,664	-	17,033	218,368	559,065
Total assets	**822,586**	**6,846**	**17,033**	**3,738,222**	**4,584,687**
Liabilities					
Trade and other payables	35,145	917	-	37,505	73,567
Other short-term liabilities	-	-	-	62,212	62,212
Provision for balancing and tax payments	-	-	-	36,462	36,462
Bonds	3,248,505	-	-	-	3,248,505
Other long-term liabilities	-	-	-	166,246	166,246
Total liabilities	**3,283,650**	**917**	**-**	**302,425**	**3,586,992**
Total net balance sheet	**(2,461,064)**	**5,929**	**17,033**	**3,435,797**	**997,695**

Part Three – Corporate Governance Aspects

1. **The Partnership's donation policy**

The Partnership has not yet set out a donation policy due to restrictions applicable thereto under the Partnership Agreement. Accordingly, it made no monetary contributions in the Report Year, However, it is noted that the Partnership is working for the formulation of a comprehensive plan with respect to activity that pertains to community relations and giving donations, out of its commitment to society and the environment in Israel and to broad principles of corporate social responsibility, subject to receipt of all of the approvals required pursuant to any law.

2. **Directors having accounting and financial expertise**

The board of directors of the General Partner has determined, pursuant to Section 92(a)(12) of the Companies Law, that the minimum appropriate number of directors having accounting and financial expertise shall be 1. The board of directors of the General Partner believes that considering the type of business of the company which, as aforesaid, is the General Partner in a partnership that is primarily engaged in the field of natural gas, condensate and oil exploration, development and production and the vast business experience of the directors (also those who do not fulfill the definition of "having accounting and financial expertise"), the minimum number as aforesaid allows the board of directors to fulfill the obligations imposed thereon pursuant to the law and the documents of incorporation of the Partnership, in respect of the examination of the Partnership's financial position and the preparation and approval of the financial statements. The aforesaid reasons are accompanied by the fact that pursuant to the Partnership's work procedure, the auditors of the financial statements are invited to every board meeting at which the financial statements are discussed, and are available to give the members of the board of directors any explanation required in relation to the financial statements and the financial position of the Partnership, both in and outside of the meetings in which they participate. In addition, it is noted that under the law any director who so wishes is entitled, in circumstances that so justify and under the conditions set forth in the law, to receive professional advice, at the expense of the General Partner, in order to perform his work, including accounting and financial advice.

As of the report approval date, 3 directors with accounting and financial expertise serve on the General Partner's board of directors (Messrs. Efraim Sadka, Tamir Poliker and Jacob Zack). For details regarding the education, experience and qualifications of these directors, see Section 26 of Chapter D of this report (Additional Details regarding the Partnership).

3. **Independent directors**

The Partnership did not adopt a clause in the Trust and Partnership Agreements with regards to the number of independent directors, as they are defined by the Companies Law. As of the date of approval of the report, 3 external directors serve on the General Partner's board of directors (although the Companies Law requires that there be at least 2 serving external directors). For details on the independence of the directors, see Section 26 of Chapter D of this report (Additional Details on the Partnership).

4. Disclosure on the internal auditor at the Partnership

a. Details of the internal auditor

1) Internal auditor's name: CPA Gali Gana.

   Date of commencement of office: February 1, 2016.

2) His qualifications for the position:

   The internal auditor fulfills the terms and conditions set forth in Sections 3(a) and 8 of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**") and Section 146(b) of the Companies Law.

   A CPA with a degree in Business Administration majoring in accounting, and an M.A. in Public Administration and Internal Audit, Certified Information Systems Auditor (CISA), Certified Internal Auditor (CIA), Certified in Risk Management Assurance (CRMA), Certified in Risk and Information Systems Control (CRISC).

3) The internal auditor is not an employee of the Partnership, but rather provides internal audit services thereto by outsourcing. In addition, the internal auditor provides the Partnership with services for examination of the effectiveness of the controls over processes in connection with the internal control of the Partnership's financial statement (ISOX). The internal auditor is a partner at the accounting firm Rosenblum Holtzman.
4) The internal auditor holds no other office at the Partnership in addition to the internal audit.
5) The internal auditor also serves as the internal auditor of the General Partner of the Partnership and of the control holder. His service as the internal auditor of the aforesaid corporations does not create a conflict of interests with his function as the internal auditor at the Partnership.
6) The internal auditor is not an interested party of the Partnership or a relative of an interested party of the Partnership and is also not the auditor or another on his behalf.
7) The internal auditor does not hold securities of the Partnership or of a body affiliated therewith.

b. Appointment procedure

The appointment of Mr. Gana as the internal auditor was approved by the board of directors of the General Partner on January 27, 2016, following its acceptance of the recommendation of the audit committee, and after it found him to have the appropriate qualifications for the position, *inter alia* in view of his specialization and vast experience in the field of internal audit, and after Mr. Gana declared that he meets all of the eligibility requirements needed to fulfill his position as internal auditor pursuant to law, considering, *inter alia*, the Partnership's type, size and the scope and complexity of its operations.

c. Identity of the organizational supervisor of the internal auditor

The chairman of the board of directors of the General Partner.

d. The work plan

The internal audit performs audits on many diverse issues, and the audits are discussed at the audit committee and are adequately addressed. The internal audit budget is approved by the audit committee. The work plan of the internal audit is prepared by the internal auditor in coordination with the General Partner's management, and is based on the risk survey for the determination of the audit targets performed by the internal auditor, from which the audit topics are derived. The plan is presented to the audit committee and the board of directors of the General Partner and is approved by the audit committee.

The work plan leaves the internal auditor discretion to deviate therefrom, subject to the approval of the audit committee.

Transactions as set forth in Sections 65UU-65YY of the Partnerships Ordinance [New Version], 5735-1975 which were performed in the Report Year, including their approval processes, are examined by the internal auditor as part of his annual work plan.

It is noted that in addition to the internal auditor's work and pursuant to the joint operating agreement (JOA), the Partnership performs, through external companies, a joint audit with its partners in the Tamar and Leviathan projects and in Block 12 in Cyprus, over the work of the operator in the projects as aforesaid. The Partnership's control and investment manager participates in the preparation, monitoring and supervision meetings of the audit as aforesaid and the internal auditor reports to the audit committee and the board of directors of the General Partner on its findings and results.

In 2021 a periodic audit was conducted by an international outside consultant specializing in audits in the oil and gas industry, in the books of the operator of the Michal-Matan Joint Venture (Tamar project) for 2019-2020, with an approved budget of approx. 770 hours. It is noted that the audit as aforesaid was conducted in cooperation with all of the partners in the project other than the operator, in accordance with the audit rules set forth in the joint operation agreement which govern the project.

e. **Scope of engagement**

The number of hours is determined according to the needs of the approved annual audit, in the budget determined upon commencement of the internal auditor's term of office. The scope of the internal auditor's engagement at the Partnership and at the General Partner in the reporting year amounted to approx. 600 hours.

The scope of the internal auditor's engagement was determined, *inter alia*, based on the size and complexity of the Partnership's business activity. The General Partner's management, the audit committee and the board of directors of the General Partner have the option to expand the scope of the plan according to the circumstances.

The management, the audit committee and the Chairman of the Board have the option to change the scope of the plan, upon the request of the internal auditor and according to his recommendations or according to the instructions of the audit committee.

f. **Conduct of the audit**

The internal audit is conducted according to the internal audit standards that are accepted in Israel and worldwide, and in accordance with professional directives in the field of internal auditing, as set forth in Section 4(b) of the Internal Audit Law.

The board of directors of the General Partner is satisfied, in accordance with the audit committee's examination, that the auditor has fulfilled all of the requirements and the conditions that were stated above, considering the internal auditor's notice, as delivered to the audit committee and the board of directors of the General Partner.

g. **Access to information**

The internal auditor has full, unlimited, constant and direct access to the Partnership's information systems, including financial figures for the purpose of the audit pursuant to Section 9 of the Internal Audit Law.

h. **The internal auditor's report**

The internal auditor's report was submitted in writing.

After submission of the audit reports to the General Partner's management and receipt of its position, audit reports were submitted to the chairman of the board, to the members of the audit committee and to the members of the General Partner's board of directors, and were discussed at length at the audit committee. Below are dates on which the audit committee discussed reports of the internal auditor: March 14, 2021, August 10, 2021, February 13, 2022, March 21, 2022.

i. **Board of directors' assessment of the internal auditor's activity**

The board of directors of the General Partner estimates, in accordance with the audit committee's examination, that the scope, nature and continuousness of the activity and work plan of the internal auditor of the General Partner are reasonable, considering the organizational structure, the nature and scope of the business activities of the Partnership, and achieve the objectives of the internal audit.

j. Compensation

In 2020 the Partnership recorded a total annual amount of ILS 120 thousand in respect of the internal audit services. The General Partner's board of directors has determined, in accordance with the audit committee's examination, that the compensation is reasonable and does not affect the exercise of the internal auditor's independent professional discretion.

5. Auditors' fees

The Partnership has joint auditors: BDO Ziv Haft and EY – Kost Forer Gabbay & Kasierer.

Following is a specification of the amounts of the fees of the auditors at the Partnership, and the Partnership's share of the auditors' fees in joint ventures:

	Y2021		Y2020	
	For audit, audit-related and tax services	For other services*	For audit, audit-related and tax services	For other services*
	ILS in thousands	ILS in thousands	ILS in thousands	ILS in thousands
Kost Forer Gabbay & Kasierer and Ziv Haft, co-auditors	2,009	2,435	2,078	2,974
Somekh Chaikin CPAs**	-	-	22	-
Total	2,009	2,435	2,100	2,974

*** Other services, mainly in connection with offerings.**

**** Co-accountants in the "Michal and Matan" joint venture.**

According to the Companies Law, the auditor's fee for the audit work is determined by the general meeting, which has empowered the General Partner's board of directors for this purpose. The organ that authorizes the auditors' fees for the audit work as well as for other services is the board of directors of the General Partner, after the Audit Committee examines the scope of the auditors' work and their fees (and in the context of such examination considers the Financial Statements Review Committee's evaluation and the auditor's work) and presents its recommendations to the board of directors of the General Partner.

6. The Partnership's policy on negligible transactions

On March 11, 2009, the board of directors of the General Partner adopted, for the first time, guidelines and rules for the classification of a transaction of the Partnership with an interested party therein as a negligible transaction, as stated in Regulation 41(a3) of the Securities Regulations (Annual Financial Statements), 5710-2010 (the

"**Negligibility Procedure**" and "**Reporting Regulations**", respectively). The Negligibility Procedure has been updated over the years and was updated by the audit committee and the board of the General Partner on March 14, 2019 and March 17, 2019, respectively.

The audit committee and board of directors of the General Partner (within the approval of the annual report) determined that a transaction shall be considered a negligible transaction if it fulfills all of the following conditions:

a. It is not an irregular transaction (as this term is defined in the Companies Law).

b. In any transaction for which the negligibility threshold is examined, the criterion that is relevant to the contemplated transaction shall be examined before the event as specified below, and insofar as each of the criteria that are relevant to the transaction (as specified in sub-sections 1-5 below) is at a rate of no more than 0.8% and the scope of the transaction does not exceed $1,000,000 (the "**Negligibility Threshold**"), the transaction shall be considered as negligible:

1) In a purchase/sale of a fixed asset – the scope of the asset contemplated in the transaction divided by the total assets of the Partnership according the last reviewed or audited financial statements, as the case may be.

2) A sale of products or services: the sale volume contemplated in the transaction divided by the total annual sales, calculated based on the last four quarters regarding which reviewed or audited financial statements were released.

3) A purchase of products or services – the scope of the expenses contemplated in the transaction divided by the total annual operating expenses that are relevant to the transaction calculated based on the last four quarters regarding which reviewed or audited financial statements were released.

4) An assumption of a financial liability – the undertaking contemplated in the transaction divided by the total liabilities according to the latest reviewed or audited financial statements, as the case may be.

5) Insurance transactions – the premium shall be examined as the transaction amount, as distinguished from the scope of the insurance coverage that is given.

The aforesaid notwithstanding, in transactions in which the Partnership will enter into joint agreements with an interested party therein and/or the control holder for the receipt of consultation and/or management services from employees or third parties in various fields – the transaction shall be considered negligible if it meets all of the rules of the Negligibility Procedure (other than the Negligibility Threshold), provided that the scope of the annual expenses for the services contemplated in the transaction does not exceed ILS 1.5 million and that the terms of the engagement in joint agreements in respect of the Partnership do not differ from the terms with respect to the interested party and/or the control holder, considering their proportionate share.

c. In cases where, according to the discretion of the audit committee, all of the criteria as aforesaid are irrelevant to the contemplated transaction, the audit committee shall determine other criteria, provided that the scope of the transaction shall not exceed the rules that have been set forth above.

d. The transaction is negligible also from the qualitative aspect. Thus, one of the criteria for such examination is that the transaction is not classified by the Partnership as an event which is required to be reported according to the provisions of Regulation 36 to the Reporting Regulations.

e. In multi-annual transactions (such as a lease of a property for several years) the negligibility of the transaction shall be examined on an annual basis (by calendar year) (in other words, in the aforesaid example, the annual rent shall be examined).

f. The negligibility of each transaction shall be examined separately, although the negligibility of integrated or contingent transactions shall be examined in the aggregate. Transactions that are performed frequently during the year and in close time proximity to one another shall be deemed as integrated transactions.

g. For the purpose of disclosure in the periodic report the negligibility of each transaction shall be examined on an annual basis while combining all of the same-kind transactions that were performed with the interested party or the control holder, as the case may be, in the Report Year.

h. In cases where questions arise with regard to the implementation of the aforesaid criteria, the Partnership shall exercise discretion and examine the negligibility of the transaction based on the purpose of the Reporting Regulations and the rules and guidelines above.

i. Each year, the Partnership's management shall present to the audit committee transactions with interested parties to which the Partnership is a party and which were classified as negligible transactions under the procedure, and the audit committee will review the implementation of the provisions of the said procedure by the Partnership.

7. <u>Internal enforcement and code of ethics</u>

a. The board of directors of the General Partner has determined that the audit committee will be in charge of the adoption of an updated internal enforcement program in respect of securities, for the management of the program and for the ongoing follow-up and supervision of the performance thereof. Accordingly, in August 2018, the audit committee approved an updated internal enforcement program in respect of securities (the "**Current Enforcement Program**"), according to the criteria published by the ISA and based on the results of a current compliance survey that was conducted at the Partnership prior to approval of the Current Enforcement Program. In this context, among other things, the procedures were updated according to the changes in the law from the adoption of the original enforcement program and in accordance with the results of the said survey. The

Partnership updates the Current Enforcement Program on a regular basis, according to developments in its business and to changes in the law (if any). As of the report approval date, in accordance with the provisions of the Current Enforcement Program, the Partnership is carrying out a current compliance survey for purposes of examining the enforcement program update.

b. The Partnership adopted a monitoring and control procedure for the operator's environmental, health & safety activity (the "**EHS Procedure**") which is designed to ensure that the operator acts in compliance with the provisions of the law in these matters. The audit committee approved the EHS Procedure and appointed an EHS officer at the Partnership.

c. The Partnership acted to implement the provisions of the Privacy Protection Law, 5741-1981 and the Privacy Protection Regulations (Information Security), 5777-2017 and accordingly, registered databases. Furthermore, the Partnership established an information security and cyber protection policy and acted to implement the same by assimilation of organizational procedures. The audit committee was authorized as the entity in charge of ongoing reporting, monitoring and supervision of these matters.

d. The Partnership has a code of ethics specifying the proper rules of conduct and principles for the purpose of guidance of the actions of all of the officers and employees at the Partnership, in accordance with the fundamental values according to which the Partnership operates.

The Partnership provides training for its officers and employees in accordance with the provisions of the enforcement plan and the procedures thereunder, the information security procedures and the code of ethics.

8. Corporate Social Responsibility at the Partnership ("ESG")

In view of the importance that the Partnership attributes to the issue of ESG, in February 2022 the General Partner's board of directors decided to update the Partnership's targets and strategy, *inter alia*, in view of the changes taking place in the energy industry, the government policy in Israel and in developed countries to encourage a shift to produce electricity from alternative energies, and the desire to promote aspects of social and environmental responsibility (ESG) in the Partnership's operations.

In view of the above, the General Partner's board of directors authorized the audit committee as the function responsible for the issue of corporate responsibility in the Partnership. Accordingly, the audit committee has appointed an officer who is responsible for corporate social responsibility at the Partnership, and a first corporate social responsibility report for 2020-2021 was posted on the Partnership's website, specifying the economic aspects, the direct and indirect effects of the Partnership's operations, environmental, social and corporate governance data and goals according to global reporting methodologies.

Part Four – Disclosure in connection with the Partnership's Financial Reporting

Subsequent events

See Note 23 to the financial statements (Chapter C of this report).

Part Five – Details of bonds issued by Leviathan Bond Ltd.

Leviathan Bond bond series	2023	2025	2027	2030
Par value on the issue date	500,000	600,000	600,000	550,000
Issue date	August 18, 2020	August 18, 2020	August 18, 2020	August 18, 2020
Par value as of December 31, 2021	500,000	600,000	600,000	550,000
Linked par value as of December 31, 2021	500,000	600,000	600,000	550,000
Value in the Partnership's books as of December 31, 2021	497,973	594,674	592,160	539,976
TASE value as of December 31, 2021[4]	515,175	636,870	646,224	594,336
Fixed annual interest rate	5.750%	6.125%	6.500%	6.750%
Principal payment date[11]	June 30, 2023	June 30, 2025	June 30, 2027	June 30, 2030
Interest payment dates	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2023	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2025	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2027	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2030
Linkage base: base index[5]	None			
Conversion right	None			
Right to prepayment or mandatory conversion[6]	Right to prepayment			
Guarantee for payment of the liability	See Note 10B to the financial statements (Chapter C of this report).			
Name of the trustee	HSBC Bank USA, National Association			
Name of person in charge at the trust company	Asma Alghofailey			
Trustee's address and	HSBC Bank USA, National Association, as TRUSTEE			

[4] The bonds are traded in Israel on the "TACT-institutional" system on TASE

[5] The bonds' principal and interest are depicted in dollars.

[6] The financing documents prescribe provisions regarding the prepayment of the bonds, including (1) prepayment initiated by the issuer, subject to a prepayment fee (make whole premium); and (2) mandatory prepayment in certain cases that were defined, including by way of a bond buyback and/or an issuance of a purchase offer to all of the bond holders, including upon the sale of all or part of the rights in the Leviathan project.

e-mail	452 5th Avenue, 8E6 New York, NY 10018 asma.x.alghofailey@us.hsbc.com
Rating as of the issue date[7]	Fitch Rating: BB stable Moody's: Ba3 Stable S&P: BB- Stable Standard & Poor's Maalot: ilA+ stable
Rating as of the report date[8]	Fitch Rating: BB stable Moody's: Ba3 Stable S&P: BB- Stable Standard & Poor's Maalot: ilA+ stable
Has the Partnership fulfilled, by December 31, 2021 and during the Report Year, all of the conditions and obligations under the indenture	Yes
Is the bond series material[9]	Yes
Have any conditions establishing cause for acceleration of the bonds been fulfilled	No
Pledges to secure the bonds	See Note 10C to the financial statements (Chapter C of this report).

Additional information

The board of directors of the General Partner expresses its appreciation of the management of the General Partner, the officers and the entire team of employees for their dedicated work and their significant contribution to the promotion of the Partnership's business.

Sincerely,

Yossi Abu	**Gabi Last**
CEO	Chairman of the Board

NewMed Energy Management Ltd.
On behalf of: NewMed Energy – Limited Partnership

[7] See the Partnership's immediate reports of August 19, 2020 (Ref. No. 2020-01-090852 and 2020-01-091134), and of August 23, 2020 (Ref. No. 2020-01-092247), the information included in which is incorporated herein by reference.

[8] For updated rating reports, see the Partnership's immediate reports of July 29, 2021, August 1, 2021 and August 10, 2021 (Ref. no.: 2021-01-125100, 2021-01-125451 and 2021-01-130161, respectively), the information appearing in which is included herein by way of reference.

[9] A series of bond certificates will be deemed material if the total liabilities of the corporation thereunder at the end of the Report Year, as presented in the financial statements, constitute five percent or more of the total liabilities of the corporation.

Annex A to the Board of Directors' Report

Figures regarding Leviathan Bond Ltd.

Further to Note 10B to the financial statements (Chapter C of this report) and to Part Five of the Board of Directors' Report, and following a tax ruling received by the Partnership immediately prior to the bond offering, below are financial figures which will be disclosed to the holders of the Leviathan Bond bonds.

Statements of Financial Position (Expressed in US$ Thousands)

	31.12.2021	31.12.2020
	Audited	Audited
Assets:		
Current Assets:		
Short term Bank deposits	5	15
Related parties	**	**
	5	15
Noncurrent Assets:		
Loans to shareholders	2,248,082	2,247,611
Long term bank deposits	100,160	100,000
	2,348,242	2,347,611
	2,348,247	2,347,626
Liabilities and Equity:		
Current Liabilities:		
Related parties	165	15
	165	15
Noncurrent Liabilities:		
Bonds	2,250,000	2,250,000
Loans from shareholders	100,000	100,000
	2,350,000	2,350,000
Equity (Deficit)	(1,918)	(2,389)
	2,348,247	2,347,626

**** Less than $1,000**

Statements of Comprehensive Income (Expressed in US$ Thousands)

	For the Period Ended 31.12.2021	For the Period Ended 31.12.2020
	Audited	Audited
Financial expenses	141,872	54,427
Financial income	(142,343)	(52,038)
Total comprehensive expenses (income)	(471)	2,389

SPONSOR FINANCIAL DATA REPORT[10]

		Year Ended
		31.12.2021
	Item	Quantity/Actual Amount (in USD$,000)
A.	Total Offtake (BCM)	10.7[11]
B.	Leviathan Revenues (100%)	1,948,208[12]
C.	Loss Proceeds, if any, paid to Revenue Account	868,917
D.	Sponsor Deposits, if any, into Revenue Account	-
E.	Gross Revenues (before Royalties)	868,917
F.	Overriding Royalties	
	(a) Statutory Royalties	(97,699)
	(b) Third Party Royalties	(38,750)
G.	Net Revenues	732,468
H.	Costs and Expenses:	
	(a) Fees Under the Financing Documents (Interest Income)	52
	(b) Taxes	-
	(c) Operation and Maintenance Expenses	(94,129)
	(d) Capital Expenditures	(48,563)
	(e) Insurance (income)	(17,025)
I.	Total Costs and Expenses (sum of Items H(a), (b), (c), (d) and (e))	(159,665)
J.	Total Cash Flows Available for Debt Service (Item G *minus* Item H)	572,803
K.	Total Cash Flow from operation (Item G minus Items H(c) and H(e)	621,314
L.	Total Debt Service	(141,620)
M.	Total Distribution to the Sponsor	465,000

[10] The aforesaid report is delivered to the trustee for the bonds on a quarterly and annual basis and represents the cash flow deriving for the Partnership from the TamarLeviathan project relative to the amounts required for the debt service in such period.

[11] Gas sales from January 1st 2021 until December 31st 2021 for 100% of the Leviathan partners on an accrual basis.

[12] Gas sales from January 1st 2021 until December 31st 2021 for 100% of the Leviathan partners on an accrual basis.

Annex B to the Board of Directors' Report

Summary of Data of a Valuation of Royalties from the Karish and Tanin Leases

Following are details of a highly material valuation with respect to the profit from the revaluation of royalties from the sale of the Partnership's interests in the Karish and Tanin leases (for further details, see Note 8B to the financial statements (Chapter C of this report) and the valuation attached below):

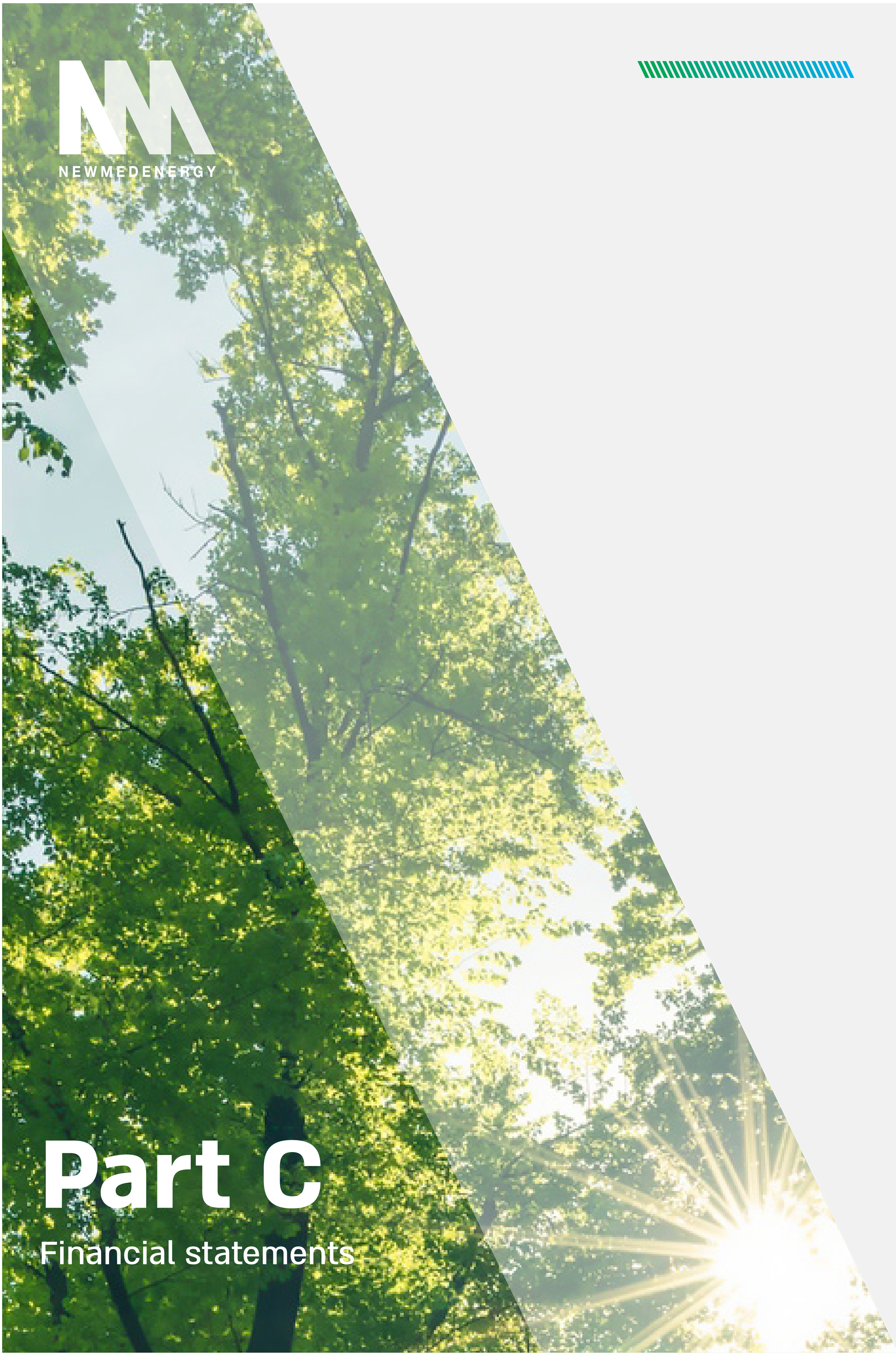
Identification of the object of the valuation:	Royalties in respect of the sale of all of the interests in the Karish and Tanin leases.
Timing of the valuation:	December 31, 2021
Value of the object of the valuation shortly before the date of the valuation, if GAAP, including depreciation and amortization, did not warrant a change in its value according to the valuation:	Not applicable.
Value of the object of the valuation determined according to the valuation:	A sum of approx. $262.2 million, which is included under other long-term assets of the Partnership and in the Partnership's short-term receivables.
Identification of the valuator and his/its characteristics, including education, experience in the preparation of valuations for accounting purposes in reporting corporations and in scopes similar to or exceeding those of the reported valuation, and dependence on the party commissioning the valuation, including reference to indemnification agreements with the valuator:	GSE Financial Advisory Ltd. is a subsidiary of Giza Singer Even Ltd. (jointly: the "**Valuator**"), which is a leading financial consulting and investment banking firm in Israel. The firm has vast experience in supporting the largest companies, the most prominent privatizations and the most important transactions in the Israeli market, which experience was gained thereby over the course of its 30 years of activity. Giza Singer Even is active in three segments, through autonomous and independent business divisions: economic consulting; investment banking; analytical research and corporate governance. The work was performed by a team headed by CPA Nir Harush, Partner, CEO and Head of Financial Services at Giza Singer Even. Mr. Harush has vast experience in financing and infrastructure projects. He holds a B.A. in Accounting and Business Administration and an MBA from the College of Management Academic Studies. The Valuator has no personal interest in and/or dependence on the Partnership and/or NewMed Energy Management Ltd.,[13] the general partner of the Partnership (the "**General Partner**"), other than the fact that it received a fee for the valuation. Furthermore, the Valuator has confirmed that its fee is not contingent on the

[13] The General Partner's former name was Delek Drilling Management (1993) Ltd. On February 24, 2022, its name was changed to its current name.

	results of the valuation. In addition, insofar as the Valuator shall be bound by a peremptory judgment to pay any sum to a third party in connection with the work, the Partnership shall pay the Valuator the sum charged to the Valuator in excess of the fee paid for the work multiplied by 3. It is noted that this indemnification undertaking shall not apply should it be ruled that the Valuator acted with negligence or intentional misconduct in connection with the performance of the work.
The valuation model applied by the Valuator:	Discounting expected cash flows while adjusting the discount rates to the risks entailed by the cash flow forecasts.
The assumptions based on which the Valuator prepared the valuation according to the valuation model:	The key assumptions underlying the valuation are as follows: 1. Period of production from the Karish lease: July 1, 2022 to December 31, 2042; 2. Average annual rate of natural gas production from the Karish lease: approx. 3.59 BCM; average annual rate of condensate production from the Karish lease: approx. 4.74 million barrels; 3. Period of production of gas from the Tanin reservoir: January 1, 2028 to December 31, 2037; 4. Average annual rate of natural gas production from the Tanin lease: approx. 2.65 BCM; average annual rate of condensate production from the Tanin lease: approx. 0.42 million barrels; 5. Royalty component cap rate: 13.5%; 6. Effective royalty rate to be paid to the State for the gas and the condensate: 11.5%; 7. Gas price formula: The basic price in the contracts according to which the valuation was prepared was estimated based on the formula specified in the price mechanism between Energean and ICL and ORL and between Energean and OPC and weighting the price of the gas in the Ramat Hovav contract; 8. Condensate price: The condensate price forecast was estimated based on a long-

	term oil price forecast average of the World Bank[14] and the EIA[15] and the forward prices of Brent according to Bloomberg data and based on the assumption that the condensate price will derive from the Brent price with adjustments to oil quality differences; 9. On March 17, 2021, Energean released an updated resource report of D&M (the "**Updated Report**"), a certified reserves and resources valuator, for the Karish and Tanin leases. According to the Updated Report, the gas quantity in the Karish lease is approx. 40.3 BCM and the quantity of the hydrocarbon liquids is approx. 66.4 MMBBL; the gas quantity in the Karish North lease is approx. 33.3 BCM and the quantity of the hydrocarbon liquids is approx. 30.7 MMBBL; and the gas quantity in the Tanin lease is approx. 26.5 BCM and the quantity of the hydrocarbon liquids is approx. 4.2 MMBBL. 10. Petroleum profit levy: According to the Petroleum Profit Taxation Law, 5771-2011; 11. Corporate tax rate: 23%.

[14] A World Bank quarterly report: Commodity Markets Outlook, October 2020.
[15] U.S Energy Information Administration: Analysis & Projections, February 2021.



Part C

Financial statements

March 23, 2022

To

The Board of Directors of the General Partner of NewMed Energy – Limited Partnership (formerly Delek Drilling – Limited Partnership) (the "Partnership")

19 Abba Eban, Herzliya

Dear Sir/Madam,

Re: Consent given simultaneously with the release of a periodic report in connection with the shelf prospectus of the Partnership (the "Offering Document")

We hereby notify you that we agree to the inclusion (including by way of reference) in the above referenced Offering Document of our reports as specified below:

1. Auditors' report of March 23, 2022 on the Partnership's financial statements as of December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021.

2. The Auditors' report of March 23, 2022 on the audit of components of internal control over financial reporting of the Partnership as of December 31, 2021.

Kost Forer Gabbay & Kasierer Certified Public Accountants	Ziv Haft Certified Public Accountants

NewMed Energy – Limited Partnership

(formerly Delek Drilling - Limited Partnership)

Financial Statements as of December 31, 2021

in U.S. Dollars in Thousands

This report is a translation of NewMed Energy - Limited Partnership's Hebrew-language financial statements, prepared solely for convenience purposes. Please note that the Hebrew version is the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

NewMed Energy – Limited Partnership

(formerly Delek Drilling - Limited Partnership)

Financial Statements as of December 31, 2021

in U.S. Dollars in Thousands

Contents

Independent Auditors' Report to the Partners of NewMed Energy - Limited Partnership (formerly Delek Drilling – Limited Partnership) regarding Audit of Components of Internal Control over Financial Reporting pursuant to Section 9B(c) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We have audited components of internal control over financial reporting of NewMed Energy – Limited Partnership (formerly Delek Drilling - Limited Partnership) (the "**Partnership**") as of December 31, 2021. These components of control were determined as explained in the paragraph below. The Board of Directors and Management of the Partnership's general partner are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the components of internal control over financial reporting, attached to the periodic report as of the above date. Our responsibility is to express an opinion on the components of internal control over financial reporting of the Partnership, based on our audit.

The components of the internal control over financial reporting that were audited were determined pursuant to Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting" ("**Audit Standard (Israel) 911**"). These Components are: 1) Entity-level controls, including controls over the financial reporting and closing process and ITGCs; 2) Controls over the calculating process versus the operators of the joint ventures; 3) Controls over the process of cash management including investments and process of raising and management of bonds and loans (all hereinafter jointly referred to as: the "**Audited Components of Control**").

We conducted our audit pursuant to Audit Standard (Israel) 911. This Standard requires that we plan and perform the audit with the purpose of identifying the Audited Components of Control, and to obtain reasonable assurance about whether these components of control were effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the Audited Components of Control, assessing the risk that a material weakness exists in the Audited Components of Control, and testing and evaluating the design and operating effectiveness of such components of control, based on the assessed risk. Our audit of such components of control also included performing such other procedures as we considered necessary in the circumstances. Our audit only referred to the Audited Components of Control, as opposed to internal control over all of the material processes in connection with the financial reporting, and therefore our opinion refers only to the Audited Components of Control. In addition, our audit did not address mutual effects between the Audited Components of Control and non-audited controls, and therefore, our opinion does not take into consideration such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting in general and components thereof in particular, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Partnership effectively maintained, in all material respects, the Audited Components of Control as of December 31, 2021.

We have also audited, based on Generally Accepted Auditing Standards in Israel, the financial statements of the Partnership as of December 31, 2021 and 2020, and for each of the three years in the period ended December 31, 2021, and our report of March 23, 2022 included an unqualified opinion on the aforesaid financial statements.

Tel Aviv, March 23, 2022

Kost Forer Gabbay & Kasierer	**Ziv Haft**
Certified Public Accountants	**Certified Public Accountants**

Independent Auditors' Report to the Partners of NewMed Energy – Limited Partnership (formerly Delek Drilling - Limited Partnership)

We have audited the accompanying statements of financial position of NewMed Energy – Limited Partnership (formerly Delek Drilling - Limited Partnership) (the "**Partnership**") as of December 31, 2021 and 2020 and the statements of comprehensive income, the statements of changes in equity, and the statements of cash flows for each of the years in the three-year period ended December 31, 2021. The board and management of the Partnership's general partner are responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Israel, including standards set in the Accountants Regulations (Mode of Operation of Accountants) 5733-1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board and management of the Partnership's general partner, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2021 and 2020 and the results of its operations, the changes in its capital and cash flows for each of the years in the three-year period ended December 31, 2021 in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

We have also audited, pursuant to Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", components of the Partnership's internal control over financial reporting as of December 31, 2021 and our report as of March 23, 2022 included an unqualified opinion on the effective maintenance of such components.

Tel Aviv, March 23, 2022

Kost Forer Gabbay & Kasierer	**Ziv Haft**
Certified Public Accountants	**Certified Public Accountants**

NewMed Energy – Limited Partnership (formerly Delek Drilling - Limited Partnership)

Statements of Financial Position (Dollars in thousands)

	Note	31.12.2021	31.12.2020
Assets:			
Current assets:			
Cash and cash equivalents	3	220,188	69,979
Short-term investments	4	120,657	169,367
Trade receivables	22G	152,534	145,681
Trade and other receivables	5	87,387	32,876
		580,766	417,903
Non-current assets:			
Investments in oil and gas assets	7	2,570,453	3,439,902
Investments in a company accounted for at equity	6	62,796	67,288
Long-term deposits	4	100,667	100,529
Other long-term assets	8	535,454	559,065
		3,269,370	4,166,784
		3,850,136	4,584,687
Liabilities and equity:			
Current liabilities:			
Bonds	10	-	393,806
Provision for tax and balancing payments	13D	86,178	36,462
Trade and other payables	9	270,726	73,567
Other short-term liabilities	11	27,649	62,212
		384,553	566,047
Non-current liabilities:			
Bonds	10	2,224,813	2,854,699
Deferred taxes	20	207,837	-
Other long-term liabilities	11	94,395	166,246
		2,527,045	3,020,945
Equity:	13		
Partners' equity		154,791	154,791
Capital reserves		(30,680)	(48,616)
Retained earnings		814,427	891,520
		938,538	997,695
		3,850,136	4,584,687

The attached notes constitute an integral part of the financial statements.

March 23, 2022			
Date of approval of the Financial Statements	Gabi Last Chairman of the Board NewMed Energy Management Ltd. General Partner	Yossi Abu CEO NewMed Energy Management Ltd. General Partner	Tzachi Habusha VP Finance NewMed Energy Management Ltd. General Partner

NEWMEDENERGY

NewMed Energy – Limited Partnership (formerly Delek Drilling - Limited Partnership)

Statements of Comprehensive Income (Dollars in thousands)

	Note	For the year ended on 31.12.2021	31.12.2020[1]	31.12.2019[2]
Revenues:				
From natural gas and condensate sales	14	882,537	587,086	4,055
Net of royalties	15	128,758	86,327	838
Revenues, net		**753,779**	**500,759**	**3,217**
Expenses and costs:				
Cost of production of natural gas and condensate	16	118,382	89,673	1,604
Depreciation, depletion and amortization expenses	7	113,083	79,446	23,434
Other direct expenses	17	4,206	3,410	14,004
G&A	18	17,183	14,630	11,130
Total expenses and costs		**252,854**	**187,159**	**50,172**
Other expenses, net		-	-	474
The Partnership's share in the losses of a company accounted for at equity	6	(4,497)	(7,707)	(5)
Operating profit (loss) before oil and gas profit levy		**496,428**	**305,893**	**(47,434)**
Oil and gas profit levy	20	-	-	4,620
Operating profit		**496,428**	**305,893**	**(42,814)**
Financial expenses	19	(211,306)	(231,847)	(44,682)
Financial income	19	31,468	87,985	69,050
Financial income (expenses), net		(179,838)	(143,862)	24,368
Profit (loss) before income taxes		**316,590**	**162,031**	**(18,446)**
Deferred taxes on income	20	(207,837)	-	-
Profit (loss) from continuing operations		108,753	162,031	(18,446)
Profit from discontinued operations		151,736	203,089	242,136
Profit from the sale of natural gas and oil assets		144,583	-	-
Total profit from discontinued operations	7C1	296,319	203,089	242,136
Net income		**405,072**	**365,120**	**223,690**
Other comprehensive profit (loss) from continuing operations:				
Amounts which may subsequently be reclassified to profit or loss:				
Loss from cash flow hedging transactions	22B	-	(4,757)	(5,150)
Carried to profit or loss in respect of cash flow hedging transactions		-	7,360	(1,830)
		-	2,603	(6,980)
Comprehensive income (loss) from continuing operations		**108,753**	**164,634**	**(25,426)**
Other comprehensive income (loss) from discontinued operations:				
Amounts which shall not subsequently be reclassified to profit or loss:				
Profit (loss) from investment in equity instruments designated for measurement at fair value through other comprehensive income		13,597	(29,322)	(41,256)
Comprehensive income from discontinued operations		**309,916**	**173,767**	**200,880**
Total comprehensive income		**418,669**	**338,401**	**175,454**
Basic and diluted profit (loss) per participation unit (in Dollars):				
From continuing operations		0.093	0.138	(0.016)
From discontinued operations		0.252	0.173	0.206
Profit per participation unit		0.345	0.311	0.191
Number of participation units which is weighted for the purpose of the said calculation (in thousands)		1,173,815	1,173,815	1,173,815

The attached notes constitute an integral part of the financial statements.

[1] Reclassified in order to reflect discontinued operation, see Note 7C1 below.

[2] See Footnote 1 above.

NewMed Energy – Limited Partnership (formerly Delek Drilling - Limited Partnership)

Statements of Changes in the Partnership's Equity (Dollars in thousands)

	The Partnership's equity	Capital reserve for redemption of participation units	Capital reserve for transactions between the corporation and a control holder thereof	Capital reserve for financial assets available for sale, for equity instruments and cash flow hedging transactions	Retained earnings	Total
Balance as of January 1, 2019	**154,791**	**1,631**	**15,002**	**4,377**	**679,303**	**855,104**
Changes in the year ended December 31, 2019:						
Net profit	-	-	-	-	223,690	223,690
Other comprehensive loss	-	-	-	(48,236)	-	(48,236)
Total comprehensive income (loss)	-	-	-	(48,236)	223,690	175,454
Profits distributed (Note 13C)	-	-	-	-	(150,354)	(150,354)
Declared tax and balancing payments (Note 13D)	-	-	-	-	(33,502)	(33,502)
Provision made for balancing payments due to previous years (see Note 20A4)	-	-	-	-	(12,300)	(12,300)
Tax advances on account of the tax owed by the participation unit holders (Note 13D)	-	-	-	-	(23,270)	(23,270)
Capital reserve for benefits from a control holder (Note 13G)	-	-	2,375	-	-	2,375
Balance as of December 31, 2019	**154,791**	**1,631**	**17,377**	**(43,859)**	**683,567**	**813,507**
Changes in the year ended December 31, 2020:						
Net profit	-	-	-	-	365,120	365,120
Other comprehensive loss	-	-	-	(26,719)	-	(26,719)
Total comprehensive income (loss)	-	-	-	(26,719)	365,120	338,401
Profits distributed (Note 13C)	-	-	-	-	(65,593)	(65,593)
Declared tax and balancing payments (Note 13D)	-	-	-	-	(36,428)	(36,428)
Tax advances on account of the tax owed by the participation unit holders (Note 13D)	-	-	-	-	(55,146)	(55,146)
Capital reserve for benefits from a control holder (Note 13G)	-	-	2,954	-	-	2,954
Balance as of December 31, 2020	**154,791**	**1,631**	**20,331**	**(70,578)**	**891,520**	**997,695**
Changes in the year ended December 31, 2021:						
Net profit	-	-	-	-	405,072	405,072
Other comprehensive income	-	-	-	13,597	-	13,597
Total comprehensive income	-	-	-	13,597	405,072	418,669
Profits distributed (Note 13C)	-	-	-	-	(200,323)	(200,323)
Declared tax and balancing payments (Note 13D)	-				(85,084)	(85,084)
Tax advances on account of the tax owed by the participation unit holders (Note 13D)	-	-	-	-	(227,912)	(227,912)
Tax revenues for previous years	-	-	-	-	31,154	31,154
Capital reserve for benefits from a control holder (Note 13G)	-	-	4,339	-	-	4,339
Balance as of December 31, 2021	**154,791**	**1,631**	**24,670**	**(56,981)**	**814,427**	**938,538**

The attached notes constitute an integral part of the financial statements.

NewMed Energy – Limited Partnership (formerly Delek Drilling - Limited Partnership)

Statements of Cash Flows (Dollars in thousands)

	For the year ended		
	31.12.2021	31.12.2020	31.12.2019
Cash Flows - Current Operations:			
Net profit	405,072	365,120	223,690
Adjustments for:			
Depreciation, depletion and amortization	133,105	140,295	69,719
Change in fair value of financial derivatives, net	-	(2,920)	373
Deferred taxes on income	207,837	-	-
Update of asset retirement obligation	(46,446)	(631)	4,637
Revaluation of short-term and long-term investments and deposits	(52)	2,390	(2,666)
Revaluation of liability due to participation unit-based payment	(11)	(13)	(154)
Benefit from a control holder included in expenses against a capital reserve	4,339	2,954	2,375
Revaluation of other long-term assets	(43,089)	(84,836)	(57,458)
The Partnership's share in the losses of companies accounted for at equity, net	4,497	7,707	36,645
Income from the sale of oil and gas assets (Annex C)	(144,583)	-	-
Changes in assets and liabilities items:			
Increase in trade receivables	(8,086)	(98,819)	(1,381)
Decrease (increase) in trade and other receivables (including operator of joint ventures)	(15,296)	23,319	337
Increase in other long-term assets	(6,837)	(5,697)	(4,552)
Decrease in trade and other payables (including operator of joint ventures)	(44,630)	(21,060)	(14,943)
Increase (decrease) in oil and gas profit levy liability	8,529	(1,333)	-
Increase (decrease) in another long-term liability	(708)	2,199	(2,604)
	48,569	(36,445)	30,328
Net cash deriving from current operations	**453,641**	**328,675**	**254,018**
Cash Flows - Investment Activity:			
Investment in oil and gas assets	(30,387)	(165,085)	(609,926)
Proceeds from the sale of oil and gas assets (Annex C)	954,880	-	-
Investment in other long-term assets	(34,436)	(14,596)	(140,523)
Investment in a company accounted for at equity	(5)	-	(75,000)
Proceeds from the disposition of financial assets	30,629	-	-
Repayment of loans given	14,343	14,843	15,342
Decrease (increase) in short-term investment, net	48,623	(105,908)	124,150
Long-term deposit in bank deposits	-	(100,000)	(41,428)
Repayment of long-term bank deposits	-	100,000	-
Decrease (increase) in other receivables – operator of the joint ventures	(1,611)	28,921	23,843
Net cash deriving from (used for) investment activity	**982,036**	**(241,825)**	**(703,542)**
Cash Flows - Financing Activity:			
Issuance of bonds (net of issuance costs)	-	2,217,332	-
Receipt of long-term loans from banking corporations (net of debt-raising costs)	-	103,831	688,136
Repayment of long-term loans from banking corporations	-	(2,050,000)	-
Distributed profits, balancing payments and tax	(236,585)	(99,120)	(185,902)
Payments on account of the tax liable by participation unit holders	(16,796)	(35,021)	(31,919)
Reimbursement received from income tax for previous years, net	3,217	-	6,370
Early redemption of issued bonds	(19,901)	(4,939)	-
Repayment of bonds	(1,015,403)	(320,000)	-
Net cash generated by (used in) financing activity	**(1,285,468)**	**(187,917)**	**476,685**
Increase (decrease) in cash and cash equivalents	150,209	(101,067)	27,161
Cash and cash equivalents balance at the beginning of the year	69,979	171,046	143,885
Cash and cash equivalents balance at the end of the year	220,188	69,979	171,046
Annex A - Finance and investment activity not involving cash flows:			
Investments in oil and gas assets against liabilities	37,506	42,259	150,156
Declared distributable profits, balancing payments and tax	85,084	36,428	33,502
Provision for balancing payments for previous years	-	-	12,300
Annex B - Additional information on cash flows:			
Interest paid (including capitalized interest)	193,537	256,977	166,291
Interest received	4,242	1,666	8,857
Dividend received	-	-	9,040
Proceeds not yet received from the sale (see Annex C and Note 7C1)	10,531	-	-

The attached notes constitute an integral part of the financial statements.

NewMed Energy – Limited Partnership (formerly Delek Drilling - Limited Partnership)

Statements of Cash Flows (Dollars in thousands)

	For the year ended		
	31.12.2021	31.12.2020	31.12.2019
Annex C – sale of rights in the Tamar and Dalit Leases (see also Note 7C1C)			
Includes the following assets and liabilities as of the selling date:			
Working capital, net	10,599	-	-
Oil and gas assets	829,884	-	-
Other long-term assets	21,295	-	-
Oil and gas asset retirement obligations	(40,950)	-	-
Total assets net of liabilities	820,828	-	-
Proceeds received from the sale	954,880	-	-
Proceeds not yet received from the sale	10,531	-	-
Profit from sale of oil and gas assets	144,583	-	-

The attached notes constitute an integral part of the financial statements.

Note 1 – General:

A. NewMed Energy – Limited Partnership (the "**Partnership**")[3] was founded according to a limited partnership agreement of July 1, 1993 between NewMed Energy Management Ltd. as general partner (the "**General Partner**")[4] of the first part, and NewMed Energy Trusts Ltd. as a limited partner (the "**Trustee**")[5] of the second part.
The Trustee serves as trustee for the holders of the participation units, under the supervision of the supervisors, Fahn Kanne & Co., CPAs together with Keidar Supervision and Management (jointly, the "**Supervisor**").
The parent company of the General Partner is Delek Energy Systems Ltd. (the "**Parent Company**" and/or "**Delek Energy**"), a private company wholly owned by Delek Group Ltd. ("**Delek Group**").
The participation units of the Partnership are listed on the Tel Aviv Stock Exchange ("**TASE**") and trading therein commenced in 1993.
The address of the Partnership's registered office is 19 Abba Eban Boulevard, Herzliya.

B. As of the date of approval of the financial statements, the Partnership's operates in he energy field an its primary business is exploration, development, production and marketing of natural gas, condensate and oil in Israel and in Cyprus, and promotion of various natural gas-based projects, with the aim of increasing the volume of the sales of natural gas produced by the Partnership. At the same time, the Partnership is exploring various business opportunities in the field of exploration, development, production and marketing of natural gas, condensate and oil in additional countries, and is examining possibilities for entry into the field of renewable energy and the field of blue hydrogen which can be a low-carbon substitute for energy consumers.

C. According to the provisions of the Gas Framework that, *inter alia*, required the Partnership to sell its entire holdings in the Tamar and Dalit leases (in this section: the "**Tamar Project**"), on September 2, 2021, the Partnership engaged in an agreement for the sale of its remaining interests at the rate of 22% in the Tamar Project to Tamar Investment 1 RSC Limited and Tamar Investment 2 RSC Limited[6] (in this section: the "**Buyers**" and the "**Agreement**", as the case may be). On December 9, 2021, the transaction was closed and the Partnership received the sale proceeds in the sum of approx. $955[7] million. The results were classified in the financial statements as discontinued operations (see also Note 7C1). Furthermore, due to the classification of the results of operations of the Tamar Project as discontinued operations, the comparison figures for the results of operations were reclassified accordingly.

[3] The Partnership's previous name was Delek Drilling – Limited Partnership. On February 21, 2022, the Partnership's name was changed to its current name.
[4] The General Partner's previous name was Delek Drilling Management (1993) Ltd. On February 24, 2022, the General Partner's name was changed to its current name.
[5] The limited partner's previous name was Delek Drilling Trusts Ltd. On February 24, 2022, the limited partner's name was changed to its current name.
[6] To the best of the Partnership's knowledge, the Buyers are SPCs that were established for the purpose of the transaction and are held (indirectly) by MDC Oil & Gas Holding Company LLC, a corporation of the Mubadala Investment Company PJSC group, a company owned by the Government of Abu Dhabi.
[7] As of the date of approval of the financial statements, the final settlement of accounts for the Object of Sale was completed, an additional sum of approx. $10.5 million was transferred by the Buyers, such that the total consideration received for the Object of Sale is $965 million.

Note 1 – General (Cont.):

D. In September 2021, an amendment to the Income Tax Regulations (Rules for the Calculation of Tax due to the Holding and Selling of Participation Units in an Oil Exploration Partnership), 5749-1988 (the "**Regulations**") was published in the Official Gazette, whereby effective from tax year 2022 a change will occur in the tax regime that applies to the Partnership, such that it shall be taxed as a company with respect to its taxable income. As a result of this change, commencing from tax year 2022, holders of participation units will be subject to a tax regime that applies with respect to profit distributions made by the Partnership, which is similar to the tax applying to shareholders of a company for dividend distributions (i.e. pursuant to the two-stage method). For further details on such change to the Regulations, see note 20A1.

E. The financial figures of the joint ventures that are used by the Partnership in the preparation of its financial statements are based, *inter alia*, on documents and accounting data provided by the operators of the joint ventures in Israel, Chevron Mediterranean Ltd. ("**Chevron**" or the "**Operator**") and S.O.A. Energy Israel Ltd. ("**SAO**") and the operator of the joint venture in Cyprus, Chevron Cyprus Ltd. ("**Chevron Cyprus**")[8].

F. On May 4, 2021, the General Partner and the Trustee filed a motion with the District Court in Tel Aviv pursuant to Sections 350 and 351 of the Companies Law, 5759-1999 (the "**Companies Law**") for permission to convene a general meeting of the holders of the Partnership's participation units (the "**Participation Units**") for approval of an arrangement, essentially for the exchange of all Participation Units for ordinary shares of a new company, New Med Energy Plc. (in this section: "**New Med**") (the "**Arrangement**"), which was incorporated in England and will hold all of the rights of the Trustee and the General Partner in the Partnership (100%). New Med's shares will be dually listed on TASE and on the London Stock Exchange. The General Partner shall assign the management rights in the Partnership to a new general partner which will be wholly owned and fully controlled (100%) by New Med. In the context of the Arrangement, insofar as it is approved, changes shall be made to the current limited partnership agreement in order to make it consistent with the new corporate structure and with the Partnership's becoming a private partnership wholly owned and fully controlled (100%) by New Med. The purpose of the Arrangement is to apply the following restructuring in the rights of the holders of the Participation Units, on the Arrangement closing date: (1) New Med shall wholly own and fully control the Partnership (100%), as specified above; (2) Delek Group and the public investing in the Participation Units shall hold, in lieu of the Participation Units that they held (and which conferred on them a right to participate in the company's rights in the Partnership), New Med shares, which shall confer on them 99.99% of its share capital (the "**Exchange of Units**"). The holding in New Med's shares on the closing date of the Arrangement shall be according to the rate of their holdings in the Participation Units on the effective date for the closing of the Arrangement (*pro rata*). Consequently, Delek Group shall hold the majority of New Med's shares by virtue of its holdings upon the closing of the Arrangement, if closed, and it shall be deemed the controlling shareholder of New Med;

[8] During 2020 Noble Energy Inc. merged with Chevron Corporation. Following such merger, the name of the operators in the Leviathan reservoir and Block 12 in Cyprus was changed to their current name.

Note 1 – General (Cont.):

F. (Cont.)

(3) the present General Partner (which shall continue to be held by Delek Group) shall hold New Med shares that confer thereon 0.01% of its share capital (in addition to New Med shares that shall be allotted thereto in the context of the Exchange of Units in respect of the Participation Units currently held thereby), although it will stop being the Partnership's general partner and will assign the management rights in the Partnership to a new general partner which shall be wholly owned and fully controlled (100%) by New Med; and (4) the Partnership itself shall remain "as is", without any change, including all of its operations, and with all of its assets and liabilities, and in this context its undertakings to pay the royalties, remaining unchanged, although with respect to additional rights or new petroleum assets that New Med shall purchase in the future (after the closing of the Arrangement), the royalty interest owners shall not be entitled to royalties in respect thereof, insofar as the new rights are not acquired by the Partnership but rather by New Med or other subsidiaries thereof. Following the closing of the Arrangement and the listing of New Med's shares on the London Stock Exchange and on TASE, New Med will be subject to two reporting regimes, i.e., the reporting regime under the English law applicable to English companies listed on the London Stock Exchange, as well as the reporting regime applicable to a "reporting corporation" under the Israeli Securities Law. For details regarding the Partnership's tax regime from tax year 2022, see Note 20A1 below.

Performance of the proposed Arrangement and the closing thereof are subject to standard closing conditions and to receipt of all of the required approvals, which include, *inter alia*, approval of the proposed Arrangement by the general meeting of the unitholders, in accordance with the majority required under Sections 350 and 351 of the Companies Law and, for the sake of caution, also as a special majority resolution; approval of the proposed Arrangement by the court in accordance with the provisions of Sections 350 and 351 of the Companies Law; approval by the competent authority in England for the publication of the English prospectus and the listing of New Med's shares on the London Stock Exchange; receipt of a tax ruling in connection with performance of the proposed Arrangement and receipt of regulatory approvals, insofar as required, from the Israeli Ministry of Energy and the competent authority in Cyprus (in connection with the petroleum asset Aphrodite). For details on the legal proceeding in progress in connection with the aforesaid Arrangement, see Note 12L18 below.

It is clarified that as of the date of approval of the financial statements, there is no certainty with respect to the date of approval of the Arrangement, its feasibility and the possibility of obtaining all of the approvals required for performance thereof.

G. On February 24, 2022, the Russian army invaded Ukraine as part of an initiated campaign which included mobilizing ground forces, alongside air and artillery assaults. As a result, the United States and the member states of the European Union imposed a series of economic punitive measures against Russia, which included, among others, sanctions on trade with Russia and Russian seniors, a decision to suspend the completion of the Nord Stream 2 project, which is intended to double the volume of gas exported from Russia to Germany, discontinuation of some collaboration with Russian entities by international companies, including significant companies in the fields of natural gas and oil production, and more.

Following the above and in light of Russia's status as a major global supplier of natural gas and oil, the concern of a long-term shortage of natural gas and oil has arisen, leading to a further rise in energy prices.

Note 1 – General (Cont.):

G. (Cont.)

As of the date of approval of the financial statements, the Partnership cannot estimate how the aforesaid crisis will develop and what long-term effect it will have on the energy market and operations in particular. However, in 2021 Russia supplied approx. 150 BCM of natural gas to European countries - approx. $40 of the total European gas consumption.

However, many European countries are apparently seeking to diversify their natural gas resources in order to decrease dependence on natural gas from Russia, which may lead to additional significant demand for natural gas from areas with the possibility to connect to a natural gas pipeline to Europe and additional demand for LNG. The Partnership, together with its partners in the Leviathan and Aphrodite projects, is examining the effect of the said factors on the possibilities for development and/or expansion of its assets.

H. At the end of 2019 and during Q1/2020, the Coronavirus (Covid-19) began to spread all over the world, when in March 2020 it was defined by the World Health Organization as a global pandemic (the "**Covid Crisis**").

During the H1/2020, extremely sharp declines were recorded in the international markets in oil and natural gas prices, that are attributed to the Covid Crisis, as well as to other causes and reasons which affect the supply and demand of energy products. However, towards the end of 2020 and in 2021, a steep recovery was felt in the prices of energy products worldwide, including oil and LNG prices, and especially the natural gas prices in the international natural gas hubs, to price levels significantly higher than pre-Covid prices.

As of the date of approval of the financial statements, it is difficult to estimate how the Covid Crisis will continue to develop in the coming years, what will be the extent of the impact of the Covid Crisis on the global and domestic economy and what its impact will be on the demand and prices of the natural gas and the rest of the energy products.

It is noted that even though the Covid Crisis continued, an increase in demand for natural gas was recorded in 2021 compared with the same period last year.

In addition, if the Covid Crisis continues or worsens, the restrictions and actions to be taken by the Government of Israel and other countries for dealing with the Covid Crisis may have a material adverse effect on the Partnership's business and workplans.

Note 2 - Significant Accounting Policies:

The accounting policy specified below was consistently applied in the financial statements of the Partnership, throughout the presented periods, unless stated otherwise.

A. Declaration regarding compliance with the International Financial Reporting Standards (IFRS):

The financial statements comply with the provisions of the International Financial Reporting Standards ("**IFRS**").

B. Principles of preparation of the financial statements:

The annual financial statements include the additional disclosure required pursuant to the Securities Regulations (Annual Financial Statements), 5770-2010.

The financial statements were prepared applying the cost principle, except in relation to financial assets and liabilities which are measured at fair value.

The Partnership has elected to present the profit or loss items using the function of expense method.

C. Functional currency and presentation currency:

1) Functional currency: The functional currency which best and most faithfully represents the economic effects of transactions, events and circumstances on the Partnership's business is the U.S. Dollar. Any transaction that is not in the Partnership's functional currency is a foreign currency transaction. See Section D below.
2) Presentation currency: The Partnership's financial statements are presented in the U.S. Dollar.

D. Transactions in foreign currency:

A transaction denoted in foreign currency is recorded, upon initial recognition, in the functional currency, using the immediate exchange rate between the functional currency and the foreign currency on the date of the transaction.

At the end of each report period:

- Financial items in foreign currency are translated using the exchange rate as of the end of the report period;
- Non-financial items measured at historic cost in foreign currency are translated using the exchange rate on the date of the transaction;
- Rate differentials, excluding those which are capitalized to qualifying assets or carried to equity in hedging transactions, carried to profit or loss;
- Rate differentials deriving from the settlement of financial items or deriving from the translation of financial items according to different exchange rates to those used for translation upon initial recognition during the period, or to those used for translation in previous financial statements, shall be recognized at profit or loss in the period in which they derived.

E. The operating cycle period:

The Partnership's operating cycle period is one year.

Note 2 - Significant Accounting Policies (Cont.):

F. Joint ventures and SPCs:

1) A joint venture constitutes a contractual arrangement, according to which two or more parties assume economic activity of oil and gas exploration in a jointly owned asset. Certain joint ventures often involve joint ownership of one or more assets.

Ventures in which there is no formal requirement for unanimous consent of the parties who are partners to the venture, do not meet the definition of joint control according to IFRS 11.

Nevertheless, examination of such ventures indicates that the ventures themselves have no rights in the assets and do not commit to engagements on behalf of the participants. Engagements are made directly between the participants and a third party (which is not a partner in the joint venture). However, there are engagements in which the Operator engages directly with a third party.

Each participant may pledge its rights in the assets and each participant is entitled to the economic benefits deriving from the joint venture. Consequently, the participants have a relative share of the assets and liabilities attributed to the joint venture.

In respect of the Partnership's rights in activity in the jointly owned assets, the Partnership recognized in its financial statements:

a) Its share in the jointly owned assets.
b) Any liabilities it incurred.
c) Its share in any liabilities it jointly incurred in connection with activity in the jointly owned assets.
d) Any income from the sale or use of its share in the period of the jointly owned assets, together with its share in any expenses it incurred for activity in the jointly owned assets.
e) Any expenses it incurred due to its right in the jointly owned assets.

2) The Partnership presents its share in payments transferred to the Operator of the joint ventures and not yet used under the trade and other receivables item, since such amounts do not meet the definition of cash and cash equivalents.

3) The Partnership presents its share in the liabilities of the joint ventures to third parties under the item trade and other payables.

4) The Partnership's financial statements include the assets and liabilities created following financing rounds performed through special purpose companies (SPCs) and which were established for the purpose of the financing.

G. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Partnership's cash management.

H. Short-term deposits:

Short-term deposits in banking corporations with an original term maturity of more three months but shorter than one year on the date of the investment and which do not meet the definition of cash equivalents. The deposits are presented in accordance with the terms of their deposit.

Note 2 - Significant Accounting Policies (Cont.):

I. Financial instruments:

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

a) The Partnership's business model for management of the financial assets, and

b) The characteristics of the contractual cash flow of the financial asset.

The Partnership measures debt instruments at amortized cost, when:

The Partnership'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 provide entitlement on set dates to cash flows that are only interest and principal payments for the outstanding principal amount.

Subsequently to the initial recognition, instruments in this group will be presented according to their terms according to cost plus direct transaction costs, using the amortized cost method.

In addition, on the date of the initial recognition the Partnership may designate, irrevocably, a debt instrument as measured at fair value through profit or loss if such designation significantly reduces or cancels inconsistent measurement or recognition, for example in the event that the relevant financial liabilities are also measured at fair value through profit or loss.

The Partnership measures debt instruments at fair value through other comprehensive income, when:

The Partnership's business model is both holding the financial assets in order to collect contractual cash flows and sale of the financial assets; and the contractual terms and conditions of the financial asset provide entitlement on set dates to cash flows that are only interest and principal payments for the outstanding principal amount. Subsequently to the initial recognition, instruments in this group are measured according to fair value. Profit or loss as a result of fair value adjustments, other than interest, rate differentials and impairment, are recognized in other comprehensive income.

The Partnership measures debt instruments at fair value through profit or loss where:

A financial asset which constitutes a debt instrument does not meet the criteria for measurement thereof at amortized cost or at fair value through other comprehensive income. After the initial recognition, the financial asset is measured at fair value where profits or losses as a result of fair value adjustments are carried to profit or loss.

Equity instruments:

Financial instruments that constitute investments in equity instruments do not meet the aforesaid criteria and are therefore measured at fair value through profit or loss.

In relation to equity instruments that are not held for trade, on the date of first-time recognition, the Partnership may make an irrevocable choice, to present in other comprehensive income subsequent changes to the fair value that would have otherwise been recognized through profit or loss. Such fair value changes will not be carried to profit or loss in the future even upon write-off of the investment.

Dividend income from investments in equity instruments designated for measurement at fair value through other comprehensive profit is recognized on the record date for entitlement to the dividend in the income statement.

Note 2 - Significant Accounting Policies (Cont.):

I. Financial instruments (Cont.):

2) Impairment of financial assets:

On each report date the Partnership examines the provision for loss due to financial debt instruments that are not measured at fair value through profit or loss.

The Partnership distinguishes between two situations of recognition of a provision for loss -

a. Debt instruments whose credit quality did not significantly deteriorate since the date of first-time recognition, or cases in which the credit risk is low – the provision to loss that will be recognized with respect to such debt instrument will take into account anticipated credit loss in the 12-month period after the report date, or

b. debt instruments whose credit quality did significantly deteriorate since the date of first-time recognition and with respect to which the credit risk is not low, the provision to loss that will be recognized will take into account forecasted credit loss – for the remaining life of the instrument.

The Partnership applies the expedient set forth in IFRS 9, according to which it assumes that the credit risk of a debt instrument did not significantly increase since the date of first-time recognition, if it is determined on the report date that the instrument has low credit risk, for example when the instrument has an external "investment grade" rating. With respect to trade receivables and other receivables, the Partnership applies the lenient approach in examining a provision according to the remaining life of the asset.

The impairment with respect to debt instruments measured according to a depreciated cost shall be carried to profit or loss against a provision while the impairment with respect to debt instruments measured at fair value through other comprehensive income will be attributed to profit or loss against other comprehensive income and will not reduce the book value of the financial asset in the statement of financial position.

3) Write-off of financial assets:

The Partnership writes-off a financial asset when, and only when:

(a) The contractual rights to the cash flows from the financial asset expired, or

(b) The Partnership 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 Partnership but it can be said that it transferred control over the asset, or

(c) The Partnership 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.

4) Financial liabilities:

On the date of initial recognition, the Partnership 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 Partnership measures all of the financial liabilities at amortized cost method.

5) Write-off of financial liabilities:

The Partnership writes-off a financial liability when, and only when it is retired – i.e., when the liability that was defined in the contract is paid or cancelled or expires.

A financial liability is retired when the debtor pays the liability by payment in cash, with other financial assets or is legally released from the liability.

Note 2 - Significant Accounting Policies (Cont.):

I. Financial instruments (Cont.):

5) Write-off of financial liabilities (Cont.):

In the event of a change of conditions with respect to an existing financial liability, the Partnership examines whether the terms and conditions of the liability are materially different than the existing conditions.

When a material change is made in the conditions of an existing financial liability or the substitution of a financial liability for another liability with materially different conditions, between the Partnership and the same lender, the change is treated as a write-off of the original financial liability and recognition of a new financial liability. The difference between the balance of the two aforesaid liabilities in the financial statements is carried to profit or loss.

If the change is immaterial, or the financial liability is substituted for another financial liability which conditions are not materially different, between the Partnership and the same lender, the Partnership is required to update the financial liability amount, i.e., capitalize the new cash flows at the original effective interest rate, with the differences carried to profit or loss.

Upon examining whether the change to the conditions of an existing liability is material, the Partnership takes qualitative and quantitative considerations into account.

6) 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. The setoff right must be legally enforceable, not only in the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. For the setoff right to be available immediately, it cannot be contingent on a future event or, occasionally inapplicable or, expire pursuant to certain events.

7) Embedded derivatives:

Derivatives embedded in financial assets are not separated from a host contract. Such hybrid contracts shall be measured in their entirety at a depreciated cost or at fair value, according to the criteria of the business model and contractual cash flows.

When a host contract does not fulfill the definition of a financial asset, an embedded derivative is separated from the host contract and treated as a derivative when the economic risks and characteristics of the embedded derivative are not tightly connected to the economic risks and characteristics of the host contract, the embedded derivative fulfills the definition of a derivative and the hybrid instrument is not measured at fair value when the differences are carried to profit or loss.

The need to separate an embedded derivative is reassessed only when there is a change in the engagement which significantly affects the cash flows from the engagement.

8) Derivative financial instruments for hedging (protection) purposes:

The Partnership occasionally performs engagements in derivative financial instruments such as foreign currency forward contracts and interest rate swap (IRS) transactions in order to protect itself against the risks entailed by interest rate and foreign currency exchange rate fluctuations.

Profits or losses deriving from changes in the fair value of derivatives that are not used for hedging purposes are immediately carried to profit or loss.

Note 2 - Significant Accounting Policies (Cont.):

I. Financial instruments (Cont.):

8) Derivative financial instruments for hedging (protection) purposes (Cont.):

Hedging transactions qualify for hedging accounting, *inter alia*, when on the hedging creation date there is formal documentation and designation of the hedging relations and of the purpose of the risk management and the Partnership's strategy to perform hedging. The hedging is examined on an ongoing basis and it is determined in practice to be highly effective in the financial reporting period for which the hedging is designated.

Hedging (protection) transactions are treated as follows:

Cash flow hedging:

The effective part of the changes in the fair value of the hedging instrument is recognized in other comprehensive profit or loss while the ineffective part is immediately carried to profit or loss.

Other comprehensive profit or loss is carried to profit or loss when the hedged item results are carried to profit or loss. For example, in periods when interest revenues or expenses are recognized or when an anticipated sale occurs.

When the hedged item is a non-financial asset or liability, their cost also includes the amount of profit (loss) with respect to the hedging instrument which was previously recognized in other comprehensive income.

The Partnership ceases to apply hedge accounting henceforth only when all or part of the hedge ratios cease to fulfill the entitling criteria (after taking into account a rebalance of the hedge ratios, if applicable), including cases where the hedging instrument expires, is sold, cancelled or settled. When the Partnership discontinues the application of hedge accounting, the amount that accrued in the hedge fund remains in the hedge fund until the cash flow materializes or is carried to profit or loss if the hedged future cash flows are no longer expected to materialize.

J. Provisions:

A provision is recognized when the Partnership has a liability in the present (legal or implicit) as a result of an event that occurred in the past, use of economic resources is expected to be required in order to settle the liability, and it may be reliably estimated. When the Partnership expects to recover the expenditure, in whole or in part, the recovery will be recognized as a separate asset, only on the date on which receipt of the asset is in fact certain.

Below are the types of provisions included in the financial statements:

Legal claims:

A provision for claims is recognized when the Partnership has a present legal liability or an implicit liability as a result of an event that occurred in the past, where it is more likely than not that the Partnership will require its economic resources to settle the liability, and it may be reliably estimated.

Levies:

Levies imposed on the Partnership by government institutions through legislation are treated in accordance with the IFRIC 21 interpretation, according to which the levy payment liability is only recognized upon the occurrence of the event that creates the payment liability (see Section V below).

Asset retirement obligation:

An asset retirement obligation was recorded on the Partnership's books, see Section K2 below regarding costs in respect of asset retirement obligations.

Note 2 - Significant Accounting Policies (Cont.):

K. Expenses of oil and gas exploration, development of proved reservoirs and investment in oil and gas assets:

1. The Partnership's accounting policy in respect of the treatment of investments in oil and gas exploration is the "successful efforts" method, whereby:
   - **a)** The expenses of participation in the performance of geological and seismic surveys and tests which occur at the preliminary stages of the exploration are carried to profit or loss upon the forming thereof, until the date on which, following the performance of these surveys and tests, a specific drilling plan is formulated.
   - **b)** Investments in reservoirs before they are proven uncommercial, were classified as "exploration and appraisal assets", and are presented at cost (see Note 7 below).
   - **c)** Investments in reservoirs that have been proven dry and were abandoned or determined to be uncommercial, are fully amortized from the "exploration and appraisal assets" item to expenses in the statement of comprehensive income.
   - **d)** Investments in reservoirs with regards to which it has been determined that there is technical feasibility and commercial viability of gas or oil production, which are examined in a gamut of events and circumstances, are classified, subject to the performance of an examination of impairment, from the "exploration and appraisal assets" item to the "oil and gas assets" item, and are presented in the statement of financial position at cost (see Note 7 below). Such oil and gas assets, which include, *inter alia*, reservoir development planning costs, development wells, purchase and construction of production facilities, gas transmission pipelines, drilling equipment, construction of a terminal and asset retirement costs (see also Paragraph 2 below), are amortized to the statement of comprehensive income as specified in Paragraph E below.
   - **e)** Investments in oil and gas assets, which commenced commercial production, were amortized until December 31, 2019 in the depletion method (i.e., based on the production amount) as follows: the drilling cost was amortized according to the quantity of the proved and developed reserves, and the cost of the additional components (such as: platform, pipeline and terminals) was amortized according to the quantity of the proved reserves (developed and to be developed).

     In Q1/2020, the Partnership made a change in the evaluation of the reserves that are used as a basis for the depreciation of the oil and gas assets, *inter alia,* in view of the experience accumulated by the Partnership over the years of operation of the Tamar reservoir, and the accepted practice in the world with respect to the depreciation of oil and gas assets, the Partnership examined the basis of the depreciated reserves and reached the conclusion that the depreciation of assets according to the production unit method and based on proved + probable reserves ("**2P**") in lieu of proved reserves only, will more fairly reflect the pattern of projected use of the asset. In the Partnership's estimation, depreciation of the oil and gas assets based on proved and probable reserves (2P) enhances the comparativeness between the Partnership's results and the results of similar companies in Israel and the world (*inter alia*, the Partnership's benchmark companies), fairly presents the management's assessments in relation to the use of the asset, is consistent with the information the Partnership provides to the various investors and is also consistent with the accounting treatment in other transactions that are related to oil and gas assets, such as valuations, value impairment examinations and directives designated for the oil and gas industry.

Note 2 - Significant Accounting Policies (Cont.):

K. Expenses of oil and gas exploration, development of proved reservoirs and investment in oil and gas assets (Cont.):

1. (Cont.):

e) (Cont.):

In accordance with the depreciation based on proved and probable reserves, the estimate of future investments (in non-discounted values) required to produce such reserves is added to the book value (only for the purpose of calculating the depreciation costs). These sums are multiplied by the amount of gas produced during the period proportionately to the 2P reserves estimate.

f) Impairment of exploration and appraisal assets and oil and gas assets is examined when facts and circumstances indicate that the value on the books of an exploration and appraisal asset and oil and gas assets may exceed its recoverable amount in accordance with IAS 36 and IFRS 6 (see Paragraph N below).

g) If, at the time of farm-in agreements, at the exploration and appraisal stages, a holder of a petroleum and/or gas right transfers part of the right, in consideration for the transferee's consent to bear future investments which the transferor would otherwise have had to bear, these agreements will be treated as follows:

In agreements in which the Partnership is the transferee: at the stage of creation of the costs, the Partnership shall recognize an expense in respect of the costs which it bore and which are attributed to the rights retained by the transferor.

In agreements in which the Partnership is the transferor: The Partnership shall not record any expense that was incurred by the transferee and shall recognize profit or loss in the statement of comprehensive income from the farm-in agreement the amount of the difference between the consideration received or which it is entitled to receive and the value on the books of the rights that were written off.

2. Asset retirement obligation costs:

The Partnership recognizes a liability in respect of its share in the asset retirement obligation at the end of the period of use thereof. The liability is initially recorded at its present value against an asset, and the expenses deriving from the revaluation of its present value, as a result of the lapse of time, are carried to profit or loss. The asset is initially measured at the present value of the liability and is amortized to profit or loss as stated in Paragraph 1 above.

Changes deriving from timing, cap rates and the amount of the financial resources required to retire the obligation, are added to or subtracted from the asset (if not fully amortized) in the current period concurrently with the change in the liability. The items of the statement of financial position record the balance of the liability (under the "**other short-term liabilities**" and "**other long-term liabilities**" items) Note 11B below, and the asset balance after amortization (under "**investments in oil and gas assets**" item). Note 7A below.

L. Credit costs:

The Partnership capitalizes credit costs related to the purchase, construction or production of qualified assets, the preparation, designated use or sale of which require a significant period of time. Capitalization of the credit costs begins on the date on which costs in respect of the asset itself are incurred, the actions for preparation of the asset begin and credit costs are caused, and it ends when all of the actions for preparation of the qualified asset for the designated use or for sale thereof have been substantially completed.

Note 2 - Significant Accounting Policies (Cont.):

M. A non-current asset or group of assets held for sale and discontinued operations:

A non-current asset or group of assets are classified as held for sale when their settlement is done mainly through a sale transaction and not through ongoing use. The aforesaid occurs where the assets are available for immediate sale in their "as is" condition, the Partnership has an obligation to sell, there is a plan to identify a buyer, and it is highly probable that the disposition will be completed within one year from the date of the classification. These assets are not depreciated from the date of their initial classification as such, and are presented as current assets separately, according to the lower of their value in the financial statements and their fair value net of sale costs. Other comprehensive income (loss) in respect of a non-current asset or group of assets classified as held for sale is presented separately under equity.

Where the Partnership changes the planning of the sale such that recovery of the asset will not be performed through a sale transaction, it ceases to classify the asset as held for sale and measures it according to the lower of the book value thereof had it not been classified as held for sale or according to the recoverable amount of the asset on the date of adoption of the decision not to sell.

Discontinued operations are a component of the Partnership which constitutes operations that have been disposed of or are classified as held for sale. The results of operations relating to discontinued operations (including comparison figures) are presented separately in profit or loss (see Note 7C1 below).

N. Recognition of income:

Revenues from contracts with customers are recognized in profit or loss when control of the asset or service are transferred to the customer. Revenue is measured and recognized according to fair value of the consideration which the entity expects to be entitled to, net of the royalties collected in favor of the State, related parties, and third parties. Revenue is recognized in profit or loss up to the extent the Partnership expects to receive the economic benefits, and the revenue and costs, if applicable, may be reliably measured.

Costs of obtaining a contract

In order to obtain some of the Partnership's contracts with its customers, it incurs incremental costs in obtaining the contract. Costs incurred in obtaining the contract with the customer which would not have been incurred if the contract had not been obtained and which the Partnership expects to recover, are recognized as an asset and amortized on a systematic basis that is consistent with the provision of the services under the specific contract. The Partnership recognizes, in profit or loss, an impairment loss in respect of costs of fulfilling a contract, when the carrying amount of the asset exceeds the remaining amount of consideration that the Partnership expects to receive for the goods or services to which the asset relates, less the costs that relate to providing those goods or services and that have not yet been recognized as expenses.

The Partnership has elected to apply the practical expedient allowed by IFRS 15 whereby it recognizes incremental costs of obtaining a contract as an expense when incurred, where the amortization period of the asset is up to 12 months from the date of obtaining the contract.

Note 2 - Significant Accounting Policies (Cont.):

O. Impairment of non-financial assets:

The Partnership examines, in accordance with the rules set forth in IAS 36 and IFRS 6, the need to recognize the impairment of non-financial assets when there are indications, as a result of events or changes in circumstances, that the balance in the financial statements is not recoverable.

In cases in which the balance in the financial statements of the non-financial assets exceeds their recoverable amount, the assets are amortized to their recoverable amount. The recoverable amount is the higher of the fair value net of sale costs and usage value.

In the assessment of the usage value, the expected cash flows are discounted according to a discount rate before tax which reflects the risks specific to each asset. In respect of an asset that does not generate independent cash flows, the recoverable amount is determined for the cash-producing unit to which the asset belongs.

For the purpose of examination of impairment, a cash-producing unit is comprised of all of the Partnership's investments in the single reservoir, except in cases in which two or more reservoirs are grouped into a single cash-producing unit, inter alia in view of the existence of dependency on the positive cash flows deriving from the reservoirs and the joint use of infrastructures. Losses from impairment are carried to profit or loss.

A loss from impairment of an asset is cancelled only when changes occur in the estimates used to determine the recoverable amount of the asset from the date on which the loss from the impairment was last recognized. Cancelation of the loss as aforesaid is limited to the lower of the amount of the impairment of the asset that was recognized in the past (net of depreciation or amortization) and the total appreciation.

The recoverable value of oil and gas assets, in accordance with economic valuations which include use of appraisal techniques and assumptions in respect of estimates of future cash flows expected from the asset and an estimate of an appropriate cap rate for these cash flows. In the measurement of the recoverable value of oil and gas assets, the management of the Partnership's General Partner is required to use certain assumptions with respect to expected investments and costs, the likelihood of the existence of development plans, quantities of the resources in the reservoir, the expected sale prices, repercussions of the Petroleum Profits Levy Law, determination of the cap rates etc., in order to estimate the future cash flows from the assets. If possible, the fair value is determined in relation to transactions made recently in assets with a similar character and location to the subject of the assessment.

P. Critical accounting estimates and judgements:

Preparation of the Partnership's financial statements in accordance with IFRS requires the management of the Partnership's General Partner to make estimates and assumptions that affect the amounts presented in the financial statements. These estimates occasionally require judgment in an environment of uncertainty and have a material effect on the presentation of the data in the financial statements.

Below is a description of the critical judgements and key sources of estimation uncertainty used in the preparation of the Partnership's financial statements, in the preparation of which the management of the Partnership's General Partner was required to make assumptions as to circumstances and events that involve significant uncertainty.

In exercising its judgment when making the estimates, the management of the Partnership's General Partner relies on past experience, various facts, external factors and reasonable assumptions according to the circumstances relevant to each estimate. Actual results differ from the estimates of the management of the Partnership's General Partner.

Note 2 - Significant Accounting Policies (Cont.):

P. Critical accounting estimates and judgements (Cont.):

Estimate of gas and condensate reserves (jointly: the "**Gas Reserves**") – the estimate of the Gas Reserves is used, *inter alia*, in determining the rate of amortization of the producing assets serving the operations during the reported period, as well as in the examination of potential impairments. Investments related to the discovery and production of proved and probable Gas Reserves are amortized according to the depletion method as stated in Section K1E above. The estimated gas quantity in the proven reservoirs in the reported period is determined on an annual basis, according to the opinions of independent external experts on the evaluation of reserves in oil and gas reservoirs.

Evaluation of the proved and probable gas reserves according to the above principles is a subjective process and the evaluations of different experts may occasionally be materially different. In light of the materiality of the amortization expenses, the abovementioned changes may have a material effect on the results of the operations and the financial condition of the Partnership.

Asset retirement obligation – the Partnership recognizes the asset concurrently with a liability in respect of its oil and gas asset retirement obligation at the end of the period of use thereof.

The timing and amount of the economic resources required for the settlement of the liability are based on estimation by the management of the General Partner of the Partnership, which relies, *inter alia*, on opinions of independent professional consultants and are examined periodically to ensure the fairness of such estimations.

Claims and legal proceedings – In the assessment of the chances of the results of the legal claims filed against the Partnership, the Partnership relied on opinions of its legal counsel. This assessment of the legal counsel is based on their best professional judgment, considering the stage of the proceedings, and on the legal experience accrued on the various issues. Since the outcome of the claims shall be determined in court, this outcome may be different to this assessment.

Determination of the fair value of a non-negotiable financial asset – The fair value of a non-negotiable financial asset classified at level 3 of the fair value scale is determined according to valuation methods, generally according to the evaluation of the discounted future cash flow according to current cap rates for items with similar conditions and risk characteristics. Changes in the estimate of future cash flow, in the estimate of cash flow due to resource valuation and the estimate of cap rates, considering the assessment of risks such as the liquidity risk, credit risk and volatility, may affect the fair value of these assets.

Petroleum profit levy – Pursuant to the Taxation of Profits and Natural Resources Law, 5771-2011 (the "**Levy**" or the "**Taxation of Profits and Natural Resources Law**"), starting from 2020, the Partnership recognized an expense in respect of a petroleum profit levy for the Tamar Project. As of the date of approval of the financial statements, there are several interpretation disputes vis-à-vis the Tax Authority. In accordance with the estimates made by the Partnership, as of December 31, 2021, the Partnership recorded a provision on its books for payment of a levy for 2020-2021. The Partnership's estimates were made to the best of its understanding and based, *inter alia*, on an opinion of its legal counsel with respect to the issues in dispute, in respect of most of which it is estimated that the prospects of the Partnership's claims being accepted exceed the prospects of their being rejected. See Note 20C below.

Note 2 - Significant Accounting Policies (Cont.):

P. Critical accounting estimates and judgements (Cont.):

Estimated impairment of oil and gas assets – Examination of impairment of oil and gas assets involves estimates. The examination requires the Partnership to make an estimate of the future cash flows expected to derive from ongoing use of the Partnership's cash-generating unit from proved + probable (2P) reserves.

Deferred taxes – Deferred taxes are calculated in respect of temporary differences between the amounts included in the financial statements and the amounts taken into account for tax purposes. In calculating the deferred tax liability, management judgment is required to determine the amount of deferred tax liabilities that can be recognized, based upon the timing and level of future taxable profits, its source and the tax planning strategy.

Q. Fair value:

1. **Measurement of fair value:**

The Partnership measures fair value as the price that would have been received in the sale of an asset or the price that would have been paid for the transfer of a liability in a regular transaction between market participants on the measurement date.

When the price of an identical asset or identical liability is not observable (i.e. there is no price that is quoted in an active market), the Partnership measures fair value using a different appraisal technique that is suited to the circumstances and for which there are sufficient obtainable data to measure fair value, while making maximum use of relevant observable data and minimum use of non-observable data.

The Partnership measures fair value under the assumption that the transaction for the sale of the asset or for the transfer of the liability occurs in the main market of the asset or the liability to which the Partnership has access; or in the absence of a main market, in the most advantageous market for the asset or the liability to which the Partnership has access.

In the measurement of fair value of a non-financial asset, the Partnership takes into account the ability of a market participant to generate economic benefits through the asset in its optimal use or through the sale thereof to another market participant that will make optimal use of the asset.

The fair value of a financial liability with an on-call feature (for example an on-call deposit) is no lower than the amount payable on call, discounted from the first date on which the amount may be called.

2. **Fair value hierarchy:**

For disclosure purposes, the Partnership classifies fair value measurements under one of the levels in the fair value hierarchy that reflects the significance of the data used when making the measurements. The fair value hierarchy is:

Level 1	- Quoted prices (unadjusted) in active markets for identical assets or identical liabilities.
Level 2	- Inputs other than quoted prices included within Level 1, which are observable with regard to the asset or liability, directly or indirectly.
Level 3	- Inputs that are not observable for the asset or liability.

When the data used to measure fair value are classified at different levels in the fair value hierarchy, the Partnership classifies the fair value measurement in its entirety at the lowest level of the datum that is significant to the measurement on the whole.

The Partnership exercises discretion in assessing the significance of a particular datum to the measurement on the whole, while taking into account factors that are specific to the asset or the liability.

Note 2 - Significant Accounting Policies (Cont.):

R. Profit per participation unit:

Profit per participation unit is calculated in accordance with the provisions of IAS 33, which prescribes, *inter alia*, that the Partnership shall calculate the amounts of the basic profit per participation unit in respect of profit or loss, which is attributed to the Participation Unit Holders in the Partnership, and shall calculate the amounts of the basic profit per participation unit in respect of profit or loss from continuing operations, which is attributed to the Participation Unit Holders in the Partnership, in the event that such profit is presented.

S. Liability due to Employee benefits:

1. **Short-term employee benefits:**

   Short-term employee benefits, which include salaries, recuperation pay, vacation days, sick days and national insurance employer deposits, are recognized as expenses upon provision of the services. When the Partnership has an established legal or implied reliably estimable liability for the granting of bonuses to employees, the Partnership recognizes this liability on the date of establishment of the liability.

   The Partnership classifies a benefit as a short-term employee benefit when the benefit is expected to be fully settled within 12 months from the end of the annual report period in which the employees provide the relevant service.

2. **Post-employment employee benefits:**

   In accordance with employment law and employment agreements in Israel and in accordance with the Partnership's custom, the Partnership is liable for the payment of severance pay to employees who are terminated and under certain conditions to employees who resign or retire.

The Partnership's liabilities for the payment of severance pay to the Partnership's employees pursuant to Section 14 of the Severance Pay Law (the Partnership pays fixed payments without having any legal or implicit liability to make additional payments, even if sufficient amounts have not accrued in the plan to pay all of the benefits to employees relating to the employee's employment in the current period and in the previous periods) are treated as a defined deposit plan. The Partnership recognizes as an expense, apart from exceptions, the amount that is required to be deposited concurrently with receipt of the work services from the employee.

T. Participation unit-based payment:

1) The Partnership recognizes participation unit-based payment transactions in accordance with the provisions of IFRS 2. These transactions include transactions with employees which are settled in cash.
2) Loans provided to employees for the purchase of participation units of the Partnership, with the participation units themselves serving as sole security for the repayment thereof, are treated as the granting of options to employees. With respect to participation unit-based payment transactions that are settled in cash, the cost of the transaction is measured at fair value on the granting date, using a customary option pricing model. The fair value is recognized as an expense over the vesting period, in parallel to recognition of a liability. The liability is remeasured each reporting period at fair value, until it is settled, and changes to the fair value are carried to profit or loss.

Note 2 - Significant Accounting Policies (Cont.):

T. Participation unit-based payment (Cont.)

2) (Cont.)

When the Partnership receives services in consideration for a payment based on its equity instruments which is granted by the General Partner, it is a participation unit-based payment transaction such that the expense is recognized in profit or loss over the period of the employees' entitlement to the equity instruments against the entry of a corresponding amount in the capital in respect of a capital injection received from the Parent Company or from the General Partner.

U. Benefit from control holders:

The Partnership records expenses in the statements of comprehensive income against a capital reserve for benefits it received from the control holder.

V. Taxes on income:

The financial statements do not include current income taxes expenses, since the tax liability on the Partnership's profits applies to its partners. Income tax payments made by the Partnership are on account of the tax for which the holders of the Partnership's participation units are liable, and are deducted from the retained earnings item of the Partnership's equity. Following an amendment to the Income Tax Regulations that was published during 2021, starting from the 2022 tax year, the tax regime applicable to the Partnership will change such that it will be taxed as a company. See Note 20A below. Therefore, as of December 31, 2021, the Partnership recognized a deferred tax liability due to temporary differences that will reverse after January 1, 2022. Furthermore, starting from January 1, 2022, the Partnership will recognize current tax expenses in the statement of comprehensive income.

<u>Current taxes</u>

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

<u>Deferred taxes</u>

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes. Balances of the deferred taxes are measured at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date according to the probability of them being utilized. Deductible carryforward losses and temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a consolidated company that would trigger an additional tax liability.

Taxes on income that relate to distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12.

Note 2 - Significant Accounting Policies (Cont.):

W. Oil and gas profit levy:

The Partnership includes, in the financial statements, expenses in respect of its levy payment liability under the Taxation of Profits and Natural Resources. The Levy is calculated for each project separately.

The Levy is treated in accordance with the interpretation of IFRIC No. 21 by the International Financial Reporting Interpretations Committee – "Levies" ("**IFRIC 21**"). Therefore, *de facto*, the reporting entities shall recognize the expense due to the Levy according to the "obligating event" approach, i.e., only on the date on which the obligation of payment thereof arises (i.e., only as of the date of commencement of actual payment thereof).

X. Leases:

On January 1, 2019 the Partnership performed initial application of International Financial Reporting Standard No. 16 – Leases (in this section: "**IFRS 16**"), the Partnership chose to apply the provisions of IFRS 16 using the modified retrospective method (without restatement of comparative figures).

The Partnership accounts for a contract as a lease contract when the terms of the contract transfer the right to control the identified asset for a period of time in exchange for consideration.

The Partnership as a lessee:

For transactions in which the Partnership is a lessee, it recognizes on the commencement date of the lease of the asset a right-of-use against a lease liability, excluding lease transactions for a term of up to 12 months and lease transactions in which the underlying asset is of low value, in respect of which the Partnership chose to recognize the lease payments as an expense in profit or loss on a straight-line basis over the term of the lease. In measuring the lease liability, the Partnership chose to apply the practical expedient provided in the Standard and did not separate the lease components from the non-lease components, such as: management services, maintenance services, etc., which are included in the same transaction. On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate inherent in the lease, if that rate can be readily determined, or otherwise using the Partnership's incremental borrowing rate. After the commencement date, the Partnership measures the lease liability using the effective interest rate method.

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date plus initial direct costs incurred. The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life or the term of the lease.

Whenever there are indications of impairment, the Partnership tests for impairment of the right-of-use asset pursuant to the provisions of IAS 36.

With respect to the contracts in which the Operator engages in the context of the joint ventures, the Partnership reached the conclusions that in view of the nature of the Operator's engagement with lessors and the joint operating agreement signed in connection with the leases ("**JOA**"), such contracts do not meet the definition of a lease according to the provision of IFRS 16 from the Partnership's perspective.

Note 2 - Significant Accounting Policies (Cont.):

Y. Loss of control:

When the Partnership loses control over a subsidiary, it writes off the assets and liabilities of such subsidiary, according to the book value as of the date of loss of control. The consideration received and any remaining investment in such subsidiary are recognized according to the fair value thereof as of the date of loss of control. Any difference created is recognized as a profit or loss in the statement of comprehensive income.

Z. An investment treated according to the equity method:

The Partnership's investment in a company accounted for at equity is treated according to the equity method.

According to the equity method, the investment in a company accounted for at equity is presented according to cost plus changes that occurred subsequent to the purchase in the Partnership's share of the assets, net, including other comprehensive income of the company accounted for at equity. Profits and losses deriving from transactions between the Partnership and the company accounted for at equity are cancelled in accordance with the holding rate.

The financial statements of the Partnership and the company accounted for at equity are prepared as of identical dates and periods. The accounting policy in the financial statements of the company accounted for at equity was implemented uniformly and consistently with that which was implemented in the Partnership's financial statements.

The equity method is implemented until the date of loss of the significant influence in the company accounted for at equity or the classification thereof as an investment held for sale.

The Partnership is examining an amount recoverable from a company accounted for at equity, together with other assets of the Partnership, the cash flows from which are dependent on the same factors on which the cash flows from the company accounted for at equity are dependent.

On the date of loss of significant influence over the company accounted for at equity, the Partnership recognizes a profit or loss, according to the difference between the balance of the investment in the company accounted for at equity on the Partnership's books, and its fair value.

AA. Changes in the accounting policy – Initial application of a new financial reporting standard and amendments to existing accounting standards:

<u>Amendments to IFRS 9, IFRS 7, IFRS 16, IFRS 4 and IAS 39 regarding the IBOR reform</u>

In August 2020, the IASB published amendments to IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 4 Insurance Contracts, and IFRS 16 Leases (the "**Amendments**").

The Amendments provide practical expedients to handle the effect of the accounting treatment in the financial statements where IBORs (Interbank Offered Rates) shall be replaced with RFRs (Risk Free Interest Rates).

In accordance with one of the practical expedients, the Partnership shall treat contractual amendments or amendments to the cash flows that are required as a direct consequence of implementation of the reform similarly to the accounting treatment of changes in variable interest. In other words, a partnership is required to recognize the changes in the interest rates through adjustment of the effective interest rate without changing the book value of the financial instrument. Use of this practical expedient is dependent on the transition from IBOR to RFR occurring on the basis of economically equivalent conditions.

Note 2 - Significant Accounting Policies (Cont.):

AA. Changes in the accounting policy – Initial application of a new financial reporting standard and amendments to existing accounting standards (Cont.):

In addition, according to the Amendments, in certain conditions, changes to be made to the designation of the hedging and documentation as a result of applying the IBOR reform will not cause the hedging ratios to stop. In the context of the Amendments, temporary practical expedient was also given in connection with the application of hedge accounting pertaining to identification of the hedged risk as 'separately identifiable'.

The Amendments added disclosure requirements in connection with the effect of the expected reform on the Partnership's financial statements, including reference to the manner in which the Partnership manages implementation of the interest rate reform, the risks to which it is exposed as a result of the expected reform, and quantitative disclosures with respect to financial instruments at IBORs that are expected to change.

The Amendments were applied from the annual periods commencing on or after January 1, 2021. The Amendments were applied retroactively, but restatement of comparison figures was not required.

The above Amendments are not expected to have a material effect on the Partnership's financial statements.

BB. Disclosure on new IFRS in the period preceding their application:

1. Amendment to IAS 1 Presentation of Financial Statements

   In January 2020, the IASB released an amendment to IAS 1 regarding the requirements for classification of liabilities as current or non-current (the "**Amendment**").

   The Amendment clarifies the following matters: What is meant by an unconditional right to defer settlement; a right to defer must exist at the end of the reporting period; classification is unaffected by the likelihood that an entity will exercise its deferral right; Only if an embedded derivative in a convertible liability is an equity instrument would the terms of a liability not impact its classification.

   The Amendment will be applied for annual reporting periods beginning on or after January 1, 2023. The Amendment will be applied by retroactive application.

   The above Amendment will not have a material effect on the Partnership's financial statements.

2. Amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

   In February 2021, the IASB published an amendment to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors (the "**Amendment**"). The purpose of the Amendment is to provide a new definition of the term "accounting estimates".

   Accounting estimates are defined as "monetary amounts in the financial statements that are subject to measurement uncertainty". The Amendment clarifies what changes to accounting estimates are and how they differ from changes to the accounting policy and error corrections.

   The Amendment will be applied prospectively to annual periods commencing on January 1, 2023, and applies to changes in the accounting policy and accounting estimates occurring at the beginning of such period or thereafter. The Partnership is examining the implications of the Amendment on the financial statements.

Note 2 - Significant Accounting Policies (Cont.):

BB. Disclosure on new IFRS in the period preceding their application (Cont.):

3. Amendment to IAS 12 Income taxes

   In May 2021, the IASB published an amendment to IAS 12: Income Taxes ("**IAS 12**") that narrows the applicability of the "initial recognition exemption" of deferred taxes set forth in Section 15 and 24 of IAS 12 (the "**Amendment**").

   Under the recognition of deferred tax assets and liabilities provisions, IAS 12 exempts the recognition of deferred tax assets and liabilities in respect of certain temporary differences arising from the initial recognition of assets and liabilities in certain transactions. This exception is referred to as the 'initial recognition exception'. The Amendment narrows the applicability of the 'initial recognition exception' and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from a transaction that is not a business combination and which creates equal positive and negative temporary differences, even if they meet the other conditions of the exception.

   The Amendment will be applied for annual periods beginning on or after January 1, 2023. Early application is possible. With respect to lease transactions and recognition of liability due to liquidation and recovery – the Amendment will be applied starting from the earliest reporting period presented in the financial statements in which the Amendment was first applied, while recording the cumulative effect of the first application to the opening balance of the retained earning (or other equity component, if relevant) as of such date.

   In the Partnership's estimation, the aforesaid Amendment is not expected to have a material effect on the Partnership's financial statements.

4. Amendment to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets

   In May 2020, the IASB announced an amendment to IAS 37 regarding costs which the Partnership is required to include when making an assessment on whether a contract is an onerous contract (in this section: the "**Amendment**"). According to the Amendment, such a review is required to include both incremental costs (such as raw materials and direct working hours), and allocations of other costs directly related to the fulfillment of the contract (such as depreciation of fixed assets and equipment used for fulfillment of the contract). The Amendment was applied to annual reporting periods commencing on or after January 1, 2022. Earlier application is possible.

   In the Partnership's estimation, the aforesaid Amendment is not expected to have a material effect on the financial statements.

Notes to the Financial Statements as of December 31, 2021 (Dollars in thousands)

Note 3 – Cash and Cash Equivalents:

Composition:

	Interest rate as of 31.12.2021	31.12.2021	31.12.2020
In Dollars:	%		
Cash in banks		194,079	35,349
Deposits in banks	0.02-0.52	20,000	28,002
		214,079	63,351
In ILS:			
Cash in banks		245	2,619
Deposits in banks	0.01	5,864	4,009
		6,109	6,628
Total		220,188	69,979

Note 4 – Short-Term and Long-Term Investments[9]:

Composition:

	Interest rate as of 31.12.2021	31.12.2021	31.12.2020
	%		
Under current assets:			
ETF		19,945	-
Deposits in banks:			
in dollars	0.10	100,487	169,149
in ILS		225	218
		120,657	169,367
Under non-current assets:			
Deposits in banks:			
in dollars	0.12	100,667	100,529

Note 5 – Trade and Other Receivables:

Composition:

	31.12.2021	31.12.2020
Trade and other receivables within joint ventures	22,366	4,603
Related parties (See Note 21 below)	715	941
Receivables from a company accounted for at equity (see Note 22G4)	707	-
Receivables in connection with the sale of oil and gas assets (see Note 7C1 below)	10,531	-
A loan granted (see Note 8B below)	13,644	14,344
Royalties receivable (see Note 8B below)	24,377	-
Prepaid expenses and other receivables	15,047	12,988
Total	87,387	32,876

[9] With respect to pledges and guarantees, see Note 12K.

Notes to the Financial Statements as of December 31, 2021 (Dollars in thousands)

Note 6 – Investment in a Company Accounted for at Equity EMED Pipeline B.V. ("EMED" or the "Company Accounted for at Equity"):

Composition:

	31.12.2021	31.12.2020
Investment in EMED	62,796	67,288

A. EMED was established in July 2018, and its operations began in September 2019.

B. As of December 31, 2021, the Partnership holds 25% (December 31, 2020: identical) of the issued and paid-up capital of EMED.

C. Following is condensed financial information regarding the investment of the Partnership in the Company Accounted for at Equity, that is treated according to the book value method:

	31.12.2021	31.12.2020
Cost of investment	75,005	75,000
Accrued losses	(12,209)	(7,712)
Total	62,796	67,288

D. Following are condensed figures from the financial statements of the Company Accounted for at Equity (100%) including excess of fair value over the book value:

	31.12.2021	31.12.2020	31.12.2019
Assets	541,034	581,867	610,650
Liabilities	289,849	312,715	310,671

	For the year ended		
	31.12.2021	31.12.2020	31.12.2019
Loss before tax	(17,896)	(30,738)	(20)
Comprehensive Loss	(17,987)	(30,827)	(20)

Notes to the Financial Statements as of December 31, 2021 (Dollars in thousands)

Note 7 – Investments in Oil and Gas Assets:

A. Composition:

1. **Composition by oil and gas assets and exploration and appraisal assets:**

	Exploration and appraisal assets	Oil and gas assets[10]	Total
Cost			
Balance as of January 1, 2020	117,619	3,859,589	3,977,208
Changes during 2020:			
Investments	7,810	94,243	102,053
Balance as of December 31, 2020	125,429	3,953,832	4,079,261
Changes during 2021:			
Investments	5,891	35,795	41,686
Dispositions (see Section C1 below)	-	(1,118,121)	(1,118,121)
Balance as of December 31, 2021	131,320	2,871,506	3,002,826
Accumulated Depreciation[11]			
Balance as of January 1, 2020	-	548,030	548,030
Changes during 2020:			
Depreciation and amortization[12]	-	91,329	91,329
Balance as of December 31, 2020	-	639,359	639,359
Changes during 2021:			
Depreciation and amortization[13,11]	-	81,251	81,251
Dispositions (see Section C1 below)	-	(288,237)	(288,237)
Balance as of December 31, 2021	-	432,373	432,373
Amortized cost as of December 31, 2020	125,429	3,314,473	3,439,902
Amortized cost as of December 31, 2021	131,320	2,439,133	2,570,453

[10] Including the balance of asset retirement amortized cost as of the date of the statement of financial position in the sum of approx. $57.6 million (December 31, 2020: approx. $81 million).
[11] The amortization rate of the Leviathan project and the Tamar project is approx. 2.8% and 0.6%, respectively (2020: approx. 1.9% and approx. 2.7%, respectively).
[12] In 2021, the balance excludes an update in connection with an oil and gas asset retirement obligation in the Yam Tethys project in the amount of approx. $19.7 million (2020: approx. $7.4 million) recorded directly in the statement of comprehensive income.
[13] In 2021 the balance includes depreciation in the Tamar project until March 31, 2021 until classification thereof as a discontinued operation as aforesaid in Note 2M.

Notes to the Financial Statements as of December 31, 2021 (Dollars in thousands)

Note 7 – Investments in Oil and Gas Assets (Cont.):

A. Composition (Cont.):

2. **Composition by joint ventures:**

	31.12.2021	31.12.2020
Oil and gas assets:		
Michal-Matan joint venture (Section C1)	-	831,208
Ratio-Yam joint venture (Section C2)	2,439,133	2,483,265
	2,439,133	3,314,473
Exploration and appraisal assets:		
Block 12 Cyprus (Section C3)	121,852	119,051
New Ofek (Section C6)	8,955	5,865
New Yahel (Section C6)	513	513
	131,320	125,429
Total	2,570,453	3,439,902

B. Details on the Partnership's rights in oil and gas assets and in exploration and appraisal assets (as of December 31, 2021):

The validity of the petroleum rights is extended from time to time and is contingent upon the fulfillment of certain undertakings on the dates set forth in the terms and conditions of the petroleum assets. In the event of non-fulfillment of the conditions, the petroleum right may be invalidated. For further information, see Section C9 below and as to pledges registered on part of the oil and gas assets see Note 10.

	Type of right	Name of right	Right valid through	Partnership's share
Yam Tethys	Lease	I/10 Ashkelon	10.6.2032	48.5%
Yam Tethys	Lease	I/7 Noa	31.1.2030	48.5%
Ratio-Yam	Lease	I/15 Leviathan North	13.2.2044	45.34%
Ratio-Yam	Lease	I/14 Leviathan South	13.2.2044	45.34%
Block 12 in Cyprus	Concession	Block 12	7.11.2044	30%
Alon D	License	367/Alon D	21.6.2020	52.941%[14]
New Ofek[15]	License	405/New Ofek	20.6.2022	25%
New Yahel[15]	License	406/New Yahel	20.6.2022	25%

[14] See Section C5 below.
[15] During Q2/2021 the Commissioner approved the extension of the New Ofek/405 and New Yahel/406 licenses until June 20, 2022.

Note 7 – Investments in Oil and Gas Assets (Cont.):

C. The Partnership's oil and gas exploration business:

1. The Michal-Matan joint venture:

a) The Michal-Matan joint venture is a venture for exploration, development and production of oil and gas in the area of the Tamar I/12 and Dalit I/13 leases (in this section: the "**Tamar Project**" and/or the "**Tamar and Dalit Leases** and/or the "**Tamar Lease**" and/or the "**Leases**").

b) Agreement for the sale of the participation interests in the Tamar Project:

According to the provisions of the Gas Framework that, *inter alia*, required the Partnership to sell its entire holdings in the Tamar and Dalit Leases, on September 2, 2021, the Partnership engaged in an agreement for the sale of the Partnership's remaining interests at the rate of 22% in the Tamar Project to Tamar Investment 1 RSC Limited and Tamar Investment 2 RSC Limited[16] (in this section: the "**Buyers**" and the "**Agreement**", as the case may be). On December 9, 2021, the transaction was closed and the sale proceeds in the sum of approx. $955[17] million were received by the Partnership (for details on repayment of Tamar Bond bonds and Series A Bonds that were paid using the proceeds, see Note 10 below).

Below is a concise description of the main clauses of the Agreement:

1) The Object of Sale, as defined in the Agreement, includes the Partnership's interests at the rate of 22% in each one of the Tamar and Dalit Leases, together with the Partnership's share in the shares of Tamar 10-Inch Pipeline Ltd. (the holder of the transmission license pursuant to Section 10 of the Natural Gas Sector Law, 5762-2002), and the Partnership's rights and undertakings in the joint operating agreement that applies to the Leases, the agreement for use of the Yam Tethys facilities (in relation to the Partnership's share as a holder of interests in the Tamar Lease), in agreements for the sale of natural gas and condensate from the Tamar Lease, in agreements for the export of natural gas (including the agreements relating to the agreements and permits for export to Jordan and to Egypt), and in other ancillary agreements between the holders of the interests in the Leases.
2) The Partnership's interests in the Leases will be transferred to the Buyers subject to the existing royalties in the Leases which were borne by the Partnership, and accordingly, the obligation to pay the royalty interest owners will apply to the Buyers.
3) As of August 1, 2021 (the "**Effective Date**"), the Buyers will bear, each according to its share, any and all expenses, payments, guaranties, securities and liabilities that apply in respect of the Object of Sale and pursuant to the provisions of any law, with the exception of certain liabilities in respect of which the Agreement determined would remain the Partnership's responsibility also after the closing of the transaction, as described below.

[16] To the best of the Partnership's knowledge, the Buyers are SPCs that were established for the purpose of the transaction and are held (indirectly) by MDC Oil & Gas Holding Company LLC, a corporation of the Mubadala Investment Company PJSC group, a company owned by the Government of Abu Dhabi.

[17] See Footnote 7 above.

Note 7 – Investments in Oil and Gas Assets (Cont.):

C. The Partnership's oil and gas exploration business (Cont.):

1. The Michal-Matan joint venture (Cont.):

b) Agreement for the sale of the participation interests in the Tamar Project (Cont.):

4) The Partnership will bear any and all expenses, payments, guaranties, securities and liabilities that apply in respect of the Object of Sale and pursuant to the provisions of any law until the Effective Date, including the taxes in respect of the sale of the Object of Sale and the levy under the Taxation of Profits from Natural Resources Law, 5771-2011 (the "**Petroleum Profits Levy**") for the quantities of hydrocarbons that were sold until the Effective Date.

   The Partnership will remain responsible for the following liabilities also after the closing of the transaction: (a) liabilities in connection with the Object of Sale in relation to the period that preceded the Effective Date (with the exception of faults and wear and tear in facilities and equipment of the Tamar Project which existed prior to the Effective Date but were not known to the Partnership); (b) liabilities in relation to hydrocarbons which were produced from the leases prior to the Effective Date; (c) liabilities in connection with the class certification motion which was filed by a consumer of the Israel Electric Corp. Ltd. (the "**IEC**") against the holders of the interests in the Tamar Lease, including any appeal and other proceeding in connection therewith; (d) payment demands according to the joint operating agreement in the Leases, which were sent by the operator in the Tamar Project prior to the Effective Date; and (e) liabilities in connection with environmental hazards in the area of the Leases, insofar as they existed prior to the Effective Date or were known to the Partnership prior to the transaction closing date.

5) In the context of the Agreement, the Partnership made various representations to the Buyers, as is standard in transactions of this type, including representations with respect to its rights in the Object of Sale and disclosure to the Buyers of the material information pertaining to the Object of Sale, including, *inter alia*, compliance with the terms and conditions of the Leases, the validity of the material agreements and absence of breach, legal proceedings relevant to the Object of Sale, compliance with the legal provisions that apply to the Object of Sale, the applicable taxation and financial data of the joint project.

   The Agreement determined provisions whereby the Partnership undertook to indemnify the Buyers in respect of any damage or liability that shall be caused thereto in connection with lawsuits, claims or another legal proceeding as a result of a breach of a representation, provided that the Partnership shall not be liable for damage until the total damage exceeds $2.5 million, and that the indemnity amount for which the Partnership shall be liable shall not exceed 35% of the consideration paid for the Object of Sale, other than with respect to certain representations that were defined as 'fundamental representations' (for which the total indemnity will not exceed 100% of the consideration) or fraud (with respect to which no liability cap was determined).The Partnership will not be liable to the Buyers for breach of the representations unless an indemnity demand is delivered within 18 months from the transaction closing date (or 36 months with respect to the fundamental representations as aforesaid, until expiration of the applicable statute of limitations with respect to representations pertaining to tax liabilities).

Note 7 – Investments in Oil and Gas Assets (Cont.):

C. The Partnership's oil and gas exploration business (Cont.):

1. The Michal-Matan joint venture (Cont.):

b) Agreement for the sale of the participation interests in the Tamar Project (Cont.):

6) The Partnership undertook to indemnify the Buyers for irregular events, including the overcharging of the Buyers with the Petroleum Profits Levy in connection with certain existing disputes between the Partnership and the tax authorities with respect to the method of calculation of the levy in relation to revenues and expenses in the period prior to the Effective Date, in accordance with the mechanism determined in the Agreement, up to a maximum indemnity cap of $15 million.
7) The law that governs the Agreement is English law. Any dispute between the parties to the Agreement will be decided in an arbitration proceeding to be held before 3 arbitrators in London according to the London Court of International Arbitration rules.

Notes to the Financial Statements as of December 31, 2021 (Dollars in thousands)

Note 7 – Investments in Oil and Gas Assets (Cont.):

C. The Partnership's oil and gas exploration business (Cont.):

1. The Michal-Matan joint venture (Cont.):

c) Tamar Project discontinued operations:

1) Below are figures on the results of the actions relating to discontinued operations:

	For the year ended		
	31.12.2021[18]	31.12.2020	31.12.2019
Revenues:			
From natural gas and condensate sales	289,868	332,036	449,289
Net of royalties	(57,095)	(67,937)	(93,480)
Revenues, net	232,773	264,099	355,809
Costs and expenses:			
Cost of natural gas and condensate production	(29,735)	(24,284)	(39,128)
Depreciation, depletion and amortization expenses	(7,274)	(32,361)	(44,147)
Other direct expenses	(220)	(201)	(294)
Total costs and expenses	(37,229)	(56,846)	(83,569)
Partnership's share in loss of a company accounted for at equity, net[19]	-	-	(36,640)
Operating income before oil and gas profit levy	195,544	207,253	235,600
Oil and gas profit levy	(43,788)	(3,837)	-
Operating income	151,756	203,416	235,600
Financial expenses	(380)	(664)	(2,804)
Financial income	360	337	9,340
Net financial income (expenses)	(20)	(327)	6,546
Profit from discontinued operations	151,736	203,089	242,136
Income from sale of petroleum assets and gas	144,583	-	-
Total profit from discontinued operations	296,319	203,089	242,136
Other comprehensive income (loss) from discontinued operations			
Amounts that will not be reclassified in the future to the income statement:			
Profit (loss) from investment in equity instruments designated for measurement at fair value through other comprehensive income[20]	13,597	(29,322)	(41,256)
Total comprehensive income from discontinued operations	309,916	173,767	200,880

[18] Until close to the closing date of the transaction, as aforesaid in Section C1B.

[19] On the date of classifying the Tamar Project as discontinued operations, the investment in Tamar Petroleum's shares was also classified as discontinued operations which was treated in the past according to the equity method.

Notes to the Financial Statements as of December 31, 2021 (Dollars in thousands)

Note 7 – Investments in Oil and Gas Assets (Cont.):
C. The Partnership's oil and gas exploration business (Cont.):
1. The Michal-Matan joint venture (Cont.):
c) Tamar Project discontinued operations (Cont.):

2) Below are figures on the net cash flows relating to discontinued operations and which derived from (were used for) operations:

	[20]31.12.2021	31.12.2020	31.12.2019
Current	175,181	253,884	321,671
Investment	841,904	(18,720)	(23,888)
Financing	-	-	-

3) Available for sale financial asset (investment in Tamar Petroleum shares):
On April 27, 2021, the Partnership entered into an agreement with a third party for the off-exchange sale of all of its holdings (22.6%) in Tamar Petroleum, in consideration for the total sum of approx. ILS 100 million in cash (approx. $30.6 million), which reflects a share price of 500.035 agorot. On May 5, 2021, the said transaction was closed, and in the context thereof, the shares were transferred against payment of the consideration. In May 2021, the Partnership paid the capital gain tax balance in the sum of approx. $15 million, which was deferred from the date of sale of the Partnership's interests (9.25%) in the Tamar Project to Tamar Petroleum, until the date of sale of the shares, as aforesaid.

2. The Ratio-Yam joint venture:

a) The "Ratio-Yam" joint venture is a venture for exploration, development and production of oil and gas in the area of the I/15 Leviathan North and I/14 Leviathan South leases (the "**Leases**" and/or "**Leviathan Leases**").

b) The development plan for the Leviathan reservoir:
On June 2, 2016, the development plan was approved by the Petroleum Commissioner (the "**Commissioner**"), as submitted by Chevron. On February 23, 2017, the Leviathan partners adopted a final investment decision (FID) for the development of Phase 1A of the development plan for the Leviathan reservoir, at a capacity of approx. 12 BCM per year. The total cost invested in the development of Phase 1A amounted, as of the date of the financial statements, to a sum of approx. $3.7 billion (100%, the Partnership's share being approx. $1.7 billion). Following a running-in period, on December 31, 2019, the piping of the natural gas from the Leviathan reservoir began. On January 1, 2020, the sale of natural has to Jordan commenced under The National Electric Power Company ("**NEPCO**") agreement and on January 15, 2020, the piping of the natural gas from the reservoir to Egypt commenced under the Blue Ocean Energy ("**Blue Ocean**") agreement[21]. For details on agreements for the sale of natural gas to Jordan and Egypt. see Note 12C1.

[20] See Footnote 19.
[21] The agreement was signed with Dolphinus Holdings Limited which in June 2020 assigned the export to Egypt agreement to Blue Ocean Energy.

Note 7 – Investments in Oil and Gas Assets (Cont.):

C. The Partnership's oil and gas exploration business (Cont.):

2. The Ratio-Yam joint venture (Cont.):

b) The development plan for the Leviathan reservoir (Cont.):

The plan for the development of the Leviathan reservoir includes the supply of natural gas to the domestic market and for export in a total scope of 21 BCM of natural gas per year and the supply of condensate to the domestic market (in this section: the "**Development Plan**" or the "**Plan**"), the main provisions of which are as follows:

1) The production system that includes first 8 production wells that will be connected by a subsea pipeline to a permanent platform (in this section: the "**Platform**"), which is located offshore within the territorial waters of Israel, in accordance with the provisions of NOP H/37, and on which all gas and condensate processing systems will be installed. The gas will be piped from the Platform to the northern onshore entry point of the national transmission system of INGL, as defined in NOP 37/H (the "**INGL Connection Point**"). The condensate will also piped to the shore via a separate pipeline parallel to the gas pipeline, and will be connected to an existing fuel pipeline of Europe Asia Pipeline Co. ("**EAPC**") that leads to the tank farm of Energy Infrastructures Ltd. ("**PEI**") and from there to the Oil Refineries Ltd. ("**ORL**").
2) The production system is designed to supply approx. 21 BCM per year after the completion of Phase 1A and Phase 1B of the Development Plan, as specified below.
3) The Development Plan is implemented in two phases, according to the maturity of the relevant markets, as specified below:
   Phase 1A – the current stage, in which framework 4 subsea production wells were drilled, a subsea production system that connects the production wells and the Platform was setup, and a system for transmission to the shore and related onshore facilities were setup. At this point, the gas production capacity is at approx. 12 BCM per year.
   Phase 1B – expected to include in the beginning 4 additional production wells, related subsea systems and expansion of the Platform's processing facilities to increase the system's total gas production capacity by approx. 9 additional BCM per year (to a sum total of approx. 21 BCM). It is noted, that as of the date of approval of the financial statements, a final investment decision for the development of Phase 1B has not yet been adopted by the Leviathan partners.
4) It is noted that additional production wells will be required during the life of the project to enable production of the required volume. In the matter of the development and production of "Leviathan-8" well, see Section 6 below.
5) As of the date of approval of the financial statements, and in accordance with the Development Plan, the gas supply capacity from the Leviathan project to INGL's transmission system is approx. 1.2 BCF per day.
6) Considering the volume of production from the Leviathan reservoir and the demand during H1/2021, and in order to improve the redundancy in the production system, the Operator recommended bringing forward the drilling of another development and production well, which was planned for years later than 2022.

Note 7 – Investments in Oil and Gas Assets (Cont.):

C. The Partnership's oil and gas exploration business (Cont.):

2. The Ratio-Yam joint venture (Cont.):

b) The development plan for the Leviathan reservoir (Cont.):

6) (Cont.)

Accordingly, on July 12, 2021, the Leviathan partners announced that they have adopted a resolution regarding the development and production of "Leviathan-8" well in the area of lease I/14 Leviathan South (the "**Well**"), with a total budget of approx. U.S. $248 million (100%, the Partnership's share being approx. $112 million) (including completion and connection to the existing production system of the Leviathan reservoir). As of the date of the financial statements, a sum of approx. $19.1 million (100%, the Partnership's share being approx. $8.7 million) was invested in the Well. The Well will be integrated as part of the system of production wells in the Leviathan reservoir in the context of the Development Plan. In addition, the necessary infrastructures will be built in the Leviathan Leases for the purpose of connection of the Well to the existing subsea production system of the Leviathan project. The Operator updated that the completion activities and connection of the Well to the production system shall be performed, probably, at the beginning of 2023. The said Well is expected begin during Q2/2022, subject to receipt of all of the required regulatory approvals, including the required approvals from the Petroleum Commissioner at the Ministry of Energy and from the Ministry of Environmental Protection (the "**MoEP**") for the drilling of the Well.

7) During November 2021, ongoing maintenance work was carried out on the Leviathan platform for about seven days, during which the flow of the gas from the Leviathan platform was halted.

c) Review of different alternatives for increasing the production capacity of the Leviathan reservoir:

As of the date of approval of the financial statements, the Leviathan partners are reviewing various alternatives for the development of Phase 1B of the Leviathan reservoir and increasing the production capacity up to approx. 21 BCM per year, with the aim of adopting a final investment decision (FID). The development options may include development and expansion of the infrastructures for piping natural gas from the Leviathan reservoir to additional consumers in the target markets, primarily the Egyptian market, supply to the existing liquefaction facilities in Egypt and promotion of the option for natural gas liquefaction through a floating liquefaction facility (FLNG) for the purpose of marketing thereof to the global markets.

As of the date of approval of the financial statements, the Leviathan partners are continuing to develop an FLNG for the Leviathan project, including the receipt of the required regulatory approvals. In this context, the Leviathan partners have engaged in an interim agreement Exmar NV[22] for the performance of FEED.

[22] Exmar is a public company listed on Euronext in Belgium, which specializes in the entire LNG value chain, including gas liquefaction, transportation and regasification, as well as LPG transportation. Exmar is the operator and owner of an active FLNG facility in Argentina, and serves, *inter alia*, as the operator of the regasification vessel offshore Hadera.

Note 7 – Investments in Oil and Gas Assets (Cont.):

C. The Partnership's oil and gas exploration business (Cont.):

2. The Ratio-Yam joint venture (Cont.):

d) Evaluation of reserves and contingent resources in the Leviathan Leases:

In February 2022, a report was received from Netherland Sewell & Associates Inc ("**NSAI**"), which is a qualified, expert an independent reserve and resource appraiser, on evaluation of reserves and contingent resources in the Leases according to the SPE-PRMS, updated as of December 31, 2021. According to the report, the overall quantity of resources is estimated at approx. 631.2 BCM and approx. 49.1 million barrels and is divided into categories of resources classified as reserves and resources classified as contingent.

The quantity of the Proved Developed Producing reserves is approx. 347.2 BCM and the quantity of the Proved + Probable Reserves is approx. 379.3 BCM.

Additionally, the Proved Developed Producing condensate reserves are approx. 27.0 million barrels, and the quantity of Proved + Probable Reserves is approx. 29.5 million barrels.

In the contingent resource report, the contingent resources were divided into two categories, which relate to each of the development stages 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 upon the decisions to perform additional drillings, upon the construction of related infrastructures and upon the execution of additional agreements for the sale of natural gas.

Future Development – resources contingent upon 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 upon the execution of additional agreements for the sale of natural gas range between approx. 368.5 BCM (the high estimate) and approx. 115.8 BCM (the low estimate) and condensate contingent resources range between approx. 28.7 million barrels (the high estimate) and approx. 8.2 million barrels (the low estimate). See Section 7 below regarding uncertainty in the evaluation of reserves.

e) Deep Targets:

In 2019, an analysis was performed of reprocessing of seismic surveys, *inter alia* in connection with exploration drilling to the deep targets in the Leviathan Leases (the "**Data Reprocessing**"), as a result of which a new 'isolated carbonate buildup' deep target was defined in the area of the Leviathan Leases. In addition, the analysis of the Data Reprocessing revealed that it is necessary to reclassify and redefine the two deep targets which were previously defined in the area of the lease as a single 'submarine clastic channel' target (collectively: the "**New Targets**").

In January 2020, a report on evaluation of prospective resources in the Leases was received from NSAI, updated as of December 31, 2019. According to the report, the best estimate in the carbonate buildup for gas and oil is estimated at approx. 4.5 BCM and approx. 155.3 million barrels, respectively, and the best estimate in the clastic channel for gas and oil is estimated at approx. 6.5 BCM and approx. 223.9 million barrels, respectively. As of December 31, 2021, the details presented in the aforesaid report remain unchanged. See Section 7C8 below with regard to uncertainty in the evaluation of reserves.

Note 7 – Investments in Oil and Gas Assets (Cont.):
C. The Partnership's oil and gas exploration business (Cont.):

As of the date of approval of the financial statements, the Partnership intends to explore the possibility of the specification, drilling and exploration of the deep exploration targets identified in the area of the lease (and specifically a carbonate buildup target).

3. **Block 12 in Cyprus:**

a) The Partnership has a production sharing contract (PSC), whereby the Partnership holds 30% of the rights in the Aphrodite reservoir in Block 12, which is situated in the exclusive economic zone of Cyprus.

b) In June 2015, the Partnership, together with its partners in the Aphrodite reservoir, notified the Government of Cyprus of a commerciality announcement and a proposed framework for the development of the Aphrodite reservoir.

c) On November 7, 2019, the right holders in the PSC (the "**Partners**") and the Government of Cyprus signed an amendment to the PSC (the "**Amendment to the PSC**"), which modified, *inter alia*, the mechanism for the distribution of the natural gas output from the reservoir between the Partners and the Republic of Cyprus. Concurrently the Partners were granted a production and exploitation license (the "**Exploitation License**"), and a development and production plan was approved for the reservoir (the "**Development Plan**").

In the PSC, the Partners undertook, *inter alia*, to meet the main milestones for promotion of development of the Reservoir, as follows:

1) Drilling of an appraisal/development well in the area of the license in accordance with the Development Plan, and completion thereof within 24 months from the date of receipt of the Exploitation License, namely until November 2021. On October 13, 2021, the approval of the Government of Cyprus was received for the extension of the partners' commitment to the drilling, by an additional 12 months, i.e., until November 2022.
2) Completion of the Front-End Engineering Design ("**FEED**"), delivery of the products in accordance with the Development Plan, and adoption of a final investment decision (FID) for development of the Reservoir within 48 months from the date of receipt of the Exploitation License (i.e., until November 2023).
3) The PSC determines specific conditions upon the fulfillment of which the Partners will be entitled to receive an extension for purposes of meeting the milestones as aforesaid, with the deadline for adoption of a FID being 6 years after the date of receipt of the Exploitation License. It is noted that failure to meet the milestones defined in the PSC will constitute grounds for termination of the PSC, unless this derived from "force majeure" (as defined in the PSC).

d) It is further noted that in the framework of the Amendment, other changes and updates were made to the PSC, *inter alia* with respect to the transfer of rights by the parties, approval of an annual budget and work plan, the manner of approval of changes to plans and budgets, the manner of calculation of the various expenses, changes in connection with grounds for termination of the PSC, arrangements with respect to ensuring the plugging, dismantling and removal of wells and facilities at the end of the term of the PSC, etc.

Note 7 – Investments in Oil and Gas Assets (Cont.):

C. The Partnership's oil and gas exploration business (Cont.):

3. Block 12 in Cyprus (Cont.):

e) On the date of signing of the Amendment to the PSC, the Cypriot government approved the Development Plan and granted an Exploitation License for a period of 25 years with an option for extension by up to 10 additional years. The Development Plan is subject to updates in view of the results of the FEED and progress in the commercial and financial aspects of the project. The plan includes the construction of a floating processing and production facility in the area of the license, with an estimated maximum production capacity of approx. 800 MMCF per day, in the beginning through 5 production wells and a subsea transmission system to the Egyptian market. In accordance with the current appraisal of the Operator, which was delivered to the Partnership and to the Cypriot government before completion of the technical-economic feasibility tests, including performance of the FEED, the estimated cost of the Development Plan, excluding the cost of installation of the pipelines to the target markets, is estimated at approx. $2.5-3 billion (100%, the Partnership's share being approx. $750-900 million). The estimated budget for the work plan until the date of adoption of a FID is approx. $150-200 million (100%, the Partnership's share being approx. $45-60 million) . Formulation of the Development Plan and reaching the stage of adoption of a FID for development of the Aphrodite reservoir are subject, *inter alia*, to the drilling of another appraisal/development well A-3 (Aphrodite 3) (the "**Appraisal Well A-3**") by November 2021 and to the FEED, commercial arrangements for the development of the pipelines for export, the signing of agreements for the supply of natural gas, and fulfillment of the closing conditions in such agreements, regulatory approvals and performance of financing arrangements. It is noted that estimated costs as aforesaid do not include costs for development and construction of a pipeline for the export of natural gas from the Aphrodite reservoir.

f) Further to the aforesaid, the partners in the Aphrodite reservoir contacted the government of Cyprus to approve changes to the work plan determined under the development plan of November 7, 2019, pertaining mainly to the request to postpone for a period of 12 months their commitment to drill Appraisal Well A-3 until November 2022. On October 13, 2021, approval has been received by the government of Cyprus for the postponement of the partners' commitment to drill the aforesaid well by an additional 12 months, i.e., until November 2022.

The partners in the Aphrodite reservoir are reviewing additional development alternatives, including the option to integrate the development of the reservoir with existing facilities and/or development plans of nearby assets, in Egypt, Cyprus and/or Israel including of the Leviathan reservoir.

g) In addition, the partners in the Aphrodite reservoir have submitted to the government of Cyprus a work plan and budget for 2022 in the sum of approx. $32 million (100%), for which approval of the government of Cyprus has not yet been received. It is noted that this budget does not include the cost of drilling of the Appraisal Well A-3. As of the date of approval of the financial statement, there is no certainty as to the approval of such work plan and budget by the government of Cyprus.

h) For details regarding a performance guarantee in an unlimited amount provided by Delek Group in favor of the Republic of Cyprus to secure fulfillment of all of the undertakings of the Partnership under the PSC, see Note 21D.

Note 7 – Investments in Oil and Gas Assets (Cont.):
C. The Partnership's oil and gas exploration business (Cont.):
3. Block 12 in Cyprus (Cont.):

i) According to a report prepared in March 2021 by NSAI according to the rules of the Petroleum Resource Management System (SPE-PRMS), the amount of contingent resources of natural gas classified under the "Development Pending" stage at the Aphrodite reservoir, as of December 31, 2020, ranges between approx. 128.8 BCM (the high estimate) and approx. 56.8 BCM (the low estimate). According to the aforesaid report, the condensate reserves in the Aphrodite reservoir, classified under the "Development Pending" stage as of December 31, 2020, range between approx. 10.9 million barrels (the high estimate) and approx. 4 million barrels (the low estimate). See Note 7C8 below with respect to uncertainty in the evaluation of reserves.

j) The vast majority of the Aphrodite reservoir is located in the EEZ of Cyprus, and a few percent in the area of the Yishai/370 license (the "**Yishai License**"), which is located in Israel's EEZ. It is further noted that the partners in the Aphrodite reservoir have received letters both from the partners in the Yishai license and from the Ministry of Energy with respect to the need for regulation of such parties' interests prior to the adoption of a decision regarding development of the Aphrodite reservoir. The position of the partners in the Aphrodite reservoir is that the matter is subject to the authority of the governments, and that they will act in accordance with such mechanism for regulation of the parties' interests as shall be determined by the governments, and in accordance with international law. In addition, further to discussions that were held between the Israeli and Cypriot governments for regulation of the parties' interests in the Aphrodite reservoir, on March 9, 2021, such governments signed an MOU which instructs the partners in the Aphrodite reservoir and the holders of the rights in the Yishai License to conduct direct negotiations for settlement of the issue of the overflow of the Aphrodite reservoir, which includes principles and timetables for the conduct of the negotiations. On February 6, 2022, the Israeli Minister of Energy notified the partners in the Aphrodite reservoir and the companies holding the Yishai License, that if an agreement for the distribution of profits is not signed by March 4, 2022, the negotiations on this matter will be transferred to the governments of Israel and Cyprus. As of the date of approval of the financial statements, the date for the signing of such agreement has passed without the parties' having reached any agreements.

4. The Yam Tethys joint venture:

The Yam Tethys joint venture is located in the areas of the Ashkelon and Noa leases. Production from the Yam Tethys reservoir commenced in 2004 and ended in May 2019, due to the depletion of the reservoirs. As of the date of approval of the financial statements, the principal use of the project assets that are being used by the Tamar partners (section B below) is the provision of infrastructure services to the Tamar reservoir.

Note 7 – Investments in Oil and Gas Assets (Cont.):
C. The Partnership's oil and gas exploration business (Cont.):
4. The Yam Tethys joint venture (Cont.):

Note that the holders of the interests in the Tamar Lease are entitled to use the Yam Tethys platform for the entire term of the Tamar Lease (see Section B below), for the purpose of export or supply of natural gas to the domestic market from the Tamar reservoir, subject to the conditions stipulated in the Gas Framework.

a) On May 3, 2020, the Partnership, Chevron, the Delek Group and Ratio Energies – Limited Partnership ("**Ratio**")[23] signed an agreement for the sale of natural gas (the "**Agreement**"), in the context of which the gas shall be supplied by the Leviathan partners which are partners in the Yam Tethys project (i.e. the Partnership and Chevron), who have a commitment by virtue of a gas sale agreement in the Yam Tethys project (the "**Yam Tethys Agreement**"), and by another Leviathan partner (i.e. Ratio) which is not a partner in the Yam Tethys project (and which is not bound by the Yam Tethys Agreement as aforesaid).
The consideration determined in the Agreement as aforesaid is the average monthly price of the Leviathan project for the domestic market. The consideration was divided such that Ratio received a natural gas price that is equal to the (current) average monthly price of natural gas that was supplied to the domestic market in that month by virtue of agreements signed between the Leviathan partners and their customers, and the financial balance that remained was divided between the Partnership and Chevron, according to their share in the Leviathan project. Such division allowed the maintaining of a balance in the gas quantities in the Leviathan project between the partners according to their share.

b) Agreement for the grant of usage rights in the facilities of the Yam Tethys Project:
On July 23, 2012, an agreement was signed between the Partnership together with the rest of the Yam Tethys partners and the Tamar partners, whereby the Yam Tethys partners granted the Tamar partners usage rights in the existing facilities of the Yam Tethys project (the "**Usage Agreement**").
The term of the Usage Agreement will end upon the earlier of: (a) the expiration or termination of the Tamar Lease, and in the event that the Dalit field is developed, in a manner that makes use of the Yam Tethys facilities, then the expiration or termination of the Dalit lease; (b) the giving of a notice by the Tamar partners of the permanent cessation of commercial gas production from the Tamar Project; (c) the abandonment of the Tamar Project. The Agreement includes various provisions with respect to the term of usage and with respect to the end of term of usage, including a settlement of accounts mechanism due to upgrades that will be made in the facilities. In the context of selling the remaining interests of the Partnership in the Tamar and Dalit Leases the Partnership assigned the buyers its interests in the Usage Agreement as partners in the Tamar Project (see Section 1 above).
It is noted that ownership of the Yam Tethys facilities and the cost of abandonment of the facilities will remain with the Yam Tethys partners and the Usage Agreement provided a settlement of accounts mechanism relating to the value of such facilities at the end of the term of production from the Tamar Project.

[23] Ratio's former name was Ratio Oil Exploration (1992) – Limited Partnership. On February 21, 2022 its name was changed to its current name.

Note 7 – Investments in Oil and Gas Assets (Cont.):
C. The Partnership's oil and gas exploration business (Cont.):
4. The Yam Tethys joint venture (Cont.):
c) Abandonment of wells and subsea equipment:
The Operator began to perform decommissioning and abandonment of the project facilities, other than the platform, and including the production wells and the subsea equipment, in accordance with a decommissioning plan approved by the Commissioner. At the same time, a discussion is also being held with respect to possible future uses and/or decommissioning and abandonment of the Yam Tethys platform, considering the link that exists between the facilities of the Yam Tethys project and the production from the Tamar Project.
The budget for the abandonment of the wells and subsea equipment which was approved by the partners of the Yam Tethys project is in the sum of approx. $196 million (100%, the Partnership's share being approx. $94 million). According to initial information received from the Operator, this budget may be exceeded by approx. $40 million (100%). As of the date of the financial statements, the Yam Tethys partners invested approx. $154 million with respect to abandonment expenses (100%, the Partnership's share being approx. $75 million). It is further noted that this budget does not include a budget for the abandonment of the Yam Tethys platform and the terminal which is expected at the end of the period of production from the Tamar Project.

5. Alon D License (in this section: the "License"):
On June 21, 2020, the License expired after requests to extend it were denied by the Commissioner. Due to the expiration of the License, the Partnership and Chevron, which were the partners in the License, submitted a bid in the competitive process announced by the Ministry of Energy on June 23, 2020 for the granting of a license for natural gas and oil exploration in Block 72, on the area of which the License had extended ("**Block 72**"). Thereafter, on October 21, 2020, a request from the Competition Authority was received at the Partnership's offices for the provision of information and documents in connection with Block 72.
On September 30, 2020, the Commissioner approached the Concentration Committee to hold a consultation on the decision on the winners of the said competitive process.
On January 10, 2021, the Concentration Committee announced its recommendation not to allow the Partnership to win the competitive process, irrespective of its meeting the terms and conditions of the process. On January 14, 2021, the Partnership delivered a letter to the Commissioner, whereby he should disregard the recommendation of the Concentration Committee as it is lacking, disregards material facts and is inaccurate.
It is noted that, to the best of the Partnership's understanding, on the same day the Commissioner delivered a request to the Concentration Committee to hold another consultation on the matter. To the best of the Partnership's knowledge, its offer (together with Chevron) is superior to other offers submitted in the process, considering the conditions that were determined therein in advance. Therefore, the Partnership believes that it has the full right to win the License and intends to take any and all legal measures available thereto to defend its rights. As of the date of approval of the financial statements, the winner of the said competitive process with respect to Block 72 has not yet been announced. For details regarding petition filed with the Supreme Court, sitting as the High Court of Justice, in connection with the non-extension of the License, see Note 12L10 below.

Note 7 – Investments in Oil and Gas Assets (Cont.):
C. The Partnership's oil and gas exploration business (Cont.):

6. **New Ofek/405 ("Ofek") and New Yahel/406 ("Yahel") Licenses:**
On March 19, 2019, the Partnership entered into an agreement with SOA (in this section: the "**Seller**" or the "**Operator**") for the purchase of interests at the rate of 25% (out of 100%) in each of the Ofek and Yahel licenses, which are onshore licenses (the "**Petroleum Assets**", the "**Licenses**", the "**Purchased Interests**", the "**Purchase Agreement**" and the "**Transaction**"). Upon fulfillment of the closing conditions in the Purchase Agreement, on October 10, 2019, the Transaction for the purchase of the interests as aforesaid was closed, and on November 5, 2019, the Commissioner announced that the said transfer of interests was registered in the Petroleum Register. SOA acts as the Operator in such Licenses.
Following are key details from the Purchase Agreement:
On the Transaction closing date, the Seller transferred to the Partnership the Purchased Interests, them being free and clear of any pledge, royalty (it is clarified that the Purchased Interests shall be subject to the Partnership's obligation to pay overriding royalties to interested parties in the Partnership and to third parties, see Note 12B below), liability, claim and third-party rights.
In addition, the Partnership paid the Seller $1 million ($0.5 million for each license) as reimbursement for past expenses incurred in relation to the activity in the Petroleum Assets. The Partnership undertook to bear the costs of production tests in the Ofek license up to a sum total that shall not exceed $6.5 million.
To the extent that the cost of the production tests exceeds the said amount, each of the partners in the Ofek license, including the Partnership, shall pay its proportionate share in such additional cost, in accordance with the provisions of the joint operating agreement (JOA) in the Licenses. The main activity performed in the New Ofek license is re-entry into the existing well in the license, and completion of production tests therein.
Pursuant to the September 2020 decision of the partners in the license on participation in the performance of the production tests to be performed in 2021-2022, and further to the approval of the Commissioner to update the work plan for the license and postpone the date of commencement of the production tests in the license area to August 15, 2021, the Operator has informed the Partnership that entry into the "Ofek-2" well toward the performance of production tests therein commenced on August 25, 2021. As of the date of approval of the financial statements, and in view of the Covid Crysis, there are various delays in the commencement of the work, as well as the increase in the cost of transportation of equipment from overseas, the partners in the Ofek license approved an updated budget for the production tests in a total sum of approx. $21 million (100%, the Partnership's share in such budget being approx. $10 million). Insofar as the results of the first-stage production tests are positive, the Partnership shall contribute its proportionate share also to a contingent budget of approx. $2.5 million (100%, the Partnership's share in such budget being approx. $625 thousand), which will be used for up to 4 additional production tests. As of the date of approval of the financial statements, the production tests have not yet been completed.

Note 7 – Investments in Oil and Gas Assets (Cont.):

C. The Partnership's oil and gas exploration business (Cont.):

7. **Eran license:**

   The Eran license expired on June 14, 2013. Following the decision of the Petroleum Commissioner not to extend the Eran license, on October 3, 2013, the holders of the interests in the Eran license (including the Partnership) submitted an appeal to the Minister of Energy from the decision of the Petroleum Commissioner as aforesaid. On August 10, 2014, the Minister of Energy denied such appeal. On November 17, 2014, the holders of the interests in the Eran license, including the Partnership, filed a petition on this decision with the High Court of Justice. On June 2, 2016, the High Court of Justice entered a decision on the parties' agreement to refer to mediation as proposed thereby. With the parties' consent, (Ret.) Chief Justice of the Supreme Court, A. Grunis, was appointed as mediator. At the end of the mediation proceeding, the parties reached agreements that were established in a mediation arrangement. On March 20, 2019, this mediation arrangement was filed with the court, which was moved to enter a judgment on the arrangement.

   In the mediation arrangement, the parties to the mediation agreed (with the consent of the Tamar partners) on the division of the Tamar SW reservoir between the area of the Tamar Lease (78%) and the area of the Eran license (22%). It was further agreed that the interest in the area of the Eran license would be divided at a ratio of 76% to the State and 24% to the holders of the interests in the Eran license prior to its expiration. On April 11, 2019, a judgment was entered on the mediation arrangement agreed to by the parties, as aforesaid.

   Negotiations were held between the partners in the Eran license, the Tamar partners and the State of Israel regarding the regulation of the State's rights in additional related matters, but as of the date of approval of the financial statements, the parties have not yet reached agreements on how to implement the mediation arrangement, as specified above.

8. **Appraisals of reserves of natural gas, condensate, contingent and prospective resources:**

   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.

9. **Additional information**:

   The lease deeds were granted subject to the Petroleum Law and grant the partners in the Leases an exclusive right to produce oil and natural gas in the areas of the Leases for a 30-year period, with the right of extension thereof by 20 additional years, in accordance with and subject to the provisions of the Petroleum Law.

Notes to the Financial Statements as of December 31, 2021 (Dollars in thousands)

Note 8 – Other Long-Term Assets:

A. Composition:

	31.12.2021	31.12.2020
Royalties receivable (see Paragraph B Below)	237,806	242,200
Loan granted (see Paragraph B Below)	50,756	57,956
Ministry of Energy for royalties (see Notes 12B, 12L1 & 15)	34,485	28,697
Interested parties for overriding royalties (see Notes 12B & 15)	3,457	2,870
Third party for overriding royalties (see Notes 12B and 15)	5,358	4,896
Access fees for the Blue Ocean agreement (see Note 12C1D)[24]	98,364	119,373
Receivables from a company accounted for at equity (see Note 22G4)	16,778	22,478
Financial asset at fair value through other comprehensive income (see Section 7C1 above)	-	17,033
Institutions	-	3,217
Long-term receivables in joint ventures[25]	88,450	60,345
Total	535,454	559,065

B. Agreement for the sale of rights in the Karish I/17 and Tanin I/16 leases (in this section: "Leases"):

On August 16, 2016[26], an agreement was signed between the Partnership and Ocean Energean Oil and Gas Ltd. (the "**Buyer**" or "**Energean**"), for the sale of all of the rights of the Partnership and Chevron[27] in the Leases (the "**Agreement**" and the "**Sold Rights**", respectively), according to the terms and conditions specified in the Agreement, the principles of which are as follows:

1) As part of the closing of the transaction, the Buyer paid the Partnership a sum total of $40 million;
2) The balance of the consideration, in the sum total of $108.5 million, will be paid to the Partnership in ten annual equal installments (in the financial statements: the "**Annual Installments**" or the "**Loan**"), plus interest, in the mechanism and at the rate determined in the Agreement, commencing on March 2018, after an adoption of a final investment decision (FID) with respect to the development of the Leases;
3) The Sold Rights were transferred to the Buyer together with the obligation to pay overriding royalties existing in the Leases, which the Partnership had undertaken with respect to its share (the "**Existing Royalties**");

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[24] The access fees are amortized in accordance with the length of the period of the Blue Ocean agreement.

[25] The balance mainly includes the cost for construction of the natural gas transmission systems from Israel to Jordan and Egypt in the Leviathan project in the sum total of approx. $87.4 million (2020: approx. $58.4 million). With respect to the construction of a transmission system from the Leviathan project to Jordan, see Note 12C1C below. It is noted that the cost of construction of systems for transmission of natural gas from Israel to Jordan in the Leviathan project is amortized over the period of the agreement with NEPCO.

[26] According to the Gas Framework, the Partnership and Chevron were required to sell their entire interests in the Leases.

[27] In November 2015, the Partnership entered into a right conferral agreement with Chevron, whereby Chevron conferred upon the Partnership the right to sell its interests in the Leases.

Note 8 – Other Long-Term Assets (Cont.):

B. Agreement for the sale of rights in the Karish I/17 and Tanin I/16 leases (in this section "Leases") (Cont.):

4) The Buyer shall pay royalties to the Partnership in connection with natural gas and condensate to be produced from the Leases at the rate of 3.75% – prior to the payment of the petroleum profit levy under the Taxation of Profits from Natural Resources Law, 5771-2011 (the "**Levy**") in connection with the Leases, and at the rate of 4.125%% - from the date of commencement of payment of the Levy, net of the amount of the Existing Royalties with respect the Partnership's share in the Leases.

4) In accordance with the provisions of the Gas Framework, the Agreement determines that the Buyer shall transfer the export quota from the Leases to the seller and to the other Leviathan partners.

On April 15, 2019, Energean announced a natural gas discovery at the Karish North well. According to Energean's reports, the plan for the development of the Karish North reservoir that was submitted thereby to the Commissioner was approved by the Ministry of Energy in August 2020, and a final investment decision for the development of the Karish North reservoir was adopted on January 14, 2021.

Based on Energean's reporting, the commencement of production from the Karish North reservoir is expected in 2023. On January 18, 2022, Energean reported that as of December 31, 2021, approx. 92.5% of the development works of the Karish reservoir were completed, and that the production of natural gas from the Karish reservoir is expected to begin in H3/2022.

To the best of the Partnership's knowledge, the current data on the resources attributed to the Karish, Tanin and Karish North reservoirs (in this section: the "**Reservoirs**"), were last reported by Energean on March 17, 2022. According to this report, as of December 31, 2021, the Reservoirs contain natural gas reserves (2P) of approx. 100.2 BCM and hydrocarbon liquids of approx. 101.3 million barrels. Furthermore, Energean reported that the maximum annual production rate forecast was updated to approx. 7.8 BCM per year.

Due to the delays in the commencement of flow from the reservoirs and the uncertainty regarding the date of commencement of commercial production from this reservoir, excess demand for natural gas may arise in the domestic and export markets during the peak months relative to the production capacity from the Leviathan and Tamar reservoirs. In such a case, the Leviathan partners may be required to supply the domestic demand at the expense of quantities designated for export. For details on the amendment to the export to Egypt agreement, see Note 12C1D.

The Partnership engaged with an external independent appraiser in order to assess the fair value of the remaining royalties and Annual Installments. Below are main parameters out of the valuations that were used to measure the royalties and the Annual Installments: cap rate for the Annual Installments is estimated at 6.5% (2020: 7.25%); the cap rate estimated for the royalties component is estimated at 13.5% (2020: 12%); dates of gas production from the Karish lease: starting from Q3/2022 until 2042; forecast average annual production rate from the Karish lease: approx. 3.59 BCM natural gas; average annual rate of condensate production from Karish lease of approx. 4.74 million barrels of condensate; dates of gas production from Tanin lease: starting from 2028 until 2037; forecast average annual production rate from the Tanin lease: approx. 2.65 BCM natural gas; average annual rate of condensate production from the Tanin lease of approx. 0.42 million barrels of condensate; the sum total of the contingent resources of natural gas and hydrocarbon liquids that were used for the valuation to measure the royalties were estimated at approx. 100.2 BCM and approx. 101.3 MMBBL, respectively.

Note 8 – Other Long-Term Assets (Cont.):

B. Agreement for the sale of rights in the Karish I/17 and Tanin I/16 leases (in this section "Leases") (Cont.):

The financial income item in the report period includes a sum of approx. $26.4 million (2020: approx. $82.7 million; 2019: approx. $57.3 million) deriving from revaluation of the value of the royalty from the Leases and from revaluation of the Annual Installments. Such update derives mainly from an increase in Energean's estimations regarding the contingent resources in the Leases, a change in the cap rates, a change in the production rate forecast, the condensate price and the lapse of time (see also Note 22F below).

It is noted that in April 2020, Energean and the Partnership exchanged letters in connection with claims raised by Energean with respect to the Partnership's right to receive royalties from the Karish and Tanin leases. Energean claimed that its undertaking to pay royalties does not apply to hydrocarbons from the Karish North reservoir (as opposed to from the Karish reservoir) and that not all hydrocarbon liquids to be produced from the Karish lease, meet the definition of Condensate under the Agreement. It is the Partnership's position, based on its legal counsel, that according to the Agreement, the royalty documents and the records in the Petroleum Register, Energean's duty to pay royalties applies with everything related to natural gas and condensate to be produced from the Leases, including from the Karish North reservoir, and that any and all hydrocarbon liquids to be produced from the reservoirs that in the area of the Leases constitute Condensate, as defined in the Agreement.

The Agreement further stipulates that once Energean obtains financing ("**Financial Closing**") for the costs of the first phase of the approved development plan in Karish and Tanin, Energean will be required to immediately pay the balance of the consideration, as aforesaid in Section 2.

On April 30, 2021, Energean announced the issuance of bonds in the total amount of $2.5 billion and the release of the issue funds to the company's accounts. Following the aforesaid, the Partnership applied to Energean with a demand for immediate payment of the balance of the consideration, in accordance with the provisions of the Agreement, however, the Partnership's demand was rejected on the grounds that the condition for immediate payment of the balance of the consideration was not fulfilled.

As of the date of approval of the financial statements, the Partnership is considering taking legal action in this matter against Energean. It is further noted that in a correspondence between the parties in May 2021, Energean informed the Partnership that in its view it was operating under the terms of a "force majeure" event (as defined in the Agreement) resulting from the Covid Crisis, which is expected to last more than 90 days.

To the best of the Partnership's understanding, Energean may delay the execution of the fifth annual installment scheduled for March 2022 claiming the existence of such force majeure. According to the Partnership's position, Energean has no grounds for the delay of such installment, and the conditions set forth in the Agreement for the immediate payment of the full balance of the consideration as detailed above, have been met.

Notes to the Financial Statements as of December 31, 2021 (Dollars in thousands)

Note 9 – Trade and Other Payables:

Composition:

	31.12.2021	31.12.2020
Related parties for overriding royalties and others (see Note 21)	3,771	4,485
Income Tax (see Note 20A and 20B)[28]	168,061	19,110
Oil and gas profit levy (see Note 20C)	10,541	2,012
Ministry of Energy in respect of royalties	8,173	8,694
Payables in joint ventures[29]	57,086	33,479
Participation unit-based payment (see Note 13H)	-	10
Provision for balancing payments due to previous years (see Note 20A5)	14,939	-
Other payables and expenses due	8,155	5,777
Total	270,726	73,567

Note 10 – Bonds:

A. Composition and maturities by years after the date of the statement of financial position:

1) Composition of bonds:

	31.12.2021	31.12.2020
Leviathan Bond (see Section B below)	2,224,813	2,219,341
Tamar Bond (see Section D below)	-	635,358
Series A Bonds (See Section E below)	-	393,806
	2,224,813	3,248,505
Net of Current Maturities	-	393,806
Total (net of Current Maturities)	2,224,813	2,854,699

[28] The balance includes a sum of approx. $154 million due to tax payments due to capital gain from the sale of the Partnership's interests in the Tamar project as aforesaid in Note 7C1.
[29] Include mainly expenses incurred by the Operator of the joint ventures and not yet paid.

Note 10 – Bonds and Liabilities to Banking Corporations (Cont.):

A. Composition and maturities by years after the date of the statement of financial position (Cont.):

2) Maturities by years after the date of statement of financial position:

	Amount ($ in millions)	Amortized Cost ($ in millions)	Interest	Stated Maturity
Leviathan Bond-2023	500	498.0	5.750%	June 2023
Leviathan Bond-2025	600	592.2	6.125%	June 2025
Leviathan Bond-2027	600	2,224.8	6.500%	June 2027
Leviathan Bond-2030	550	538.7	6.750%	June 2030
Total		2,224.8		

B. Bonds of Leviathan Bond:

On August 18, 2020, the issuance of bonds that were offered by Delek Leviathan Bond Ltd. (the "**Issuer**"), an SPC that is wholly held by the Partnership, pursuant to which bonds were issued in the total amount of $2.25 billion, was completed.

The bonds were issued in four series. 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 the deposit of a safety cushion in the sum of $100 million in accordance with the terms and conditions of the bonds, for the payment of the issue costs in the sum of approx. $33 million, and the balance of the proceeds was used for other uses according to the terms and conditions of the Commissioner's approval as described below (the "**Commissioner's Approval**").

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 pledged 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 in the Leviathan leases (in this section: 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 also pledged the shares held thereby in the Issuer, in NBL Jordan Marketing Limited and in Leviathan Transportation System Ltd.

Note 10 – Bonds and Liabilities to Banking Corporations (Cont.):
B. Bonds of Leviathan Bond (Cont.):

In addition, the Issuer pledged in favor of the Trustee, in a first-ranking floating charge, its rights in all of its existing and future assets and pledged 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 created 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 control holder of the Partnership.

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

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 in the Financing Documents; 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 in relation to the issuance of additional debt as aforesaid 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.

Note 10 – Bonds and Liabilities to Banking Corporations (Cont.):

B. Bonds of Leviathan Bond (Cont.):

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. 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.

Note 10 – Bonds and Liabilities to Banking Corporations (Cont.):
B. Bonds of Leviathan Bond (Cont.):

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 1.5[30].

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. 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.

[30] 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 on 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.

Note 10 – Bonds and Liabilities to Banking Corporations (Cont.):

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 loans in the sum of approx. $2 billion (which were mainly used for investments in the development of the Leviathan project), 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. As of the date of the financial statements, the Partnership fulfills its undertakings as aforesaid.

C. On December 5, 2021 the Partnership signed facility documents for the provision of bank credit it received from an Israeli bank, which it intended to be used by the Partnership for its current business. According to the terms and conditions of the credit facility, the Partnership may, from time to time, draw down loans in US dollars up to a sum total of $100 million, during a term commencing on December 6, 2021 and ending on December 6, 2022.

The usage of the credit facility will bear interest at the rate of LIBOR + 2.7% per annum, a non-utilization fee of 0.65% per annum of the unused balance, payable quarterly, and a commitment fee of 0.75%, payable by December 6, 2023.

The provision of the credit facility includes standard covenants, *inter alia*, a negative pledge on the Karish and Tanin royalties and on the Partnership's loan to Energean (as detailed in Note 8 above), the Partnership has undertaken not to take additional new credit which includes a right of recourse to the Partnership in a sum exceeding $25 million. It is clarified that the aforesaid does not prejudice the Partnership's ability to receive limited recourse loans, including in the context of refinancing or increase of the Leviathan Bond bonds. The Partnership has further undertaken that the control holder, Delek Group's ceasing to directly or indirectly hold at least 25% of the means of control in the Partnership and being the Partnership's largest holder of means of control and/or the Partnership having another control holder, jointly with or severally from the Delek Group, shall constitute grounds for acceleration. Further grounds for acceleration shall be established upon a restructuring, but it is clarified that these grounds are limited to material harm to the Partnership's economic rights in the Karish and Tanin leases or the Leviathan reservoir, i.e. a restructuring of more than 10%. It is further noted that if Energean prepays amounts of the Partnership's loan to Energean, which are originally due and payable, under the terms of the loan given to Energean, after the last possible date for repayment of this loan, one half of the net proceeds shall be applied to prepayment of the loan and decrease of the credit facility accordingly. Further grounds for acceleration shall be established upon a cross default with loans of material creditors, in an amount exceeding $15 million, or the Leviathan Bond loans, apart from other loans that are limited recourse loans. In addition, a restriction is in place in connection with a change in the Partnership's business, whereby the Partnership has undertaken not to change the nature of its business, which was broadly defined to include any energy-related business, without the bank's approval. As aforesaid, the other covenants are standards and the additional breach events conform to the common practice in agreements of this type.

As of the date of approval of the financial statements, the Partnership has not yet used the said credit facility.

Notes to the Financial Statements as of December 31, 2021 (Dollars in thousands)

Note 10 – Bonds and Liabilities to Banking Corporations (Cont.):

D. Bonds of Tamar Bonds:

In May 2014, the process of issuing bonds offered by Delek & Avner (Tamar Bond) Ltd., a special purpose company (SPC) wholly owned by the Partnership, was completed, whereby 5 series of bonds in the total sum of $2 billion were issued.

Following the sale of the Partnership's remaining interests in the Tamar project, as aforesaid in Note 7C1, in December 2021 the Partnership made a full and final payment in the sum of approx. $640 million for the balance of the principal of the bonds that were secured by pledges on the Partnership's interests in the Tamar project.

E. Series A Bonds:

In December 2016, the Partnership issued to the public ILS 1,528,533,000 par value of Series A Bonds (approx. $400 million), which were listed on the TASE and with maturity date on December 31, 2021. The bonds were issued in consideration for their par value, linked to the Dollar rate on the issuance date and they bore fixed annual interest of 4.50%. The consideration received net of issue costs totaled approx. $392.6 million.

In 2020 the board of director of the Partnership's General Partner approved a buyback plan for Series A Bonds at a total estimated cost of up to $80 million. The Partnership performed buybacks in the sum of ILS 18,863,393 par value of Series A Bonds in total consideration for approx. $5 million.

On august 12, 2021, the board of director of the Partnership's General Partner approved a buyback plan for Series A Bonds at a total estimated cost of up to $100 million. The Partnership performed buybacks in the sum of ILS 76,006,633 par value of Series A Bonds in total consideration for approx. $20 million. The balance of the principal of Series A Bonds was repaid on time on December 31, 2021 in the sum of approx. $375.4 million.

Note 11 - Other Short-Term and Long-Term Liabilities:

A. Other Long-Term Liabilities:

	31.12.2021	31.12.2020
Oil and gas asset retirement obligation (see Note 2K2 and Section B)	94,395	133,283
Taxes payable on deferred capital gain from sale of rights in Tamar and Dalit Leases (see Note 7C1)	-	19,848
Provision for balancing payments for previous years (see Note 20A5)	-	13,115
Total	94,395	166,246

Notes to the Financial Statements as of December 31, 2021 (Dollars in thousands)

Note 11 - Other Short-Term and Long-Term Liabilities (Cont.):

B. Transactions in oil and gas asset retirement obligation:

	31.12.2021	31.12.2020
Balance as of January 1	195,495	172,289
Additions	45,223	6,433
Effect of the passing of time	2,205	2,189
Effect of update of the cap rate	(11,318)	14,584
Amounts incurred for decommissioning of oil and gas assets (see Note 7C4)	(68,611)	-
Dispositions (see Note 7C1)	(40,950)	-
	122,044	195,495
Net of short-term gas asset retirement obligation (See Note 7C4)	(27,649)	(62,212)
Total	94,395	133,283

The cap rates used for the measurement of the oil and gas asset retirement obligation as of December 31, 2021 are 3.6%-3.8% (December 31, 2020: 1.1%-3.3%).

Note 12 – Contingent Liabilities, Engagements and Pledges:

A. Under the Partnership agreement, the General Partner will be entitled to 0.01% of the revenues and shall bear 0.01% of the expenses and losses of the Partnership.
The General Partner will be entitled to management fees as specified below:

1. Ongoing management fees in an amount in ILS equal to U.S. $40,000 per month; and in addition,
2. Management fees at a rate of 7.5% of half of the expenses of the limited partnership for oil exploration activity on a quarterly basis and no less than a comprehensive amount of U.S. $120,000 per quarter.
   The General Partner will be entitled to reimbursement of certain direct expenses involved in the management of the Partnership, as specified in the agreement. According to the Partnership agreement, the limited partner (the Trustee) will be entitled to 99.99% of the revenues and will bear 99.99% of the expenses and losses of the Partnership.

According to the Law Amending the Partnerships Ordinance (No. 5), 5775-2015, which took effect on April 23, 2015 (the "**Commencement Date**") and the transitional provisions included therein, an arrangement for the provision of services between the Partnership and the General Partner will be subject to approval by the audit committee, the board of directors and the general meeting by a special majority pursuant to Section 65YY(c) of the Partnerships Ordinance [new version], 5735-1975, within six years from the Commencement Date, i.e. on April 23, 2021. As of the date of approval of the financial statements, the Partnership is working to adopt a new service arrangement which will be presented for approval in accordance with the requirements of the law. In this context it is noted that since May 2021, the Partnership has not transferred management fees to the General Partner against the management services that the General Partner continues to provide to the Partnership. In view of the above, a provision in the amount of approx. $640 thousand was recorded in the Partnership's books.

B. Engagements for the payment of royalties:

1. Following the closing of the merger between the Partnership and Avner Oil Exploration Limited Partnership ("**Avner**") of May 2017, all of the liabilities related to royalties apply with respect to all of the (current and future) gas and petroleum assets of the Partnership, however, the rate of royalties in respect thereof, was reduced by 50% compared with the rate of royalties prior to the Merger (since the Partnership and Avner Partnership held equal parts in the petroleum assets, excluding the Ashkelon and Noa leases, in which the Partnership held 25.5% and Avner Partnership 23%, and in their respect the rate of royalties was reduced by 47.42% with respect to the royalties paid by the Partnership to Delek Group and Delek Energy, as defined below, and by 52.58% with respect to the royalties paid by Avner Partnership before the Merger, as specified below).
2. In the context of a right transfer agreement signed in 1993, the Partnership undertook to pay Delek Energy and Delek Group (the "**Royalty Interest Owners**") royalties at the rates specified below from the entire share of the Partnership in petroleum and/or gas and/or other valuable substances that shall be produced and utilized from the petroleum assets, in which the Partnership has or shall have any interest (prior to deduction of any kind of royalties, but after deduction of the petroleum used for the production itself).
   The royalty rates are as follows: until the date of the Partnership's investment recovery, royalties shall be paid at a rate of 2.5% of onshore petroleum assets and 1.5% of offshore petroleum assets, and after the investment recovery date – 7.5% of onshore petroleum assets and 6.5% of offshore petroleum assets.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

B. Engagements for the payment of royalties (Cont.):

2. (Cont.):

According to the agreement between the Partnership and the Royalty Interest Owners, an expert deciding arbitrator was appointed in 2002 in order to determine the right meaning of certain definitions and terms concerning the royalties that the Partnership is liable to pay as aforesaid, mainly with respect to the definition of "investment recovery date". In the appointed arbitrator's decision, he expressed his opinion and determined, *inter alia*, the manner of calculating and various elements that should and shouldn't be taken into account for determining the "investment recovery date". With respect to the dispute regarding the investment recovery date in the Tamar project between the Partnership and the Royalty Interest Owners, see Notes 15B and 12K6 below.

3. In addition, the Partnership will pay, by virtue of the Avner Partnership Agreement, royalties at a rate of 3% of all of the share of the limited partnership in petroleum and/or gas and/or other valuable substances which will be produced and utilized out of the petroleum assets in which the limited partnership has a present or will have a future interest (before deduction of royalties of any type, but after the reduction of the oil to be used for the purpose of the production itself). In an agreement signed on September 2, 1991, it was determined that the said right of the royalties is held by the General Partner in trust, and it is paid to those entitled to royalties under the Limited Partnership Agreement. Out of the total royalties as aforesaid, Cohen Oil and Gas Development Ltd. (an affiliate until the date it was sold by Delek Group to a third party in April 2020) will receive 1.375% in the Noa and Ashkelon lease and 1.4375% of any future petroleum right of the Partnership. The remaining entitlement to royalties is paid to third parties.

4. **Royalty to the State:**

The Petroleum Law, 5712-1952 (the "**Petroleum Law**") and the Petroleum Regulations, 5713-1953, prescribe that a lease holder, within the meaning of such term in the Petroleum Law, owes the State Treasury royalty at the rate of one-eighth of the petroleum quantity produced and utilized from the area of the lease, according to the market value at the wellhead, excluding the quantity of petroleum used by the lease holder for operating the area of the lease, but royalties will in no event fall below the minimum royalties prescribed by the law (see Note 15 below).

In accordance with the Petroleum Law, the State is entitled to royalties from the produced quantity of gas. The Commissioner notified the operator of the joint ventures that the State decided not to receive the royalties, to which it is entitled from the gas discoveries, in kind, but to receive the market value of the royalties at the wellhead, in dollars.

In May 2020, the Ministry of Energy released directives for the manner of calculation of the royalty value at the wellhead in connection with offshore petroleum rights, pursuant to Section 32 of the Petroleum Law and specific directives for the Tamar Lease. For details regarding the directives, see Section M4 below.

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

C. Engagements for the supply of natural gas:

1. Leviathan Project:

a) Agreements for the sale of natural gas from the Leviathan project:

Below are concise details regarding the agreements for the supply of natural gas from the Leviathan project which were signed by the Partnership, together with the other Leviathan partners, that are valid as of the date of approval of the financial statements[31]:

Customer	Supply commencement date	Agreement period[32]	Total maximum contract quantity for supply (100%) (BCM)[33]	Total quantity supplied until December 31, 2021 (100%) (BCM)	Main linkage basis of the gas price
Independent power producers[34]	2020, or the date of commencement of the commercial operation of the buyers' power plant (whichever is later).	Some of the agreements are for a short period of up to approximately two and a half years, and the rest are for a long term of 14 to 25 years. Some of the agreements grant each of the parties an option for extension of the agreement in the event that the total quantity determined in the agreement is not purchased.	Approx. 40	Approx. 3.2	In most of the agreements the linkage formula of the gas price is based on the Electricity Production Tariff and includes a "floor price". Several short-term agreements determine a fixed price without linkage.
Industrial customers	2020	Some of the agreements are for a period of 5 to 15 years, and the rest are for a short period of up to approximately two years. In most of the agreements the parties are not granted an option to extend the agreement period.	Approx. 5	Approx. 0.7	In most of the agreements the linkage formula is based in part on linkage to the Brent prices and in part to the Electricity Production Tariff, and includes a "floor price". There is partial linkage also to the refining margin index and to the general TAOZ index published by the Electricity Authority.
NEPCO export agreement (described in Section (c) below)	2020	15 years. The agreement stipulates that in the event that the buyer does not purchase the total contract quantity during the base period, the basic supply period will be extended by another two years.	Approx. 45	Approx. 4.6	The linkage formula is based on linkage to the Brent prices and includes a "floor price".

[31] It is noted that the data in the table do not include agreements for the supply of natural gas from the Leviathan project on an interruptible basis, as well as agreement ended, including an agreement with the IEC (paragraph B below).

[32] In most of the agreements, the gas supply period may end on the date of supply to the customers of the maximum contract quantity set forth in the agreement.

[33] This quantity is the maximum quantity which the Leviathan partners have undertaken to supply to the customers in the term of the agreements. The quantity which the customers undertook to purchase is lower than this quantity. It is noted that there are agreements in which a mechanism is determined whereby the buyer will be entitled to increase/reduce the purchased quantities (including the total maximum quantity) until the date set forth in the agreement, according to its needs and the provisions determined in the agreement. It is further noted that several agreements do not state a maximum supply quantity.

[34] The data in the table include agreements, in which not all closing conditions have been fulfilled.

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Blue Ocean export agreement (described in Section (d) below)	2020	15 years. The agreement stipulates that in the event that the buyer does not buy the total contract quantity, the period of the supply will be extended by another two years.	Approx. 60	Approx. 5.3	The linkage formula is based on linkage to the Brent prices, and includes a "floor price". The agreement includes a mechanism for updating the price by up to 10% (up or down) after the fifth year and after the tenth year of the agreement, upon fulfillment of certain conditions determined in the agreement.
Total			**Approx. 150**	**Approx. 14**[35]	

[35] It is noted, that the total quantity supplied from the Leviathan project by December 31, 2021 (100%) (both under the agreements appearing in the table and both under SPOT agreements and agreements that ended) is approx. 18 BCM.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

C. Engagements for the supply of natural gas (Cont.):

1. Leviathan project (Cont.):

a) Agreements for the sale of natural gas from the Leviathan project (Cont.):

Further details with respect to natural gas sale agreements signed by the Leviathan partners:

1) In the agreements for the sale of natural gas to independent power producers and to industrial customers, excluding SPOT agreement (in this section: the "**Agreements**"), the customers undertook to purchase or pay ("Take-or-Pay") for a minimum annual quantity of natural gas at a scope and according to the mechanism specified in the supply agreement (the "**Minimum Quantity**"). It is noted that in the context of the Agreements, provisions and mechanisms are provided, which allow each of the said buyers, after paying for natural gas not consumed under the agreement due to the application of the Take-or-Pay mechanism as aforesaid, to receive gas with no additional payment up to the amount it had paid for gas it had not consumed in the years consecutive to the year when the payment was made. In addition, the Agreements determine a mechanism for accrual of a balance in respect of surplus quantities (over the take-or-pay) consumed by the buyers in any given year and application thereof to reduce the buyers' obligation to purchase the Minimum Quantity as aforesaid, in several subsequent years. In the supply agreements additional provisions were determined, *inter alia*, on the following subjects: a right to terminate the agreement in the event of the breach of a material undertaking, a right of the Leviathan partners to supply gas to the buyers from other natural gas sources, compensation mechanisms in the event of a failure to supply the contract quantities, limits to the liability of the parties to the agreement, and with respect to the internal relationship among the sellers with respect to the supply of gas to the said buyers.
2) In accordance with the terms and conditions of the Gas Framework, each of the buyers, in agreements executed by June 13, 2017 and for a period to exceed 8 years, was given an option to reduce the minimum quantity to an amount equal to 50% of the average annual quantity it actually consumed in the three years preceding the date of the notice of exercise of the option, subject to adjustments as determined in the supply agreement. Upon the reduction of the minimum quantity, the other quantities determined in the supply agreement will be reduced accordingly. Each one of the said buyers may exercise the option as stated in the notice, to be given to the sellers during a period of 3 years which shall commence 5 years after the date of commencement of the gas flow from the Leviathan project to the buyer. If the buyer gave notice of the exercise of the said Option, the quantity will be decreased 12 months after the date the notice was given.
3) Most of the supply agreements determined various conditions precedent, including, *inter alia*, receipt of the required approvals on the part of the buyers with respect to the agreement. As of the date of approval of the financial statements, the conditions precedent stated in most of the agreements have been fulfilled.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

C. Engagements for the supply of natural gas (Cont.):

1. Leviathan project (Cont.):

a) Agreements for the sale of natural gas from the Leviathan project (Cont.):

4) In the supply agreements additional provisions were determined, *inter alia*, on the following subjects: a right to terminate the agreement in the event of the breach of a material undertaking, a right of the Leviathan partners to supply gas to the said buyers from other natural gas sources, compensation mechanisms in the event of a failure to supply the contract quantities, limits to the liability of the parties to the agreement, and with respect to the internal relationship among the sellers with respect to the supply of gas to the said buyers.

b) Further details regarding a gas supply agreement between the Leviathan partners and the IEC:

Following the competitive process conducted by the IEC, on June 12, 2019, as aforesaid, the IEC-Leviathan agreement was signed, which regulates the supply of natural gas from the Leviathan reservoir to the IEC on an available capacity basis (in this section: the "**Agreement**"). The supply of the gas to the IEC pursuant to the Agreement began on December 31, 2019 and ended on June 30, 2021. A non-linked fixed gas price was set in the supply agreement.

On January 30, 2021, concurrently with the signing of the Tamar settlement agreement, the Leviathan partners and the IEC signed a settlement agreement (the "**Leviathan Settlement Agreement**"), which amends the IEC-Leviathan agreement, in which, without derogating from the parties' undertakings under the IEC-Leviathan agreement, the IEC undertook to nominate from the Leviathan partners, during H1/2021, approx. 1.2 BCM of natural gas, from which certain gas quantities will be deducted, as agreed, mainly gas quantities that shall be nominated from Leviathan by the IEC and shall not be supplied thereby, and gas quantities that are not consumed by the IEC due to *force majeure* events and/or malfunctions in significant production units of the IEC (the "**Base Quantity**"). If the IEC does not nominate the Base Quantity in the said period, it will be charged with payment to the Leviathan partners for the difference between the Base Quantity and the quantity actually nominated thereby.

The IEC will be entitled to consume the balance of the Base Quantity that it did not consume but for which it paid, in accordance with the mechanism determined in the Leviathan Settlement Agreement. In addition, the Leviathan partners shall give the IEC a discount on the price for nomination of gas quantities exceeding approx. 0.5 BCM that shall be nominated from January 1, 2021 (during the report period the IEC consumed more than the quantity stated above and received discount accordingly).

The Leviathan Settlement Agreement is also subject to the fulfillment of conditions precedent and regulatory approvals, including the approval of the Competition Authority and the approval of the Competition Court for the consent decree. The Leviathan partners announced that in accordance with Chevron's announcement that the consent decree between Chevron and the Competition Authority, under Section 50B of the Economic Competition Law, 5748-1988, has been approved by the Competition Court, then on May 31, 2021, all of the closing conditions have been fulfilled for the taking effect of the Settlement Agreement.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

C. Engagements for the supply of natural gas (Cont.):

1. Leviathan project (Cont.):

b) Further details regarding a gas supply agreement between the Leviathan partners and the IEC (Cont.):

On July 4, 2021, the Leviathan partners signed a framework agreement with the IEC for the supply of natural gas on an interruptible basis (SPOT) for a period of one year, according to a price to be agreed between the parties from time to time. The agreement does not obligate the parties to purchase or sell any quantities of natural gas, and each party may terminate the agreement at any time.

c) Agreement for the Export of Natural Gas from the Leviathan Project to the Jordanian National Electric Power Company:

In September 2016, an agreement was signed for the supply of natural gas between NBL Jordan Marketing Limited (the "**Marketing Company**") and NEPCO (the "**NEPCO Agreement**"). The Marketing Company is a subsidiary wholly owned by the partners in the Leviathan project, who hold it relative to their holding rates in the Leviathan project.

According to the NEPCO Agreement, the Marketing Company undertook to supply natural gas to NEPCO for a period of approx. 15 years from the date of commencement of the commercial supply or until the total supply volume will be approx. 45 BCM. The supply of gas to NEPCO began on January 1, 2020.

The gas delivery point according to the NEPCO Agreement is at the connection between the Israeli transmission system and the Israeli transmission system on the border between Israel and Jordan. In December 2019, INGL completed the construction of the Israeli transmission system up to the border between Israel and Jordan at a cost of approx. $121 million (100%, the Partnership's share being approx. $55 million). NEPCO has undertaken to take or pay for a minimum annual quantity of gas, in such amount and in accordance with the mechanism as determined in the NEPCO Agreement.

In November 2016, the Leviathan partners and the Marketing Company signed a back-to-back GSPA ("**Back-to-Back**"), whereby the amounts that shall be received, the liabilities, the risks and the costs relating to the export agreement will be endorsed to the Leviathan partners under the same terms (back-to-back), as if the Leviathan partners were a party to the export agreement instead of the Marketing Company.

d) Agreement for the Export of Natural Gas from the Leviathan Project to Blue Ocean in Egypt:

In February 2018, an agreement was signed between the Partnership and Chevron and Blue Ocean (in this section: the "**Buyer**") for the export of natural gas from the Leviathan project to Egypt.

On September 26, 2019, the signing of an agreement for amendment of the original Leviathan-Blue Ocean agreement between the Leviathan partners and Blue Ocean was closed (in this section: the "**Leviathan Agreement**"), and an agreement was signed in connection with the allocation of the available capacity in the transmission system from Israel to Egypt between the Leviathan partners and the Tamar partners. On January 15, 2020, the flow of natural gas began in accordance with the Leviathan Agreement.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

C. Engagements for the supply of natural gas (Cont.):

1. Leviathan project (Cont.):

d) Agreement for the Export of Natural Gas from the Leviathan Project to Blue Ocean in Egypt (Cont.):

It is noted that in a tax decision that was issued to the Leviathan partners by the Tax Authority on December 9, 2019, and according to the terms and conditions of the Gas Framework, the Leviathan partners undertook to offer new customers (as defined in the Gas Framework) with which they engaged or shall engage from February 19, 2018 until 3 full years after the date of the signing of the tax decision, i.e., December 9, 2022, to enter into agreements for the sale of natural gas at a price that shall be calculated according to the formula set in the Leviathan Agreement, which is based on the Brent price, while making several adjustments as specified in the tax decision, including in view of the location of the delivery point in the Leviathan Agreement.

In July 2020, after receipt of a marine discharge permit from the Natural Gas Authority, the running-in of the compressor that was installed at the EAPC site in Ashkelon was completed. The installation of the compressor enabled the quantity of gas piped from the Leviathan reservoir to Egypt to be increased.

It is noted that in a tax decision that was issued to the Leviathan partners by the Tax Authority on December 9, 2019, and according to the terms and conditions of the Gas Framework, the Leviathan partners undertook to offer new customers (as defined in the Gas Framework) with which they engaged or shall engage from February 19, 2018 until 3 full years after the date of the signing of the tax decision, to enter into agreements for the sale of natural gas at a price that shall be calculated according to the formula set in the Leviathan Agreement, which is based on the Brent price, while making several adjustments as specified in the tax decision, including in view of the location of the delivery point in the Leviathan Agreement.

<u>Below is a summary of the details and terms and conditions of the Leviathan export agreement</u>:

1) The total contract gas quantity which the Leviathan partners undertook to supply to the Buyer on a firm basis is approx. 60 BCM (the "**TCQ**").
2) The supply of gas began on January 15, 2020, and will be until December 31, 2034 or until the supply of the full TCQ, whichever is earlier (the "**Term of the Leviathan Agreement**"). In the event that the Buyer does not purchase the TCQ, each party will be entitled to extend the supply period by two additional years.
3) The Leviathan partners undertook to supply the Buyer with annual gas quantities as follows: (i) in the period that commenced on January 15, 2020 and ended on June 30, 2020, approx. 2.1 BCM per year; (ii) in the period that commenced on July 1, 2020 and ending June 30, 2022, approx. 3.6 BCM per year; and (iii) in the period commencing July 1, 2022 and ending on the end of the Term of the Leviathan Agreement, approx. 4.7 BCM per year. It is noted that the increase of the supply as aforesaid will be made by upgrading the systems at the EMG terminal in Ashkelon, including the installation of another compressor, and by increasing the transmission capacity in INGL's system and/or transport of natural gas from Israel to Egypt via Jordan. See Note 12N below.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

C. Engagements for the supply of natural gas (Cont.):

1. Leviathan project (Cont.):

d) Agreement for the Export of Natural Gas from the Leviathan Project to Blue Ocean in Egypt (Cont.):

4) The Buyer has undertaken to take or pay for quarterly and annual quantities according to mechanisms set forth in the Leviathan Agreement which, *inter alia*, enable the Buyer to reduce the TOP quantity in a year in which the average daily Brent price (as defined in the agreement) is lower than $50 per barrel, such that it shall be 50% of the annual contract quantity. If the contract quantity is reduced in the case of a disagreement about the gas price update, as stated in Paragraph 5 below, Blue Ocean's right to reduce the take-or-pay quantity as aforesaid will be revoked (see Note 12L9 regarding a claim and a motion for class certification thereof which was filed against the Partnership in connection with the said clause). In this context, it is noted that following the plunge in energy prices in H1/2020, the Daily Brent Price (as defined in the agreement) dropped below $50 per barrel. However, from H2/2020 the Average Daily Brent Price (as defined in the agreement) has risen, and as of the date of approval of the financial statements, the brent barrel price is over $115.

5) The price of the gas to be supplied to the buyer will be determined according to a formula based on a Brent oil barrel, and includes a "floor price". Export to Egypt includes a mechanism for a price update of up to 10% (up or down) after the fifth and tenth years of the agreement, upon certain conditions specified in the agreement. If the parties do not reach an agreement on the price update as aforesaid, the buyer shall have the right to reduce the contractual quantity by up to 50% on the first adjustment date and 30% on the second adjustment date. The agreement includes an incentives mechanism, subject to quantities and the oil barrel price.

6) The Leviathan Agreement includes accepted provisions relating to conclusion of the agreement, as well as provisions in the case of conclusion of the export agreement signed between the Tamar partners and Blue Ocean as a result of a breach thereof, and the Leviathan partners' not agreeing to supply also the quantities according to the said Tamar agreement, and also includes compensation mechanisms in such a case.

7) It is noted that in the context of the set of agreements described in Note 12C1A above, the Leviathan partners and Blue Ocean signed an amendment to the export to Egypt agreement, in which agreements were reached, *inter alia*, on defining the delivery point in Aqaba, Jordan, as an additional point of delivery under the Leviathan Agreement, an arrangement whereby calculation of the quantities nominated by Blue Ocean but not supplied thereto shall be made in 2022 on an annual basis, such that at the end of the year the parties will review the quantities of gas not supplied, which will be offset against the quantities of gas to be supplied to Blue Ocean on a Spot basis during the year, as well as adjustments to the price of the natural gas to be supplied at the additional point of delivery as aforesaid, in accordance with the additional costs entailed by the transmission of the gas from the additional point of delivery, to be borne by Blue Ocean.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):
C. Engagements for the supply of natural gas (Cont.):
1. Leviathan project (Cont.):

Concurrently with the signing of the export to Egypt agreement, an agreement was signed between the Partnership and Chevron and the rest of the Leviathan partners and the Tamar partners in connection with allocation of the capacity (in this section: the "**Capacity Allocation Agreement**") in the transmission from Israel to Egypt system.

The capacity division in the transmission from Israel to Egypt system (the EMG pipeline and the transmission in Israel pipeline) will be on a daily basis, according to the following order of priority:

1. First layer – up to 350,000 MMBTU per day will be allocated to the Leviathan partners.
2. Second layer – the capacity above the first layer, up to 150,000 MMBTU per day until June 30, 2022 (the "**Capacity Increase Date**"), and 200,000 MMBTU per day after the Capacity Increase Date, will be allocated to the Tamar partners.
3. Third layer – any additional capacity above the second layer will be allocated to the Leviathan partners.

Pursuant to the Capacity Allocation Agreement, on the date of the closing the EMG transaction, the Leviathan partners and the Tamar partners paid the Partnership and Chevron the sum of $250 million (80% by the Leviathan partners and 20% by the Tamar partners), as participation fees, in consideration for the undertaking to allow the piping of natural gas from the Leviathan and Tamar reservoirs and guaranteeing capacity in the EMG Pipeline. Pursuant to the agreement, the amount of the aforesaid payments will be updated by June 30, 2022, according to the formula determined in the agreement, based on the actual use of the EMG pipeline. The Capacity Allocation Agreement determines further arrangements for bearing the additional costs and investments that will be required for refurbishment of the EMG pipeline and maximum utilization of the pipeline capacity, which shall be paid by both the Leviathan partners and the Tamar partners. The Capacity Allocation Agreement further determines that as of June 30, 2020 until the Capacity Increase Date, insofar as the Tamar partners shall be unable to supply the quantities which they undertook to supply to Blue Ocean, the Leviathan partners shall supply the Tamar partners with the required quantities up to a total quantity of 150,000 MMBTU a day under the terms and conditions specified in the agreement.
The term of the Capacity Allocation Agreement is until the conclusion of the export to Egypt agreement, unless it shall have ended prior thereto in the following cases: a breach of a payment undertaking which was not remedied by the party in breach; or in a case where the Competition Authority shall not have approved extension of the capacity and operatorship agreement according to the decision of the Competition Commissioner. In addition, each party shall be entitled to end its part in the Capacity Allocation Agreement insofar as its export agreement shall have been terminated.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):
C. Engagements for the supply of natural gas (Cont.):

2. **"*Force majeure*" events under natural gas sale agreements:**
In the Partnership's natural gas sale agreements, excluding SPOT agreements (the "**Agreements**"), the customers are obligated to take-or-pay for a minimal annual quantity of natural gas, in accordance with the mechanisms set forth in the Agreements. However, the customers may be exempt from this obligation upon the occurrence of "*force majeure*" events, which prevent them from fulfilling their undertakings, as defined in the Agreements. A "*force majeure*" event is defined as an event beyond the customer's control, which prevents it from fulfilling its undertakings under the agreement, and which could not reasonably have been prevented in the circumstances. The Agreements specify a list of cases that shall not be deemed as a "*force majeure*" event, also where they are beyond the customer's control. It is noted that the Partnership may also be exempt from its obligations according to the natural gas sale agreements upon the occurrence of a "*force majeure*" event which prevents it from fulfilling its undertakings according to the Agreements.
If a "*force majeure*" event lasts for a prolonged period as determined in a natural gas sale agreement (usually between one and three years), and it has a material effect on the ability of a party to the agreement to fulfill its undertakings as aforesaid, this may constitute grounds for termination of the agreement. Therefore, the occurrence of a "force majeure" event for a long period, which suspends a customer's undertakings to buy a significant quantity of natural gas, may have a material adverse effect on the Partnership's revenues.

D. Agreement for the supply of condensate to ORL:
In December 2019, an agreement was signed (the "**ORL Agreement**") whereby condensate produced from the Leviathan reservoir will be piped to the existing fuel pipeline of EAPC which leads to a container site of Petroleum & Energy Infrastructures Ltd. ("**PEI**") and from there it will be piped to ORL's facilities, according, *inter alia*, to regulatory directives.
The ORL Agreement is on an interruptible basis, for a period of 15 years from the date of commencement of the piping of condensate (in commercial quantities), with each party having the right to terminate the ORL Agreement by giving prior notice of at least 360 days, to the other party. In addition, each party may terminate the ORL Agreement on shorter notice upon the occurrence of various events, including in the case of a breach by the other party, and upon the occurrence of regulatory and other changes which will not allow the piping of the condensate according to the provisions of the ORL Agreement.
The condensate will be piped to ORL according to the ORL Agreement on an interruptible basis up to a maximum quantity that was agreed between the parties (the "**Maximum Quantity**"). The parties may update the Maximum Quantity from time to time, subject to compliance with the conditions that were determined by the authorities in this respect, including the Ministry of Energy and the MoEP.
The ORL Agreement stipulates that the delivery of the condensate to ORL will be without consideration, while the Leviathan partners shall bear any and all expenses relating to the piping of the condensate.
In the context of correspondence between the Leviathan partners and ORL in Q1/2022, the Leviathan partners claimed against ORL that failure to pay for the condensate supplied to ORL as aforesaid constitutes prohibited and unlawful abuse of ORL's power as a monopsony in the purchase of condensate. In the context of this claim the Leviathan partners invited ORL to enter into negotiations to remedy the aforesaid violation immediately and retroactively.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

D. Agreement for the supply of condensate to ORL (Cont.):

In its reply ORL rejected the Leviathan partners' arguments while the Leviathan partners reiterated their position whereby ORL's failure to pay for the condensate supplied thereto as aforesaid constitutes a violation of the law which causes material damage to the Leviathan partners. As of the date of approval of the financial statements, the Leviathan partners are considering institution of legal measures against ORL.

E. MOU with PEI

On June 14, 2021, Chevron, the operator in the Leviathan project, signed a non-binding MOU with PEI, pertaining to promotion of the possibility of a joint project for construction and operation of designated infrastructure for piping of condensate from the Leviathan platform to storage containers at the "Orot Rabin" power plant site, which containers will be rented for such purpose, and for loading it into containers. It is clarified that execution of the above-described project is subject to the signing of a binding agreement between the parties, the signing of an agreement between PEI and IEC with regard to use of the space at the power plant site, and receipt of regulatory approvals insofar as they are required. It is noted that as of the date of approval of the financial statements, the Leviathan partners, together with PEI, is examining another alternative of piping of condensate from the Leviathan platform through PEI's existing systems.

F. Agreement for the supply of natural gas to Rapac Delek Sorek Ltd. ("Delek Sorek")[36]:

On September 19, 2019, an agreement was signed for the supply of natural gas between the Leviathan partners (in this section: the "**Leviathan Partners**") and Delek Sorek (in this section: the "**Agreement**"). In the Agreement, the Leviathan Partners undertook to supply Delek Sorek with natural gas in a total quantity of up to approx. 0.24 BCM per year, in accordance with the terms and conditions set forth in the Agreement. The supply period according to the Agreement began in proximity to the date of commencement of the gas flow from the Leviathan project and shall end 9 years after the date of the commercial operation of the Leviathan project (the "**Term of the Supply Agreement**"), while Delek Sorek has the right to extend the Agreement by another five years, by dispatching a notice to the Leviathan Partners that it wishes to do so, no later than the end of the seventh year from the date of commercial operation of the Leviathan project. Delek Sorek undertook to take-or-pay for a minimum annual quantity of gas in the volume and according to the mechanism set forth in the Agreement (the "**Take-Or-Pay Quantity**"). The gas price stipulated in the Agreement will be linked to the Electricity Production Tariff, as shall be determined from time to time by the PUA-E, and includes a "floor price".

[36] It is noted that as of the date of approval of the financial statements, a transaction with Delek Sorek as aforesaid is no longer classified as a transaction with a related and interested party as a result of the closing of a transaction for the sale of Delek Israel's holdings in Delek Sorek dated February 22, 2021.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

G. Estimates regarding gas quantities and supply dates:

The estimates regarding the natural gas quantities which will be purchased by the aforesaid buyers in the Leviathan project, and the supply commencement dates according to the supply agreements, constitute information the materialization of which, in whole or in part, is uncertain, and which may materialize in a materially different manner, due to various factors including non-fulfillment of the conditions precedent in each one of the supply agreements (insofar as not yet fulfilled), non-receipt of regulatory approvals, changes in the scope, pace and timing of consumption of the natural gas by each one of the aforesaid buyers, the gas prices to be determined according to the formulas specified in the supply agreements, the electricity production tariff, the Dollar-ILS exchange rate (insofar as relevant to the supply agreement), the Brent prices (insofar as relevant to the supply agreement), the U.S. CPI (insofar as relevant to the supply agreement), construction and operation of the power plants and/or other plants of the buyers (insofar as relevant to the supply agreement), exercise of the options granted in each one of the supply agreements and the date of exercise thereof, etc.

H. Reimbursement of indirect expenses to the project operators:

The Partnership's operations in the joint ventures Ratio-Yam, and Yam Tethys is carried out by Chevron, in the Ofek and Yahel licenses it is carried out by SOA, and the Partnership's operation in the Block 12 joint venture in Cyprus is carried out by Chevron Cyprus.

According to the joint operation agreements in such joint ventures and licenses, it was agreed that Chevron, SOA or Chevron Cyprus, according to the aforesaid, would serve as the operator and would be exclusively responsible for the management of the joint operations.

According to the rules of settlement of accounts specified in the agreements, Chevron, SOA and Chevron Cyprus are entitled to reimbursement of indirect expenses calculated as a percentage of the direct expenses, as specified below:

Ratio-Yam joint venture:

Chevron is entitled to reimbursement of all of the direct expenses it incurs in connection with the fulfillment of its duties as operator and to a rate of 1%-4% for exploration expenses, with the rate of payment to the operator decreasing as the exploration expenses increase, and additionally, to a rate of 1% of all the direct development expenses, as defined in the agreement, subject to certain exceptions.

Yam Tethys joint venture:

Chevron is entitled to reimbursement of all of the direct expenses it incurs in connection with the fulfillment of its duties as operator as well as reimbursement of the indirect expenses deriving from a percentage of the expenses of the joint venture, at a rate of 1% of the expenses up to an expense amount of $20 million per year, and 0.85% of the expenses beyond such amount.

Ofek and Yahel licenses:

SOA is entitled to reimbursement of all of the expenses it incurs in connection with the fulfillment of its duties as operator and to reimbursement at a rate of 1% of all of the exploration expenses. As of the date of approval of the financial statements, the rate of reimbursement of development expenses is yet to be determined.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

H. Reimbursement of indirect expenses to the project operators (Cont.)

Block 12 Cyprus:

Chevron Cyprus is entitled to reimbursement of all of the direct expenses it incurs in connection with fulfillment of its duties as operator as well as amounts for payment of indirect expenses of the operator at a rate of 1%-4% in connection with exploration expenses, note that the rate of payment of the indirect expenses to the operator decreases as the exploration expenses increase.

Furthermore, Chevron Cyprus is entitled to payment of indirect expenses at the rate of 1.5% for the operator's indirect expenses out of the overall direct expenses in connection with development activity, subject to specific exceptions, such as marketing activity. As of the date of approval of the financial statements, the operator fees, with respect to indirect expenses in connection with the production activity, have not yet been determined.

I. Dependence on a customer:

NEPCO and Blue Ocean are the Partnership's largest customers and therefore, termination of the agreements signed between them and the Leviathan partners, or the non-fulfillment thereof, will materially affect the Partnership's business and future revenues.

For details regarding sales volumes and trade receivables balance of the aforementioned and of IEC as of December 31, 2021 and December 31, 2020, see Note 14C and Note 22G below.

J. Permits and licenses for the projects' facilities:

1. In the context of the development of the Yam Tethys project, the Yam Tethys partners received approval for construction of a permanent platform for production of natural gas and oil, and approval for operation of a natural gas production system under the Petroleum Law and the Minister of Energy also gave Yam Tethys Ltd. (a company owned by the Yam Tethys partners) a license for construction and operation of a transmission system, that will be used for transfer of natural gas of Yam Tethys partners, or other natural gas suppliers upon fulfillment of certain conditions, all subject to the terms and conditions of the license and the Natural Gas Sector Law from the production platform to the terminal.
2. In Phase 1A of the development plan for the Leviathan project, the Leviathan partners received approval for the construction of a permanent platform for the production of natural gas and oil, as well as approval for the operation of a system for production of natural gas and condensate from the Leviathan project pursuant to which the Leviathan partners were obligated, *inter alia,* to submit guarantees.

   In February 2017, the Minister of Energy granted the SPC owned by the Leviathan partners, Leviathan Transmission System Ltd., a license for the construction and operation of the transmission system, which will serve for the transfer of natural gas of the Leviathan partners originating from the Leviathan Leases, or other natural gas suppliers upon the fulfillment of certain conditions, all subject to the terms of the license. In December 2019, the Commissioner's approval was received for the operation of the system for production of natural gas and oil from the Leviathan Leases.

   In addition, other permits were received including a sea discharge permit, an air emission permit, toxic materials permits and business permits.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

K. Pledges and guarantees:

1. Short-term bank deposits as of December 31, 2021 in the sum of approx. $100.5 million used for debt service and current payments in the context of the issue of the Leviathan Bond bonds (see Note 10B above).
2. A long-term bank deposit as of December 31, 2021 in the sum of approx. $100.2 million used as a safety cushion in the context of the issue of Leviathan Bond bonds (see Note 10B above) and a deposit in the sum of $0.5 million used to secure a guarantee in the sum of $1 million, provided by the Partnership and Chevron (in equal parts) in favor of the Director of the Natural Gas Authority in relation to the license for gas transmission to Egypt.
3. See Note 10 regarding pledges provided by the Partnership on its assets in the context of the bonds.
4. According to the demand of the Government of Cyprus in the framework of the PSC as stated in Note 7C3 above, in 2013, Delek Group provided a performance guarantee in favor of the Republic of Cyprus. In consideration for provision of the guarantee, the Partnership pays Delek Group a guarantee fee in the amount of approx. $368 thousand per year until 25 years after the date of provision of the guarantee.
5. In the context of the Partnership's activity in the Leviathan project, the Partnership provided a personal guarantee in favor of the Israeli Tax Authority (Customs) in connection with equipment imported by the venture operator in the sum of approx. ILS 67.6 million.
6. In the context of the abandonment actions in the Yam Tethys project, the Partnership provided a personal guarantee in connection with equipment imported by the operator of the transaction in the sum of approx. ILS 57.7 million in favor of the Israel Tax Authority (Customs).
7. During July 2018, the partners in the Leviathan project provided a guarantee in favor of the Israel Land Authority regarding the construction of development infrastructure for the Leviathan project. The share of the Partnership in the said guarantee is approx. ILS 2.3 million.
8. In order to secure payments for rights of use of areas, facilities and infrastructures in connection with the EMG Transaction, the Partnership provided a bank guarantee in the amount of $2 million in favor of EAPC. In the context of the agreement with EAPC, EMED BV provided a company guarantee in the amount of $4 million to EAPC.
9. To secure a transmission agreement for the export of gas to Egypt (see Section N) in the context of the Partnership's activity in the Leviathan project, the Partnership provided bank guarantees in favor of INGL in the sum of approx. ILS 142 million, against which the Partnership pledged a deposit in the sum of approx. $11.4 million.
10. With regard to guarantees in the sum of approx. $54.7 million provided by the Partnership to the Commissioner in connection with its rights in the oil and gas assets, see Section M3 below.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

L. Legal proceedings:

1. On March 12, 2015, the Partnership and Chevron (jointly in this section: the "**Plaintiffs**") filed a complaint with the District Court in Jerusalem against the State of Israel through its representatives from the Ministry of Energy (in this section: the "**Defendant**"), which mainly includes the restitution of royalties overpaid by the Plaintiffs, under protest, to the Defendant, for revenues that derived to the Plaintiffs from gas supply agreements which were signed between natural gas consumers and the Yam Tethys partners, some of which was supplied from the Tamar project, according to an accounting mechanism designated to maintain a balance of the gas quantities in the Tamar project between the partners therein according to their share. The restitution remedy that the State is being sued to pay is, as of December 31, 2021, approx. $28 million, with the Partnership's share being approx. $13 million. Alternatively, the Plaintiffs' claim that they are at least entitled to a partial restitution amount which as of December 31, 2021 is $19.4 million, with the Partnership's share being approx. $9 million. As of the date of approval of the financial statements, the complaint is in the stage of closing statements.
   In the Partnership's estimation, based on the opinion of the legal counsel, there is a possible chance, i.e. more than 20% but lower than 70%, that the main claim of the Plaintiffs be accepted, such that they will be entitled to the entire restitution amount, and the chances of their claim, that at the very least they are entitled to a partial restitution amount, being accepted are higher than the chances of it being dismissed.
   It is noted that according to the terms and conditions of the agreement described in Note 7C1 above, with respect to the sale of the Partnership's remaining rights in the Tamar project, the Partnership will remain entitled to receive the restitution amount ruled in favor of the Partnership, if ruled, also after the closing of the transaction.
2. On June 18, 2014, a motion for class certification was filed with the Tel Aviv District Court by a consumer of the IEC against the Tamar partners (in this section: the "**Petitioner**" and the "**Certification Motion**", respectively). Such motion concerns the price at which the Tamar partners sell natural gas to the IEC.
   The Certification Motion claims that the gas price for the IEC is an unfair price which constitutes abuse of the Tamar partners' position as holders of a monopoly in the Israeli natural gas supply sector in violation of Section 29A of the Economic Competition Law.
   The remedies sought in the Certification Motion are: compensation for all of the electricity consumers in the sum of the difference between the price paid by the IEC for natural gas supplied by the Tamar partners and the fair price thereof, which was estimated on the date of filing of selling the Certification Motion at a total sum of approx. ILS 2.456 billion (100%), as well as declaratory orders whereby the Tamar partners are required to refrain from the natural gas from the Tamar project for a sum exceeding the sum specified in the Certification Motion and sale thereof at a higher price constitutes abuse of their monopoly power.
   On August 6, 2021, a judgment of the District Court was issued, denying the Certification Motion, both since the cause of action was not proved, not even ostensibly, in the sense that there is no evidence that the price of natural gas in the IEC contract is unfair, and since the Certification Motion does not meet the requirement of Section 8(A)(2) of the Class Actions Law, 5766-2006, in the sense that the class action is not the effective and fair way to decide the dispute under the circumstances.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

L. Legal proceedings (Cont.):

2. (Cont.)

   The aforesaid is in view of the deep involvement of the regulators who examined broad questions from the field of economics, economic competition, and Israel's foreign and security policy, which were reflected in the decision of the regulators and the Government of Israel.

   On September 30, 2021, the Petitioner filed an appeal from the judgment with the Supreme Court, in which the Supreme Court was moved to certify the class action and order the District Court to hear the class action. The Tamar partners filed their response to the appeal on March 1, 2022, and the Attorney General is expected to file her response to the appeal by April 3, 2022. A hearing on the appeal was set for September 19, 2022.

   In the Partnership's estimation, based on the opinion of its legal counsel, the chances of the motion for class certification being accepted are lower than 50%.

   It is noted that according to the terms and conditions of the agreement, with respect to the sale of the Partnership's remaining rights in the Tamar project, the Partnership will remain liable to the buyers in connection with the above Certification Motion, including any appeal and other proceeding with respect thereto, also after the closing of the transaction.

3. On December 25, 2016, the holders of participation units in Avner prior to the merger (the "**Petitioners**"), filed a motion for class certification (in this section: the "**Certification Motion**") claiming that the merger transaction between the Partnership and Avner had been approved by an unfair procedure and the consideration paid to the holders of the minority units in Avner, as determined in the merger agreement, was unfair.

   The motion was filed against Avner, the general partner in Avner and the board members thereof, Delek Group as the (indirect) control holder of Avner, and against Price Waterhouse Coopers Consulting Ltd. (PWC), as the economic advisors of an independent board committee set up by Avner (in this section: the "**Respondents**"). Among other claims, the motion argues that the committee members, the board of directors of Avner and the general partner had breached the duty of care to Avner, and that Avner had conducted itself in a manner that oppressed the minority. The Petitioners estimate the total damage at ILS 320 million (approx. $103 million). On February 13, 2017, the court approved a stipulation whereby the Certification Motion would be amended by adding a claim for minority oppression by Delek Group. On July 6, 2017, the court ordered the joining of the Partnership as a respondent, pursuant to its motion. Trial hearings were held on March 9, 2021 and March 10, 2021 and upon conclusion thereof it was ruled that, by March 17, 2021, the parties shall file a stipulation regarding the manner of conduct of the stage of the closing statements. According to the agreed stipulation the Petitioners filed their closing statements on August 16, 2021, and the date for filing of the Respondents' closing statements is by April 10, 2022.

   In the Partnership's estimation, based on the opinion of the legal counsel, the chances of the Certification Motion being granted are lower than 50%.

4. On February 4, 2019, a class action and a motion for class certification thereof (in this section: the "**Certification Motion**") was filed with the Tel Aviv District Court (Economic Department) by a shareholder of Tamar Petroleum and the Public Representatives Association (in this section jointly: the "**Petitioners**"), against Tamar Petroleum, the Partnership, the CEO of the Partnership's General Partner and the Chairman of the Board of Tamar Petroleum at the time of the IPO, the CEO of Tamar Petroleum, the CFO of Tamar Petroleum and Leader Underwriters (1993) Ltd.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

L. Legal proceedings (Cont.):

4. **(Cont.)**

(in this section jointly: the "**Respondents**"), in connection with the issue of the Tamar Petroleum shares in July 2017 (in this section: the "**IPO**").

According to the Petitioners, in essence, the Respondents misled the investing public at the time of the IPO with respect to the ability of Tamar Petroleum to distribute a dividend to its shareholders, for the period commencing on the IPO date and ending at the end of 2021 (in this section: the "**Period**"), and breached duties under various laws, and *inter alia*, the duty of care of the said officers and the Partnership's duties as a shareholder and controlling shareholder of Tamar Petroleum prior to the IPO.

The remedies sought in the said class action mainly included a financial remedy in the minimum sum of $53 million, which is, according to the Petitioners, the difference between the total dividend which Tamar Petroleum is expected to distribute for the Period, as stated in the offering to institutional investors document of July 12, 2017, and the total dividend which, according to an expert opinion attached to the Certification Motion, Tamar Petroleum is expected to distribute for the Period.

On August 13, 2019, the court ordered the Petitioners to deliver the pleadings in the file to the Attorney General, in order that he gives notice, by September 15, 2019, of whether he wishes to join the proceeding. On February 6, 2020, the Attorney General announced that at this stage he did not deem fit to join the proceeding. On November 1, 2020, the Petitioners filed a motion to amend the Certification Motion (in this section: the "**Amendment Motion**"), in which they sought to join to the Certification Motion another petitioner who had participated in the IPO, unlike the current Petitioners who did not take part therein. In addition, the Amendment Motion sought to increase the amount of the alleged damage to $153 million.

On April 6, 2021, the court granted the Petitioners' motion to amend the Certification Motion and ruled that the Petitioners are entitled to file the amended Certification Motion in accordance with the language filed with the court subject to payment of expenses to the Respondents in the sum total of ILS 100,000. On May 9, 2021, the court granted the Respondents' motion for stay of proceedings in the case due to the fact that they intend to file a motion for leave to appeal from the decision to approve the amendment of the Certification Motion. On June 3, 2021, the Respondents filed a motion for leave to appeal from the decision to approve the amendment of the Certification Motion, and on July 13, 2021, the Petitioners filed their response to the motion for leave to appeal. On November 7, 2021, the motion for leave to appeal was denied, and on January 23, 2022, an amended certification motion was filed. A pretrial hearing on the case is scheduled for July 4, 2022.

The Partnership estimates, based on the opinion of its legal counsel, that the chances of the Certification Motion being granted are lower than 50%.

5. On February 27, 2020, the Partnership learned of the filing of a class action and a motion for class certification (in this section: the "**Certification Motion**"), which was filed with the Tel Aviv District Court by an electricity consumer (in this section: the "**Petitioner**") against the Partnership and Chevron 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 the IEC and in connection with a possible amendment to the agreement for the supply of gas from the Tamar project to the IEC, as agreed by Isramco, Tamar Petroleum, Dor and Everest (collectively in this section: the "**Other Holders in the Tamar Project**"), with no involvement on the part of the Partnership and Chevron (in this section: the "**Amendment to the Tamar Agreement**").

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

L. Legal proceedings (Cont.):

5. (Cont.)

The Petitioner's principal arguments are that the bids made by the Other Holders in the Tamar Project and the holders in the Leviathan project in the competitive process amount to abuse of monopoly power and to a restrictive arrangement, as defined in the Economic Competition Law; the Partnership's and Chevron's not signing the Amendment to the Tamar Agreement also amounts to abuse of monopoly power; the price determined in the agreement for the supply of gas from the Leviathan project to the IEC further to the competitive process is an unfair price; and profits made and which shall be made by the Partnership and Chevron under this agreement, while harming competition, amount to unjust enrichment.

The Petitioner asserts that such actions of the Partnership and Chevron have caused and are expected to cause damage to the classes he seeks to represent in the sum of approx. ILS 1.16 billion, which he moves to adjudicate in favor of the classes he seeks to represent and according to which the court is moved to award compensation and fees. The main remedy that is sought in the said class action is a ruling by the court that the Partnership and Chevron are not entitled to prevent the Other Holders in the Tamar Project from signing the Amendment to the Tamar Agreement.

On December 22, 2020, the Other Holders in the Tamar Project filed a motion for Summary dismissal without prejudice thereof, and on September 9, 2021 the court approved their dismissal. Furthermore, on November 17, 2021, the court accepted Ratio's agreed motion to dismiss it from the Certification Motion. A pretrial hearing on the Certification Motion is scheduled for April 24, 2022.

On December 9, 2021, the Partnership and Chevron filed their response to the Certification Motion and a motion to remove the legal opinion that was attached to the Certification Motion. On February 27, 2022, the court ruled that the motion will be heard in the hearing scheduled for April 24, 2022. On February 28, 2022, the Petitioner filed an answer to the Respondents' answer to the Certification Motion.

In the Partnership's estimation, based on the opinion of its legal counsel, the chances of the Certification Motion being granted are lower than 50%.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

L. Legal proceedings (Cont.):

6. On January 6, 2019, the Supervisor on behalf of the participation unit holders in the Partnership filed a complaint and an urgent motion for a provisional order with the Tel Aviv District Court (Economic Department) (in this section: the "**Complaint**" or the "**Supervisors' Claim**" and the "**Motion for a Provisional Order**", respectively), according to Section 65W(b) of the Partnerships Ordinance, against the Partnership, the Partnership's general partner, Delek Group, Delek Energy and Delek Royalties (Delek Group, Delek Energy and Delek Royalties, jointly in this section: the "**Royalty Interest Owners**").

   In the Complaint, the Supervisor moves the Court to declare that the calculation of the "investment recovery date" in the Tamar project must include the payments which the Partnership is required to pay the State under the Taxation of Profits from Natural Resources Law; to declare that the investment recovery date in the Tamar project has not yet arrived; to determine the date from which the Royalty Interest Owners are entitled to receive the overriding royalty at the increased rate (6.5% in lieu of 1.5%); and to declare that the Royalty Interest Owners are required to return to the Partnership the payments they received in excess, plus linkage differentials and interest.

   On April 4, 2019, the Royalty Interest Owners filed an answer and a counterclaim against the Partnership, the General Partner and the Supervisor (in this section: the "**Counterclaim**"). In the Counterclaim, the Royalty Interest Owners argue, *inter alia*, that the Partnership's calculation of the Investment Recovery Date in the Tamar project included expenses that were "loaded" onto the calculation, and *inter alia*, the financial expenses of the Partnership itself, future expenses, whose amount is uncertain, of the retirement and removal of facilities, headquarter expenses of the Partnership and any expense intended for stages of the project that are subsequent to the "wellhead". The Royalty Interest Owners argue that, discounting such expenses, the Investment Recovery Date in the Tamar project already occurred in August 2015, or alternatively in 2016, or alternatively in 2017.

   Accordingly, the Royalty Interest Owners are moving the court to declare which expenses should be taken into account in the calculation of the Investment Recovery Date, and to order that the Partnership is required to recalculate the Investment Recovery Date based on the aforesaid, and of the royalties that the Royalty Interest Owners are entitled to receive, and to deliver such calculation to the Royalty Interest Owners.

   On October 2, 2019, the answers were filed on behalf of the Partnership and the General Partner – both an answer in relation to the Supervisors' Claim and a counter-answer in relation to the Counterclaim filed by the Royalty Interest Owners – in which it was asserted that both of the claims should be simultaneously dismissed with prejudice.

   On April 5, 2021, a pretrial hearing took place, during which the parties were offered to refer to mediation, following which the parties agreed to apply to former Supreme Court Justice Yoram Danziger as a mediator. As of the date of approval of the financial statements, the mediation process has not yet been exhausted.

   In the Partnership's estimation, based on the opinion of its legal advisors, the chances of the Counterclaim being granted are lower than 50%.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

L. Legal proceedings (Cont.):

7. Further to Note 12C1D above, following the decision of the Competition Commissioner (in this section, the "**Commissioner**"), according to Section 20(b) of the Economic Competition Law, to conditionally approve the merger between EMG and EMED, in the context of which a set of agreements was signed to enable the export of gas to Egypt from the Tamar and Leviathan gas reservoirs (in this section: the "**Merger**"), on September 8, 2019, Lobby 99 Ltd. (CIC) and Hatzlaha - for Promotion of a Fair Society (R.A.) filed an administrative appeal with the Competition Court at the Jerusalem District Court. The administrative appeal was filed against the Commissioner (as a respondent) and against EMED and EMG. In essence, it was argued in the administrative appeal that the Merger will enable the Partnership and Chevron to block any and all possibilities of importing natural gas from Egypt that will compete with the gas produced from the Tamar and Leviathan reservoirs that they own, and that the conditions imposed in the context of the Merger's approval are impracticable and do not remedy the competition damage that may be caused according to them by approval of the Merger. In the administrative appeal, the court was moved to cancel or modify the Commissioner's decision. On December 15, 2020, a preliminary hearing was held on the administrative appeal and trial hearings on the administrative appeal were scheduled for June-July 2022. In the Partnership's estimation, based on the opinion of its legal counsel, the chances of the administrative appeal being granted are lower than 50%.
8. On April 23, 2020, a holder of participation units of the Partnership (in this section: the "**Petitioner**") filed a class action and motion for class certification against the Partnership, the General Partner, Delek Group, Yitzhak Sharon (Tshuva), the directors of the General Partner (including the former chairman of the board) and the CEO of the General Partner (in this section: the "**Certification Motion**" and the "**Respondents**", respectively), with the Economic Department of the Tel Aviv District Court.

   The Certification Motion alleges that the Respondents refrained from disclosing, in the Partnership's reports, the existence of a clause in the agreements for the sale of natural gas from the Leviathan and Tamar reservoirs to Blue Ocean (in this section: the "**Sale Agreements**" and the "**Buyer**", respectively), according to which in a year in which the average daily price of a Brent barrel (as defined in the Sale Agreements) is lower than $50 per barrel, the Buyer is entitled to reduce the minimum annual quantity purchased under the Sale Agreements, to 50% of the annual contract quantity. According to the Petitioner, the alleged non-disclosure in the Partnership's reports establishes causes of action by virtue of various sections of the Securities Law, by virtue of the tort of breach of statutory duty, and by virtue of the tort of negligence.

   The main remedy sought in the Certification Motion is compensation of the class which the Petitioner intends to represent, for the alleged damage incurred thereby, which is estimated, according to the opinion attached to the Certification Motion, at approx. ILS 55.5 million. The Petitioner also moved to issue any and all other remedies in favor of the class, as the court will deem fit under the circumstances.

   On January 17, 2021, the Respondents filed their response to the Certification Motion, accompanied by an expert opinion. In summary, according to the response, during the period relevant to the Certification Motion, the reduction clause was never material, and therefore was not required to be disclosed to the public and there is no causal link between the disclosure regarding the reduction clause and the decrease observed in the rates of the Partnership's participation units.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

L. Legal proceedings (Cont.):

8. (Cont.)

   On January 2, 2022, the Attorney General announced, after being required by the court to do so, that at this stage he is not taking a stand in the proceeding, trial hearings on the proceeding were scheduled for June 2022.

   In the Partnership's estimation, based on an opinion of its legal counsel, the chances of the motion being granted are lower than 50%.

9. With regard to the reduction clause in the export to Egypt agreements, in connection with which the motion for class certification described in Section 8 above was filed, on July 20, 2020 the Partnership received a letter of request from the ISA to provide information and documents in the context of an administrative inquiry conducted by the ISA on this matter. The Partnership filed a response to the said letter of request on November 10, 2020. As of the date of approval of the financial statements, the Partnership has not been informed on whether a decision has been made to launch an administrative enforcement proceeding.

10. On June 18, 2020, the Partnership and Chevron which held the Alon D license filed a petition with the Supreme Court sitting as the High Court of Justice (in this section: the "**Petitioners**" and "**Petition**", respectively). In the Petition the court was moved to issue an order nisi ordering the Minister of Energy and the Commissioner to give reasons why the Minister's decision denying the appeal should not be revoked, why the license should not be extended or the Petitioners granted a substitute license in its stead, and why the Petitioners should not be allowed to realize their economic interest in the natural gas from the Karish North reservoir, part of which lies within the license areas. A motion was also made for an interim order preventing the expiration of the license or alternatively prohibiting the launch of a competitive process for a new license for the license area (or part thereof) or the granting of such license to a third party pending decision of the Petition, and a preliminary order pending decision of the motion for an interim order.

    Already on the same day a decision was issued ordering the Minister of Energy and the Commissioner to file their response to the motion for an interim order by June 28, 2020. In the decision the court rejected the motion for a preliminary order, and pursuant thereto the Alon D license expired on June 21, 2020.

    Further to the aforesaid, on June 23, 2020, the Ministry of Energy announced a competitive process for an oil and natural gas exploration license in Block 72 whose area was covered by the license.

    On May 13, 2020, the State filed its preliminary response to the Petition in the context of which it claimed, *inter alia,* that the Petition ought to be dismissed with prejudice because Energean was not added as a respondent. On May 19, 2021, a hearing was held on the Petition in whose context the parties reached an agreement whereby Energean will be added as a respondent to the proceeding, file a response on its behalf within 60 days, and on such date the parties will also provide an update regarding the progress in the competitive process in Block 72, based on an assumption that a winner in the competitive process will be chosen by such date, which is expected to affect the arguments in the Petition. The court approved the stipulation between the parties. On August 19, 201 [sic], Energean filed its response to the Petition and on October 25, 2021, the Petitioners filed their reply to Energean's response. As of the date of approval of the financial statements a decision has not been made in the competitive process in Block 72.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

L. Legal proceedings (Cont.):

10. (Cont.)

    Following a motion filed by Energean on March 16, 2022, the Court postponed the date of hearing of the appeal. As of the date of approval of the financial statements, no notice has yet been given on an updated hearing date.

11. On April 21, 2021, the Israel Union for Environmental Defense (Adam Teva V'Din) (in this section: the "**Petitioner**") filed an administrative petition with the Jerusalem District Court (sitting as the Court for Administrative Matters), against the Tax Authority, the Supervisor for Implementation of the Freedom of Information Law at the Tax Authority, Chevron, the Partnership, Ratio, Givot Olam Oil Exploration – Limited Partnership (1993), E.C.L. Group Ltd., Dead Sea Works Ltd. and Rotem Amfert Negev Ltd. (in this section: the "**Respondents in the Original Petition**"). In the petition, the court was moved to order the Tax Authority to provide the Petitioner with information about the revenues from the State's income from Israel's natural resources, together with general information regarding reports received by the Tax Authority and the handling thereof since the enactment of the Taxation of Profits from Natural Resources Law. According to the petition, it was filed after the Tax Authority refused, in March 2021, to grant a freedom of information application submitted by the Petitioner, in which the Tax Authority was requested to provide the requested information. On May 6, 2021, the Petitioner filed, after receiving the court's permission therefor, an amended petition in which it added to the Respondents in the Original Petition all of the partners in the Tamar project which were not named in the original petition (in this section, together with the respondents in the original claim: the "**Respondents**"). On July 15, 2021 and August 1, 2021, the Respondents filed their responses to the petition, in the context of which they claimed that it was necessary to dismiss the petition with prejudice and refuse to provide the Petitioner with the information requested, *inter alia* because it is protected by the duty of fiscal confidentiality that applies to information provided to the tax authorities. A hearing on the petition was held on February 15, 2022 and on February 22, 2022 a judgment was issued ordering to grant the petition in part, such that the Tax Authority was required to reconsider its decision not to disclose the information.

12. On August 28, 2019, the Homeland Guards Association (in this section: the "**Petitioner**") petitioned the Jerusalem District Court against the MoEP and position holders therein and against Chevron and the Ministry of Energy, seeking to instruct the MoEP and position holders therein to require Chevron or the Ministry of Energy to furnish various items of information which are necessary, as claimed by the Petitioner, to make a decision on the application for Leviathan platform's Emission Permit; to release all of the information to the public and to allocate a 45-day period for the submission of comments; and to avoid granting an Emission Permit to a platform until the petition has been heard. Concurrently with the petition, a motion was filed for a temporary order and interim order which are intended to prevent the provision of Leviathan's Emission Permit until the petition has been heard. On December 19, 2019, the court's judgment rejecting the petition was issued, and on November 2, 2021 the Supreme Court's judgment was issued, rejecting an appeal filed by the Petitioner from the judgment.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):
L. Legal proceedings (Cont.):

13. In a petition filed in November 2019 with the Jerusalem District Court, by the Zichron Yaakov Local Council, Zalul Environmental Association, Jisr az-Zarqa Local Council, Megiddo Regional Council, Pardes Hanna-Karkur Local Council and Emek Hefer Regional Council (in this section: the "**Petition**" and the "**Petitioners**", respectively), against the Head of the Air Quality Division in the MoEP and against Chevron, the Court was asked, *inter alia*, to order the nullification of Leviathan platform's Emission Permit and to determine that there will be no activity in the Leviathan platform which involves the emission of gases. On March 15, 2020 the District Court issued its judgment rejecting the Petition and on October 7, 2021 the Supreme Court's judgment was issued rejecting an appeal filed by the Petitioners from the judgment, while stating that the court has taken note of Chevron's declaration whereby the Commissioner will be informed of any change it will intend to make in the monitoring and sampling system operated thereby and that it will act according to the directives he will issue thereto in such context.
14. On January 19, 2020, the Homeland Guards Association petitioned the Jerusalem District Court against the MoEP and Chevron, to order the MoEP to publish a reasoned decision regarding Chevron's request to deem the information on the Leviathan reservoir well flow as such that contains information which amounts to a trade secret. According to the Petitioner, the non-publication of a reasoned decision constitutes a violation of the provisions of the Clean Air Law by the MoEP. It was further argued that the MoEP violated its internal procedures which contemplate the examination of requests to recognize trade secrets. A preliminary hearing on the petition was held on May 23, 2021 and in the context thereof, in view of MoEP's consent to post a reasoned decision regarding the information being a trade secret on the website, the court ordered to dismiss the petition with prejudice.
15. On December 15, 2020, a motion for class certification was filed with the Tel Aviv District Court against Chevron (in this section: the "**Respondent**") by a resident of Dor Beach on behalf of "anyone who was exposed to the air, sea and coastal environment pollution, due to prohibited emissions from the gas platform operated by the Respondents in the sea, which is located opposite Dor Beach, and treats the natural gas reservoir, Leviathan, in the period from the commencement of the platform's activity in December 2019 until a judgment is issued in the claim" (in this section: the "**Certification Motion**", the "**Petitioner**" and the "**Class Members**"). In essence, the Certification Motion argues that the Respondent exposed the Class Members to air, sea and environmental pollution, due to prohibited emissions deriving from the Leviathan reservoir platform. Such exposure, according to the Petitioner, created various health problems (which were not specified in the Certification Motion) and damage of injury to autonomy due to the concern of health damage as aforesaid. The main remedy sought in the Certification Motion is compensation for the class for the damage it allegedly incurred which is estimated at approx. ILS 50 million. In addition, the Petitioner moved for a remedy of an order instructing the Respondent to immediately fulfill the obligations imposed thereon in the Clean Air Law and the regulations promulgated thereunder. On May 5, 2021, the court referred the parties to negotiate and on June 21, 2021, the parties updated the court that they had failed to reach agreements that would move the proceeding forward, and therefore it needs to continue to be conducted before the court. A pre-trial hearing in the proceeding was scheduled for May 16, 2022.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):
M. Legal proceedings (Cont.):

15. (Cont.)
As of the report approval date the Partnership estimates, based on the opinion of legal counsel representing the operator in the proceeding, that at this stage the chances of the Certification Motion being granted are below 50%.
16. To the best of the Partnership's knowledge, on August 26, 2019, PTT (which owned 25% of the shares of EMG as of the claim filing date), filed a claim with the Economic Court in Port Sa'id, Egypt, against EMG and other parties. In the complaint, PTT sought revocation of the resolutions of the general meeting of EMG of June 10, 2019, including revocation of the resolution to approve the signing of the CLOA. PTT argues that such resolutions constitute minority oppression and are against the company's best interests, in violation of the Egyptian companies law, which applies to EMG. On December 2, 2021 it was published that PTT sold its holdings in EMG to an SPV wholly owned by the Italian company, SNAM and to the best of the Partnership's knowledge, the claim filed by PTT was dismissed without prejudice.
17. On December 30, 2018, ORL submitted an application to the International Chamber of Commerce for institution of arbitration against EMG in accordance with the agreement for the sale of natural gas that was signed between them on December 12, 2010 (the "**EMG-ORL Agreement**"). ORL's main argument is that due to non-supply of natural gas in the term of the EMG-ORL Agreement and termination of the agreement, it suffered estimated damage of approx. $350 million. In addition, ORL's secondary argument is that contractual restrictions apply to liability which are estimated at approx. $45 million, plus interest. EMG asserts that ORL is not entitled to damages at all since the EMG-ORL Agreement was suspended due to *force majeure* events, and that ORL's claims are time-barred. EMG further claims that even if it is found that ORL is entitled to compensation for its damage, the sum of the compensation is limited to approx. $20 million in accordance with the terms and conditions of the EMG-ORL Agreement. Arbitration hearings were held in October 2020, and included written pleading submissions which continued until December 2020. The arbitration award was issued to the parties on March 5, 2021, in which all of the claims against EMG were rejected, and ORL was charged with costs.
18. Further to the filing of the motion as provided in Note 1D above, on May 11, 2021, an objection to the motion was filed with the court on behalf of the holders of Participation Units, and on May 11, 2021 and May 12, 2021, the court's decisions were received in connection with the objection, whereby a preliminary hearing will be held on the objection only after the lapse of the deadline for the filing of objections to the motion on May 25, 2021. It is noted that on May 24, 2021 and May 26, 2021, the Partnership reported their response to the motion of the Tel Aviv Stock Exchange Ltd. and of the Israel Securities Authority, respectively.
On July 5, 2021, Cohen Development Gas & Oil Ltd., Y.N.U Nominee Company Ltd. and J.O.E.L. Jerusalem Oil Exploration Ltd. (the "**Parties Moving to Join the Proceeding**") filed a motion to join the proceeding as a party and for clarification of provisions of the Arrangement, on July 18, 2021 the General Partner filed a response to the said motion, and on July 26, 2021 the court ruled that the Parties Moving to Join the Proceeding would be joined to the proceeding as a party, and that there was no room to split the hearing. On October 13, 2021, a hearing was held on the motion. On November 10, 2021 and November 14, 2021, some of the respondents and the Israel Securities Authority, respectively, filed their response. The General Partner and the limited partner, as well as Delek Group, filed their response on December 12, 2021.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

L. Legal proceedings (Cont.):

18. (Cont.)

    In the judgment which was issued on December 27, 2021 as aforesaid, the motion to convene a general meeting to approve the arrangement was approved and it was ruled that the right of Delek Group, the control holder of the Partnership, to receive overriding royalties from the Partnership will not be subject to reapproval in the future.

    On February 23, 2022, an appeal from the judgment as well as a motion to stay its execution was filed with the Supreme Court by the holders of the participation units in the Partnership. The hearing of the appeal was scheduled for June 27, 2022, and as of the date of approval of the financial statements, no decision has yet been given on the motion for stay of execution of the judgment.

19. On May 3, 2021, Haifa Port Co. Ltd. (in this section: "**Haifa Port**") filed a claim against Chevron, Coral Maritime Services Ltd. (in this section: "**Coral**") and Gold Line Shipping Ltd. (in this section: "**Gold Line**") in the sum of approx. ILS 77 million (the "**Main Case**"). According to Haifa Port, direct unloading of cargos in the area of the Leviathan platform, as was done by Chevron, without first unloading such cargos at one of Israel's ports, is unlawful and was done so as to evade making mandatory payments to the port, and financial loss was thus incurred by the port. The complaint claims that from July 2018 forth, Chevron performed direct unloading as aforesaid, while declaring to the tax authorities that Haifa Port was the 'unloading port', even though the cargos that were unloaded did not pass through Haifa Port in practice.

    The claim against the companies Coral and Gold Line is that they acted, at the relevant times, as the shipping agents for Chevron, which imposes on them, so Haifa Port claims, a duty to pay the handling fees on Chevron's behalf.

    Chevron filed an answer on August 31, 2021, and Haifa Port filed a replication on December 1, 2021. Concurrently, Chevron filed a counterclaim against Haifa Port in the sum of approx. ILS 4.4 million, for a claim in the sum of about ILS 0.7 million for handling fees and infrastructure fees actually and unlawfully charged by Haifa Port, and a claim of some ILS 3.7 million for mooring fees charged to Chevron and unlawfully not reduced by 30%, in cases of self-routing of ships which passed through the port area. Haifa Port filed a reply on December 1, 2021. A pretrial in the proceeding has been scheduled for September 11, 2022.

    In the Partnership's estimation, based on the opinion of its legal counsel, the Main Case is more likely to be denied than granted.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

N. Regulation:

1. **The Gas Framework:**

On August 16, 2015, Government Resolution No. 476 (readopted by the Government Resolution of May 22, 2016) was adopted with respect to a framework for the increase of the natural gas quantity produced from the "Tamar" natural gas field and the expeditious development of the "Leviathan", "Karish" and "Tanin" natural gas fields and other natural gas fields (in this section: the "**Government Resolution**"), which took effect on December 17, 2015, upon the grant of an exemption from certain provisions of the Restrictive Trade Practices Law to the Partnership, Ratio and Chevron (in this section: the "**Parties**") by the former Prime Minister, in his capacity as Minister of Economy, pursuant to the provisions of Section 52 of the Economic Competition Law, 5748-1988 (in this section: the "**Exemption**" or the "**Exemption pursuant to the Restrictive Trade Practices Law**"), the main principles of which are presented below.

a) The restrictive trade practices in relation to which the Exemption was granted are as follows:

1) The restrictive trade practice that was ostensibly created, according to the Competition Commissioner's position, as a result of the acquisition of the rights in the Ratio-Yam permit by the Parties; and the restrictive trade practice that was ostensibly created as a result of the Parties' coming together as joint holders of the Ratio-Yam permit and the Leviathan reservoir.

2) The restrictive trade practice that shall ostensibly be created in a case in which the Parties or some of them jointly market the gas that shall be extracted from the Leviathan reservoir to the domestic market until January 1, 2025.

3) The restrictive trade practice that shall ostensibly be created in a case in which the Parties or some of them market the gas that shall be extracted from the Leviathan reservoir jointly for export only.

4) The restrictive trade practice which may be created as a result of a certain agreement for the purchase of natural gas from the Leviathan reservoir, provided that such agreement is signed by January 1, 2025.

5) With respect to their activity in the Tamar and Leviathan reservoirs only, the Partnership and Chevron being the holders of a monopoly according to the Competition Commissioner's declarations.

b) The exemption from the restrictive trade practices detailed in Paragraph (b) above is contingent, *inter alia*, on the fulfillment of the following conditions: Sale of the Partnership's full rights in the Karish and Tanin leases, sale of the Partnership's full rights in the Tamar and Dalit Leases within 72 months from the date of granting of the exemption under the Economic Competition Law, certain stipulations relating to existing and future agreements for the supply of gas from the Tamar and Leviathan reservoirs including price alternatives, linkage and gas quantities.

Compliance with instructions in connection with the development of the Tamar SW reservoir[37], an undertaking to invest in local content[38]. The Gas Framework also regulated issues pertaining to the export of natural gas, the existence of a stable regulatory environment and various taxation issues. And all subject to the conditions and directives set forth in the Gas Framework.

[37] For details regarding the mediation settlement, in which it was agreed to divide the Tamar SW reservoir between the Tamar lease area (78%) and the Eran license area (22%), see Note 7C7 above.

[38] This undertaking regarding investment in local content was fully fulfilled.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

M. Regulation (Cont.):

1. **The Gas Framework (Cont.):**

c) As of the date of approval of the financial statements, the Partnership has sold all of its holdings in the Karish and Tanin reservoirs (see Note 8B above), and all of its holdings in the Tamar and Dalit Leases (see Note 7C1 above) in accordance with the framework as aforesaid.

2. **Environmental Regulation:**

The Partnership acts to prevent and/or minimize the environmental hazards that may occur in the course of its operations, has prepared for the financial, legal and operating implications deriving from such laws, regulations and directives and allocates budgets for compliance therewith in the framework of its annual work plans for its various assets.

a) On April 27, 2020, Chevron received a notice from the MoEP of the intention to impose an administrative financial penalty due to alleged violations of the Prevention of Sea Pollution Law, and the sea discharge permit given to the Leviathan platform, while some of the alleged violations are with respect to the running-in period. On July 26, 2020, Chevron filed written arguments in response to the aforesaid notice, and on November 12, 2020 the MoEP's decision was received whereby it was decided to cancel two of the four penalties which the Ministry intended to impose, and to partially reduce the amount of the two remaining penalties. The aforesaid payment in an immaterial amount for this administrative financial penalty was transferred to the MoEP on December 11, 2020.

b) On May 20, 2020, Chevron received a notice from the MoEP of the intention to impose a financial penalty, in an immaterial amount, due to alleged violations of the emission permit given to the Leviathan platform and the Clean Air Law, and the Supervisor's instruction given by virtue thereof in connection with the continuous monitoring systems in the Leviathan platform. Chevron informed the Partnership that that it submitted a request to the MoEP to receive information by virtue of the Freedom of Information Law, 5758-1998, which directly contemplates arguments raised in said notice and that the MoEP authorized to postpone the date of submission of arguments with regard to said administrative financial penalty and to schedule it 30 days after receipt of the information. As of the date of approval of the financial statements, it is impossible to estimate the chance of receipt of additional reductions in the administrative financial penalty amount or Noble's ability to bring about the cancellation of part of the components of the administrative financial penalty on the merit.

c) On July 1, 2020, Chevron received an additional notice from the MoEP of the intention to impose a financial penalty, in an immaterial amount, due to alleged violations of the terms and conditions of the emission permit of the Leviathan platform and the Clean Air Law, with respect to the operation of flares on the production platform. On August 16, 2020, Chevron filed its arguments with respect to this penalty with the MoEP. On December 13, 2020, the decision of the MoEP was received whereby it was decided to cancel some of the penalties which the MoEP intended to impose and to replace them with a new penalty, such that 4 penalties will be imposed on Chevron, and to partially reduce the amount of one of the penalties. Payment for these administrative financial penalties was transferred to the MoEP on January 12, 2021.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

M. Regulation (Cont.):

2. Environmental Regulation (Cont.):

d) On January 28, 2021, another decision by the MoEP was received, cancelling the new penalty which was imposed in the context of its aforesaid decision and ordering reimbursement to Chevron of the amount paid therefor, because Chevron was not afforded a right of fair hearing by law with respect to the new penalty before it was imposed thereon, and concurrently notifying that it intends to impose this penalty while affording Chevron the opportunity to supplement its arguments with respect thereto until February 28, 2021.

On March 7, 2021, Chevron filed its arguments and on September 5, 2021 the MoEP's final decision was received whereby a penalty in an immaterial amount was imposed on Chevron. Payment for this penalty was transferred to the MoEP on October 5, 2021.

e) On June 6, 2021, notice was received from the MoEP of an intention to impose on Chevron an administrative sanction pursuant to the Clean Air Law in a non-material amount, due to an incident of activation of a flare which occurred on October 17, 2020, during which gases were ostensibly diverted that were not burned to flares (cold venting). Chevron delivered its response to the intention notice on July 6, 2021 and on November 24, 2021 the MoEP's decision was received ordering to impose a reduced administrative sanction for the aforesaid event. According to the decision it was decided to reduce the administrative sanction amount because Chevron instituted acts to prevent recurrence of the violations and due to the fact that Chevron discontinued the violation of its own initiative and reported the same to the Commissioner. Payment for this penalty was transferred to the MoEP on December 22, 2021.

f) On January 19, 2021, Chevron received a warning and an invitation to a hearing from the MoEP with regard to an alleged violation of the sea discharge permit that was given to the Leviathan platform, with respect to the open system waste standards set forth in the permit. On February 28, 2021, Chevron sent the MoEP a letter of arguments in response to the warning and the invitation to a hearing. On March 22, 2021, a hearing was held on the matter, and on March 24, 2021, a summary of the hearing on behalf of the MoEP was received, which stated that the Ministry would not recommend a punitive sanction for the alleged deviations, but in the event of additional deviations, it would consider exercising all of its lawful powers. It was further determined that Chevron is required to prepare procedures and to complete actions for the cleaning and identification of sources of oils.

g) On November 1, 2021, Chevron received a cease-and-desist letter and invitation to a hearing before the MoEP for non-compliance with the conditions of the sea discharge permit which was granted to the Leviathan platform and violation of the Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988, in the framework of which it was argued that Chevron deviated from the standards determined for sea discharge from the open system. The hearing was held on January 6, 2021 and in its context it was determined that Chevron is required to institute any and all acts to prevent deviations from the sea discharge permit and that the MoEP is considering to exercise its full powers pursuant to the law, including a possible recommendation on a financial penalty by law.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):
M. Regulation (Cont.):

3. **Directives on the provision of collateral in connection with the petroleum rights:**
In September 2014, pursuant to Section 57 of the Petroleum Law, the Commissioner published directives for the provision of collateral in connection with petroleum rights.
As of the date of the statement of financial position, the Partnership has deposited autonomous bank guarantees with the Ministry of Energy, in the amount of approx. $55 million in respect of the holding of the Leviathan, Ashkelon and Noa leases and the Alon D, New Ofek and New Yahel licenses, against a bank credit facility.

4. **Directives on the manner of calculation of the value of the royalty at the wellhead:**
In May 2020, the Director of Natural Resources at the Ministry of Energy released the final version of the directives on the method of calculation of the royalty value at the wellhead in accordance with Section 32(b) of the Petroleum Law, 5712-1952 (in this section: the "**Directives**"):
   a) The Directives state that the value of the royalty at the wellhead shall be equal to 12.5% of the price of sale to customers at the point of sale, net of costs deemed essential for treatment, processing and transportation of the petroleum, actually incurred by the lease holder between the wellhead and the point of sale.
   The expenses, to be recognized for purposes of calculation of the royalty value at the wellhead, shall be expenses actually incurred by the lease holder between the wellhead and the point of sale specified above, provided that the Commissioner deems them essential for the sale of the petroleum: (1) the following capital expenses (capex): (a) costs for the treatment and processing of the petroleum; and (b) costs of pipeline transportation of the petroleum up to the first point of connection to the national transmission system; and (2) operating expenses (opex) arising directly from the types of capital expenses.
   b) The Commissioner shall from time to time determine, for each lease holder, specific directives for each lease, listing the deductible expenses for purposes of calculation of the royalty, according to the specific characteristics of the lease.
   c) Expenses due to assets will be recognized in such a way that the depreciation rate in respect of the fixed assets will be calculated according to the depletion method, starting from the date on which the fixed asset started to operate (i.e., only when the fixed asset reached the location and condition required for its operation, and started to operate). The total depreciation expenses which shall be recognized shall not exceed the cost of the fixed assets. The depreciation expenses shall be recognized for the fixed assets such that at the end of the "asset's life", the asset's value shall be zero. Depreciation expenses will be calculated by multiplying the depreciated cost at the beginning of the year of the recognized part of the fixed asset determined in the specific directives, by the depreciation rate determined in accordance with the depletion method.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

M. Regulation (Cont.):

4. Directives on the manner of calculation of the value of the royalty at the wellhead (Cont.):

c) (Cont.):

Insofar as an agreement is signed which grants third parties an ownership right in the fixed assets or a right of use in the fixed assets, with or without consideration, or if an agreement is signed which includes the receipt of payment from third parties for the transportation or processing of petroleum, the assessment of the fixed asset value will be adjusted in the year in which an economic value was created for the asset over and above the depreciated cost of the relevant fixed asset as determined, taking into account the depreciation expenses that were deducted for purposes of calculation of the royalty value at the wellhead.

The assessment will be adjusted in the year in which the transaction in the relevant asset was made, in accordance with the "disposal principle". The lease holder may be required to pay royalties to the State for such value, even if it generated no income in that year.

The economic value for purposes of adjustment of the assessment will be limited to the amount recognized and depreciated for royalty purposes, in respect of the fixed asset sold or the rights of use in which were transferred.

d) The Directives determine additional provisions, including a specification of the types of expenses which will not be recognized, the method of recognition of abandonment costs and the method of treatment of transactions that are affected by the existence of special relations between the parties to the transaction.

e) On September 6, 2020, the Director of Natural Resources at the Ministry of Energy released the "Directives of the Petroleum Commissioner regarding calculation of the royalty value at the wellhead – Tamar lease". Below is a summary of the directives received regarding the calculation of the royalty value at the wellhead in the Tamar lease: Capex that will be recognized for purposes of calculation of the royalty value at the wellhead and the rate of recognition include: (a) Capital cost for the transmission pipeline from the main manifold to the Tamar platform and from the platform to the terminal in Ashdod, will be recognized at a rate of 100%; (b) Capital costs in respect of the Tamar platform and the terminal in Ashdod will be recognized at a rate of 82%; and (c) Capital cost in respect of the transmission pipeline from the Tamar platform up to the entrance to the terminal in Ashdod will be recognized at a rate of 100%.

f) Operating expenses arising directly from the types *[sic]* specified in Paragraph (a) above, will be recognized at a rate of 82%: salary expenses of the worker at the platform and the terminal; maintenance and repair expenses; expenses for travel and transportation to the platform; expenses for food for the workers at the platform and the terminal; expenses for guarding and security at the Tamar platform and the terminal; expenses for professional and engineering consulting; insurance expenses.

g) In the event that the sale price the contract *[sic]* includes a component of a transmission tariff that is paid to INGL, all of the transmission expenses paid by the lease holder will be recognized.

h) Abandonment costs will be recognized for calculation of the royalty according to the provisions set forth in the general directives, and provided that at least 170 BCM in the aggregate were produced from the Tamar lease and the abandonment plan has been approved by the Commissioner.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):
M. Regulation (Cont.):

5. **Financing of projects for export through the national transmission system:**
On March 23, 2020 the Natural Gas Commission released an addendum to the decision of September 7, 2014 on the financing of projects for export through the Israeli transmission system and the sharing of the construction costs of the Ashdod-Ashkelon combined section. In the Blue Ocean agreements as provided in Sections C1D above, it was agreed that the Tamar partners and the Leviathan partners, as the case may be, will bear the costs of piping of the gas in INGL's transmission system. The addendum to the decision determines, *inter alia*, that the cost of construction of the offshore segment of the transmission system that is due to be constructed such that it begins in the terminal in Ashdod and ends in the connection facility in the export facilities of Prima Gas Ltd. (the "**Combined Section**") will be such that approx. 43.5% of the Combined Section cost, as the same will be determined, will be financed by the licensee and approx. 56.5% of the Combined Section cost will be financed by the exporter in accordance with the milestones to be determined in the transmission agreement between the exporter and the transmission licensee. It is noted that on June 23, 2020, the Director General of the Natural Gas Authority announced that his ruling was that the cost of the section be estimated at the sum total of approx. ILS 738 million (of which the Partnership's share due to the Leviathan project is estimated at approx. ILS 130 million). In addition, approx. ILS 48 million due to the bringing forward of the doubling of the Dor-Hagit and Sorek-Nesher sections, of which the exporter shall pay ILS 27 million to the holder of the transmission license (the Partnership's share of which is estimated at approx. ILS 8.5 million). Such costs shall be updated in accordance with a mechanism of update and accounting between the parties that will be incorporated into the transmission agreement with INGL and presented for his approval.
With regard to Chevron's engagement with INGL in an agreement for transmission on a firm basis for the purpose of piping of natural gas from the Tamar reservoir and Leviathan reservoir to the EMG terminal in Ashkelon for the transmission thereof to Egypt see Section N below.

6. **The decision of the Natural Gas Commission on regulation of criteria and rates regarding the operation of the transmission system in a flow control regime:**
On January 3, 2021, the Natural Gas Commission released an amendment to the Commission's decision on criteria and rates regarding the operation of the transmission system in a flow control regime, Decision No. 5/2020 (Amendment No. 2) (in this section: the "**Decision**"). The Decision stipulates that the costs for the UFG in the transmission system deriving from reasons that cannot be attributed to malfunction of the transmission system, but to factors that cannot be prevented or controlled such as measurement timing, pressure differences and temperature differences, will be borne by the gas suppliers. The Decision further stipulates that the UFG-T ranges from 0%-0.5% (positively or negatively). The costs for UFG-T will be divided equally between the gas suppliers and the gas consumers. The Decision shall take effect on April 1, 2021.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

M. Regulation (Cont.):

6. The decision of the Natural Gas Commission on regulation of criteria and rates regarding the operation of the transmission system in a flow control regime (Cont.):

After the release of the Decision, INGL contacted Chevron with a demand to apply the Decision retroactively from the beginning of 2020 with respect to the Leviathan project, and also forwarded for the inspection of Chevron, a notice in this spirit which it provided to its customers. Further to the above notice, Chevron wrote to the Gas Authority and expressed its objection to the retroactive application of the Decision, without derogating from its arguments against the Decision itself. On April 7, 2021, the Partnership, together with the other Tamar partners and Leviathan partners filed a petition against the Natural Gas Commission and the Ministry of Energy (in this section: the "**Respondents**").

In the petition, the respondents moved for annulment of decision no. 5/2020 of December 29, 2020 – Amendment to Commission decision 8/2019 – criteria and tariffs for the operation of the transmission system in a flow control regime (Amendment No. 2), of the Natural Gas Commission (in this section, the "**Commission**"), which was published on January 3, 2021 (in this section: the "**Decision**"). According to the Decision, the natural gas suppliers shall bear the cost of one half of the "Unaccounted For Gas Target (UFG-T)", which is defined in the Decision as a difference of up to 0.5% between the quantity of gas measured by the meter at the entrance to the national natural gas transmission system and the quantity measured by the meter at the exit therefrom. The petition argued that this Decision was issued without any lawful authority and is extremely unreasonable.

On October 26, 2021, Energean, which was joined as a respondent in the petition, filed its response according to which the petition is justified, and on October 27, 2021, INGL, which too was joined as a respondent in the petition, filed its response, in the framework of which it was argued that the petition is tainted with bad faith and unclean hands due to the concealment of material facts and failure to join parties that may be harmed by the petition and that the Decision contemplated in the petition was adopted with authority and reasonably.

Additionally, on November 5, 2021, the Respondents of the State filed their response to the petition, according to which the petition should be summarily dismissed with prejudice due to failure to join the gas consumers as respondents and the petition should be denied on the merits since the Decision was adopted with authority and is reasonable on the merits. On November 14, 2021, the court granted the Petitioners' motion to file a reply to the State Respondents' answer, and on November 28, 2021 and December 26, 2021 such replies were filed on behalf of the Petitioners. On January 31, 2022, the court ordered the petition transferred to a panel of judges. No hearing date has yet been scheduled.

O. Engagement in a transmission agreement for the purpose of export of gas to Egypt:

On January 18, 2021, Chevron engaged with INGL in an agreement for provision of transmission services on a firm basis as aforesaid for the purpose of piping of natural gas from the Tamar reservoir and Leviathan reservoir to EMG's terminal in Ashkelon for the transmission thereof to Egypt (the "**Transmission Agreement**").

1) In the Transmission Agreement, INGL undertook to provide transmission services for the natural gas that shall be supplied from the Tamar Reservoir and from the Leviathan Reservoir, including maintaining an annual base capacity in the transmission system of approx. 5.5 BCM (the "**Base Capacity**").

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

N. Engagement in a transmission agreement for the purpose of export of gas to Egypt (Cont.):

1) (Cont.)

For the transmission services in relation to the Base Capacity, Chevron will pay capacity fees and a payment for the gas quantity that shall actually be piped (throughput), in accordance with the accepted transmission rates in Israel, as shall be updated from time to time. In addition, INGL undertook to provide transmission services on an interruptible basis of additional gas quantities over and above the Base Capacity, subject to the capacity that shall be available in the transmission system. For transmission of the additional quantities as aforesaid, Chevron will pay a transmission rate for non-continuous transmission services in relation to the quantities that shall actually be piped. In the Partnership's estimation, the transmission system was planned in a manner that will allow transmission of the full contract quantity set forth in the export agreements.

2) In the Transmission Agreement, Chevron committed to payment for the piping of a gas quantity that shall be no less than 44 BCM throughout the term of the agreement. If the parties agree on an increase in the Base Capacity, the minimum quantity for piping as aforesaid will be increased accordingly.

3) The gas flow according to the Transmission Agreement will begin on the date on which INGL shall complete the construction of the Ashdod-Ashkelon transmission system section, in accordance with the provisions of the decision of the Natural Gas Commission in connection with the financing of projects for export via the Israeli transmission system, and division of the costs of the construction of the Ashdod-Ashkelon combined section (see Paragraph 6) (the "**Commission's Decision**"), and the doubling of the Sorek-Nesher and Dor-Hagit transmission system sections in a manner which will allow the piping of the full quantities under the Transmission Agreement (the "**Date of Commencement of the Piping**").

4) According to the ongoing updates received from INGL regarding the completion of the Combined Section, the Date of Commencement of the Piping is expected to be made possible in April 2023. In view of the foregoing, the Leviathan partners signed a set of agreements, the purpose of which is to enable the piping of natural gas according to the export to Egypt agreement, via Jordan, while using the Israeli transmission system to Jordan and the transmission system connecting Jordan and Egypt in the Aqaba-Taba area. (The Pan-Arabian pipeline). According to such set of agreements, the piping of the natural gas via Jordan to Egypt has commenced, allowing to maximize the production from the Leviathan reservoir and transfer natural gas surpluses, which are not consumed in Israel and Jordan and/or transmitted to Egypt via the EMG pipeline to the Egyptian market, through the Jordanian transmission system, mainly until the Ashdod-Ashkelon offshore transmission system section will be completed by INGL as aforesaid. In this context it is noted that the Leviathan partners received the approval of the Ministry of Energy to add an additional delivery point of natural gas to Egypt, which will be located in Aqaba, Jordan. As of the date of approval of the financial statements, and as the Partnership has been informed by Chevron, using the existing transmission infrastructures and under the current operating conditions, natural gas may be piped to Egypt, through Jordan, at an average daily quantity of up to about 650 MMCF (some 6.5 BCM per year). In the context of the said set of agreements, the Leviathan partners and Blue Ocean signed an amendment to the Export to Egypt Agreements, as detailed in Section C1D above.

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

N. Engagement in a transmission agreement for the purpose of export of gas to Egypt (Cont.):

5) In the matter of the quantities of gas supplied under the Leviathan-Blue Ocean agreement, see Sections C1D.
6) The transmission period under the 2019 agreement will be extended until January 1, 2024 or until the Date of Commencement of the Piping under the Transmission Agreement, whichever is earlier.
7) The Transmission Agreement will end on the earlier of: (1) the date on which the total quantity that is piped is 44 BCM; (2) 8 years after the Date of Commencement of the Piping; or (3) upon expiration of INGL's transmission license. In the Partnership's estimation, upon expiration of the term of the Agreement, no difficulty is expected with extending it at the transmission license holder's standard capacity and transmission rates at such time.
8) In accordance with the principles determined in the Commission's Decision, Chevron undertook to pay for the partners' share, both in Leviathan and in Tamar (56.5%), in the total cost of construction of the Combined Section. See Note 12K5 above.
9) In accordance with the Commission's Decision, the Leviathan partners and the Tamar partners provided a bank guarantee to secure INGL's share in the cost of construction of the said infrastructure, and to cover Chevron's commitment to pay the capacity and transmission fees. In February 2021, the Partnership provided guarantees of approx. ILS 142 million for the benefit of INGL for its share in the Leviathan project, and also pledged a deposit in the sum of approx. $13 million for the benefit of the guarantee facility (see Note 12K9).
10) The Leviathan partners and the Tamar partners will bear the costs stated in Paragraph 6 and will provide the guarantees stated in Paragraph 7 at the rates of 69% and 31%, respectively.
11) In the Partnership's estimation, its share in the cost of construction of the Combined Section, the costs of accelerating the doubling of the Sorek-Nesher and Dor-Hagit transmission system sections may total approx. ILS 43.8 million.
12) The Transmission Agreement determines that if the export of natural gas from the Tamar project and from the Leviathan project to Egypt stops, Chevron will be entitled to terminate the Transmission Agreement subject to payment of compensation to INGL due to the early termination, in an amount equal to 120% of the costs of construction of the Combined Section, plus the costs of accelerating the doubling of the Sorek-Nesher and Dor-Hagit sections, net of the amounts Chevron paid until the date of the termination in respect of such construction and acceleration costs and in respect of the piping of the gas under the Transmission Agreement.

    If, after the termination of the Transmission Agreement, export to Egypt resumes, the Transmission Agreement will be renewed subject to and in accordance with the capacity that will be available in the transmission system at such time.
13) On February 15, 2021 all the closing conditions to the taking effect of the Transmission Agreement were met.
14) Concurrently with the signing of the Transmission Agreement, Chevron, the Partnership and the other Leviathan partners and Tamar partners signed a back-to-back services agreement which determined that the Leviathan partners and the Tamar partners will be entitled to transmit gas (through Chevron) under the Transmission Agreement, and will be responsible for fulfillment of Chevron's undertakings under the Transmission Agreement, as if the Leviathan partners and the Tamar partners were a party to the

Note 12 – Contingent Liabilities, Engagements and Pledges (Cont.):

N. Engagement in a transmission agreement for the purpose of export of gas to Egypt (Cont.):

14) (Cont.)

Transmission Agreement in Chevron's stead, each according to its share, as determined in the Capacity Allocation Agreement between the Leviathan partners and the Tamar partners.

The services agreement further determined that the Base Capacity that is kept in the transmission system for Chevron will be allocated between the Leviathan partners and the Tamar partners according to the rates specified in Paragraph 8 above, and according to the order set forth in the Capacity Allocation Agreement. The aforesaid notwithstanding, the Leviathan partners and the Tamar partners will bear capacity fees at a fixed ratio of 69% (the Leviathan partners) and 31% (the Tamar partners), except in a case where a party (the Leviathan partners or the Tamar partners, as the case may be) used the available share in the capacity of the other party.

Note 13 – Equity:

A. The participation units are issued by the limited partner (the Trustee) and confer upon the holders thereof a working interest in the rights of the limited partner in the Partnership. The units are held thereby in trust in favor of the unit holders and under the supervision of the Supervisor.

B. The unit holders' register records, as of December 31, 2021: 1,173,814,691 units of par value ILS 1 which are listed on TASE.

C. Distribution of Profits:

1. **The partnership agreement and the trust agreement:**
   a) The limited partnership agreement, as amended, prescribes rules regarding the profit distribution in the Partnership, and, *inter alia*, entitles the General Partner to refrain from or delay a profit distribution, to the extent required, for the purpose of financing the Partnership's operations, in the manner and on the terms and conditions stipulated by the agreement and by the general meetings. Other than limitations under the financing agreements, no external limitations which may affect the Partnership's ability to distribute profits in the future, exist on the date of approval of the financial statements.
   b) The trust agreement, as amended, prescribes rules regarding the manner of distribution of profits that shall be received from the partners by the Trustee to the unit holders, and the portion that shall remain with the Trustee as sums required thereby, *inter alia*, for the payment of payments and expenses and for the performance of actions set forth in the trust agreement, the amount of which will be determined from time to time, by the Trustee with approval from the Supervisor.

Note 13 – Equity (Cont.):
C. Distribution of Profits (Cont.):

2. The profit distribution amounts:

Date of declaration of profit distribution	Date of profit distribution	Overall distribution amount in millions of Dollar	Distribution amount per participation unit in Dollar
13.8.2019	5.9.2019	150	0.12779
17.11.2020	7.12.2020	65	0.05537
22.9.2021	13.10.2021	100	0.08519
9.12.2021	23.12.2021	100	0.08519

3. Distributions to the limited partner:
   a) On May 1, 2019, the board of directors of the General Partner approved a distribution to the limited partner in the sum of approx. ILS 1.2 million (approx. $334 thousand).
   b) On February 12, 2020, the General Partner's board approved a distribution to the limited partner in the sum of ILS 1 million (approx. $290 thousand).
   c) On November 1, 2020, the General Partner's board approved a distribution to the limited partner in the sum of ILS 1 million (approx. $298 thousand).
   d) On May 27, 2021, the board of directors of the General Partner approved a distribution to the limited partner in the sum of approx. ILS 1 million (approx. $308 thousand).
   e) On March 23, 2022, the board of directors of the General Partner approved a distribution to the limited partner in the sum of approx. ILS 1 million (approx. $310 thousand).

   Such distributions will be used for payment of the fees of the Supervisor and Trustee, in accordance with the provisions of the trust agreement.

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 13 – Equity (Cont.):

D. Payments of Tax Advances, Tax and Balancing Payments:

1. In accordance with the provisions of Section 19, the General Partner paid the Income Tax Authority, on account of the tax owed by participation unit holders due to the tax years (for further details see Notes 20A and 20B), as specified below:

Tax Year	Type of Income	Tax Advances in ILS millions	ILS per Participation Unit
2019	Current	Approx. 143.2	0.1219
2020	Current	Approx. 125.6	0.1070
2021	Current	Approx. 217.3	0.1851
2021	Capital gain	Approx. [39]520.3	0.4433

2. On December 27, 2020, the Partnership declared tax payments to individual holders and balancing payments to non-individual holders in the amount of approx. ILS 117.2 million that constitute approx. 0.0998676 per participation unit that were distributed on January 20, 2021.
3. On December 26, 2021, the Partnership declared tax payments to individual holders and balancing payments to non-individual holders in the amount of approx. ILS 268 million that constitute approx. 0.2283281 per participation unit that were distributed on January 20, 2022.

E. The composition of equity as of December 31, 2021 is as follows:

	The Limited Partner	The General Partner	Total
The Partnership's equity	154,776	15	154,791
Capital reserves	(30,677)	(3)	(30,680()
Retained earnings	814,346	81	814,427
Balance as of December 31, 2021	938,445	93	938,538

The limited partner's share in the Partnership is 99.99%, and the share of the General Partner is 0.01%. The General Partner in the Partnership has also an indirect holding through participation units that were issued by the limited partner (the Trustee).

F. On May 9, 2021, the Partnership announced that the Israel Securities Authority decided to extend the period for securities offering according to the Partnership's shelf prospectus that was released on May 14, 2019 until May 14, 2022.

[39] Of which a sum of approx. ILS 470.2 million in respect of the sale of the Tamar and Dalit project was paid to Income Tax in January 2022.

Note 13 – Equity (Cont.):

G. Capital reserve for transactions between a corporation and the control holder thereof – The Partnership recorded expenses in the statements of comprehensive income against a capital reserve for transactions between a corporation and a control holder thereof, in respect of the costs of employment of officers of the General Partner, including the employment terms of the CEO of the General Partner, in respect of director services costs and in respect of additional expenses borne by the General Partner, over and above the management fees paid by the Partnership to the General Partner.

H. Option plan:
With respect to the phantom units granted to the CEO of the General Partner in the Partnership, see Note 21C.

Note 14 – Revenues from the Sale of Natural Gas and Condensate:

A. The Partnership's revenues originate from natural gas and condensate sales to its customers, all in accordance with engagement agreements signed therewith, as specified in Note 12 above.

B. The recognition of the revenues from the sale of natural gas from the Leviathan project began in January 2020. Note that the production from the Yam Tethys project ended in May 2019 due to exhaustion of the reservoirs in the project.

C. The Partnership's income in the report period from the sale of natural gas is affected mainly by the volume of natural gas consumption for the domestic market, Egypt and Jordan (the "**Regional Market**"). Below is the Partnership's share in the income and in the natural gas quantities sold to the domestic market and to the Regional Market in the report period from the Leviathan project (in $ in millions):

	For the year ended on		
	31.12.2021	31.12.2020	31.12.2019
Revenues:			
Domestic market	319.5	263.5	4.1
Regional market	563.0	323.6	-
	882.5	587.1	4.1
Quantities (BCM)			
Domestic market	2.06	1.57	0.15
Regional market	2.80	1.71	-
	4.86	3.28	0.15

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 15 – Royalties:

A. Composition:

	For the year ended on		
	31.12.2021	31.12.2020	31.12.2019
Royalties to the State	94,675	63,478	472
Royalties to interested parties	11,361	7,616	308
Royalties to a third parties	22,722	15,233	58
Total	128,758	86,327	838
(see Note 12B above and Paragraph B below)			

B. Royalties to the State and overriding royalties (to interested and third parties) as included on the Partnership's books:

	For the year ended on		
	31.12.2021	31.12.2020	31.12.2019
Rate of the royalties in Leviathan project:			
To the State	10.73%	10.81%	-
To interested parties	1.29%	1.61%	-
To a third party	2.57%	2.28%	-
Rate of the royalties in Yam Tethys project:			
To the State	-	-	11.61%
To interested parties	-	-	7.62%
To a third party	-	-	1.38%

Herewith are additional details:

1. From the start of production from the Tamar reservoir the Partnership paid, under protest, advances on account of royalties to the State at rates between 11.3%-12% as determined by the Ministry of Energy.
2. In September 2020, the Director of Natural Resources at the Ministry of Energy published specific directives on the method of calculation of the royalty value at the wellhead in the Tamar project (the "**Specific Directives**"), which determined the rate of the deductible expenses in the calculation of the royalty value at the wellhead. Based on the estimates and appraisals of the Partnership, there are no material differences between the amounts recorded in the Statement of Comprehensive Income in the report period as expenses for royalties and the royalty expenses as would have been calculated in accordance with the Specific Directives. It is clarified that there are material differences between the royalties actually paid to the Ministry of Energy in the aggregate from commencement of production from the Tamar project and the amounts recorded in the Statement of Comprehensive Income as royalty expenses (see Paragraph 6 below).

Note 15 – Royalties (Cont.):

B. Royalties to the State and overriding royalties (to interested and third parties) as included on the Partnership's books (Cont.):

3. From the date of commencement of the supply of gas from the Leviathan reservoir, the Leviathan partners pay the State advances on account of the State's royalties on revenues from the Leviathan project, at the rate of approx. 11.26%, in accordance with a letter of request received from the Ministry of Energy in January 2020. Such effective rate is higher than the calculation made by the Partnership and Chevron. According to the royalty report submitted by Chevron to the Ministry of Energy for 2020, the rate of royalties to the State in the Leviathan project should be approx. 9.58%. Accordingly, the rate of the royalties on which the Partnership's financial statements for 2021 are based is approx. 10.7% (2020: 10.8%). It is clarified that there are material differences between the royalties actually paid to the Ministry of Energy in the aggregate from the commencement of production from the Tamar project and the sums recorded in the statement of comprehensive income as royalty expenses (see Paragraph 6 below).
4. It is noted that it is the position of the Partnership that the calculation of the actual rate of the State's royalties from the Tamar and Leviathan project should reflect the complexity of the project, the risks involved therein and the amount of the investments in the project.
5. For details regarding a claim for the restitution of royalties paid to the State by the Partnership and Chevron in respect of their revenues deriving from the supply of natural gas from their share in the Tamar project to their customers, under the Yam Tethys project agreements, see Note 12L1 above.
6. The difference between the royalties that were actually paid to the State and the effective royalty rate applied by the Partnership in its financial statements in the Tamar and Leviathan projects amounted to approx. $25 million (2020: approx. $19.5 million), and was included in the other long-term assets item. See Note 8A above.
7. The manner of calculation of the royalties to the State, is also used for calculation of the market value at the wellhead of the overriding royalties paid by the Partnership to interested parties and to third parties. The difference between the royalties that were actually paid to related parties and to third parties and the effective royalty rate on which the Partnership relied in its financial statements of the Tamar project and of the Leviathan project, amounts to approx. $8.8 million (2020: approx. $7.8 million), is included in the other long-term assets item, see Note 8A above.

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 16 – Cost of Natural Gas and Condensate Production:[40]

Composition:	For the year ended		
	31.12.2021	31.12.2020	31.12.2019
Salaries and social benefits	22,224	23,484	95
Guarding and security	2,839	2,277	-
Insurance	16,082	17,605	205
Delivery, transmission and transportation costs	25,664	15,615	-
Operation management and operator fee	17,982	12,650	8
Maintenance	16,441	11,002	235
Others	17,150	7,040	1,061
Total	118,382	89,673	1,604

Note 17 – Other Indirect Expenses[41]:

Composition:	For the year ended		
	31.12.2021	31.12.2020	31.12.2019
Seismic surveys	64	7	1,049
Direct and other expenses, including professional services[42]	4,142	3,403	12,955
Total	4,206	3,410	14,004

Note 18 – G&A Expenses:

Composition:	For the year ended		
	31.12.2021	31.12.2020	31.12.2019
Salaries and social benefits	4,044	3,748	3,155
General Partner management fee expenses	960	960	960
Cost of participation unit-based payment to the CEO (see Note 21C below)	29	487	411
Professional services, net[43]	8,622	6,559	5,439
Other	3,528	2,876	1,165
Total	17,183	14,630	11,130

[40] Mostly through the joint ventures.
[41] Mostly through the joint ventures.
[42] Mostly G&A expenses of the Leviathan (for 2019) and Cyprus projects.
[43] Including expenses in the account year in the sum of approx. $4,339 thousand (2020: $2,954 thousand, 2019: $2,375 thousand) carried against a capital reserve (see Note 13G above).

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 19 – Financial Expenses and Income:

A. Composition:

	For the year ended		
	31.12.2021	31.12.2020	31.12.2019
Expenses:			
Due to bonds (Notes 10B, 10D and 10E above)	207,749	122,294	35,898
Due to liability to banking corporations	-	99,428	4,173
Due to transactions in financial derivatives (hedge accounting)	-	7,394	373
Due to revaluation of short-term investments	89	-	-
Due to a guarantee fee to Delek Group (Notes 12K4 and 21D)	368	368	368
Due to changes in oil and gas asset retirement obligation due to lapse of time	1,828	1,551	3,634
Other	1,272	812	236
Total expenses	211,306	231,847	44,682
Income:			
Due to deposits in banks and short-term investments	573	1,781	9,476
Revaluation of royalties receivable and a loan that was extended (Note 8B above)	26,426	82,743	57,342
Other	4,469	3,461	2,232
Total income	31,468	87,985	69,050
Total financial income (expenses), net	(179,838)	(143,862)	24,368

B. In 2020-2021 credit costs were not capitalized to oil and gas assets, 2019: approx. $150,862 thousand were capitalized. The cap rate used to determine the amount of the capitalized credit costs in 2019: approx. 5.2%-7.4%.

Note 20 – Oil and Gas Profit Levy and Taxes:

A. Information regarding income tax rules and the main arrangements existing as of the date of the statement of financial position:

1. The Partnership was approved by the Director General of the Tax Authority for the purpose of the Income Tax Regulations (Rules for the Calculation of Tax due to the Holding and Selling of Participation Units in an Oil Exploration Partnership), 5749-1988 (the "**Participation Unit Regulations**" or the "**Regulations**"). In September 2021 an amendment to the Income Tax Regulations as aforesaid was published in the Official Gazette whereby, effective from tax year 2022 a change will occur in the tax regime that applies to the Partnership, such that it shall be taxed as a company with respect to its taxable income (while setoff of losses will be possible, subject to the tax laws, on the level of the Partnership itself without the same being attributed to the holders of the participation units). As a result of this change, commencing from tax year 2022, holders of participation units will be subject to a tax regime that applies with respect to profit distributions made by the Partnership, which is similar to the tax applying to shareholders of a company for dividend distributions (i.e. pursuant to the two-stage method).

Note 20 – Oil and Gas Profit Levy and Taxes (Cont.):

A. Information regarding income tax rules and the main arrangements existing as of the date of the statement of financial position (Cont.):

1. **(Cont.):**
   It is noted that in view of the aforesaid amendment, up to and including tax year 2021 the accounting with holders of the participation units and the reporting on the Partnership's taxable income will be as being prior to the amendment as explained below.
2. Until December 31, 2021 the Partnership acted as a "transparent" entity for tax purposes according to the provisions of the Income Tax Ordinance (New Version) 5721-1961 (the "**Income Tax Ordinance**") and the Taxation of Profits from Natural Resources Law, 5771-2011 (the "**Law**") i.e. the Partnership's taxable income and the losses for tax purposes were attributed to the unit holders who are an "Entitled Holder", as this term is defined in the Participation Unit Regulations, according to the ratio of their holdings in the Partnership. An "Entitled Holder" was defined in the Participation Unit Regulations as an entity that held participation units at the end of December 31 of the tax year. According to Section 19 of the Law ("**Section 19**") regarding Section 63(a)(1) of the Ordinance, the share of each partner in the tax year will be calculated from the taxable income of the Partnership or from the losses thereof. Because the Partners bear the tax results of the revenues and expenses of the Partnership, the financial statements did not include current taxes on income.
3. Further to approval of the amendment to the Regulations as provided in Section 1 above, the Partnership recorded a liability for deferred taxes in the sum of approx. $207 million against an expense in the Statement of Comprehensive Income. The amount of the liability as aforesaid is due to temporary differences created until the date of the financial statements, of which $186 million due to differences between depreciation and amortization on oil and gas assets (including due to retirement of oil and gas assets). It is noted that commencing from January 1, 2022 the Partnership will record current tax expenses in the Statement of Comprehensive Income, in addition to deferred tax expenses as aforesaid.
4. According to the provisions of Section 19 of the Law, the General Partner is obligated to submit to the assessing officer a report on the taxable income of the Partnership and to pay the tax deriving therefrom, on account of the tax for which the partners in the Partnership are liable in the tax year in respect of which the report was filed (i.e., on account of the tax for which the holders of the participation units, on December 31 of each tax year, are liable), according to the share in the Partnership of the Entitled Holders who are a body corporate and the share in the Partnership of the Entitled Holders who are individuals. Note that the General Partner is liable for payment of tax advances calculated according to the tax rates applicable to companies (in 2019 to 2021 – 23%). See Section 1 above with regard to the change that is effective from 2022 to the tax regulations which apply to the Partnership.

Note 20 – Oil and Gas Profit Levy and Taxes (Cont.):

A. Information regarding income tax rules and the main arrangements existing as of the date of the statement of financial position (Cont.):

5. Implementation of the provisions of Section 19 of the Law raised difficulties and questions of interpretation in view of the difference in the tax rates applicable to companies and individuals, which were deliberated in the framework of several legal proceedings.

   On June 28, 2021 the judgment of the Tel Aviv District Court was received, ruling mainly that:

   a) With respect to payments for assessment differences made by the Partnership for the tax years 2015 and 2016, the Partnership is required to pay corporate holders in the past balancing payments in accordance with the "net of the financial loss" alternative described in the judgment, i.e., supplementation of the "surplus" amount that was paid for the individual holders who are subject to the higher tax rate.

   b) With respect to 2017 forth (regarding which the Partnership paid tax advances in accordance with the corporate tax rate and further thereto a "balancing" profit distribution was made considering the different tax rates of companies/individuals – see Section C below), it is the Partnership that will bear payment of the tax assessment differences, if any, but no balancing payments will be made in respect thereof. With regards to the manner of the future balancing and assessment differences payments, according to the judgment, the Partnership will continue to act in accordance with the arrangement according to which it has acted since tax year 2017, and the judgment thus grants all of the holders of the Partnership certainty as to the manner of the making of future balancing and assessment differences payments.

   In addition, on July 1, 2021, several holders filed a clarification motion with the court, in which the court was moved to order how the payment should be made according to the "net of the financial loss" alternative set forth in the judgment with respect to payment of interest and linkage, and on August 9, 2021, the court ruled that lawful interest and linkage differentials be added to such payment, in accordance with the provisions of the Adjudication of Interest and Linkage Law, 5721-1961.

   The Partnership estimates that for the aforesaid period the Partnership is required to make balancing payments, to corporate holders, whose balance, as of the date of the financial statements, is approx. $14.9 million, in respect of which a sufficient provision was made in the Partnership's financial statements.

   On December 19, 2021, the Partnership filed a motion to appoint a trustee and approve an outline for the making of payments to the entitled holders according to the judgment. After the court granted the said motion on February 14, 2022, the court on March 22, 2022 ordered the appointment of Reznik Paz Nevo Trusts Ltd. as trustee for the making of the payment under the judgement.

6. In December 2017, the Partnership and the Tax Assessor for Large Enterprises signed an agreement for collection of tax on account of the tax for which the unit holders are liable due to the estimated taxable income from the Partnership's business for 2017 (the "**2017 Tax Agreement**"). In the context of the agreement, the Partnership supplemented additional tax payments in accordance with the maximum tax rate which applies to individuals due to the aforesaid estimated taxable income, by way of deduction of withholding tax from balancing distributions made to participation unit holders (the withholding tax was deducted from the distributions made to participation unit holders who are individuals, and no withholding tax was deducted from distributions made to corporate participation unit holders).

Note 20 – Oil and Gas Profit Levy and Taxes (Cont.):

A. Information regarding income tax rules and the main arrangements existing as of the date of the statement of financial position (Cont.):

6. (Cont.):

In the tax years 2018 to 2021, the Partnership acted similarly to the manner in which it acted pursuant to 2017 Tax Agreement, including with regard to calculation of the estimation of the Partnership's taxable income for the aforesaid tax years and supplementation of payments made by the Partnership in relation thereto in January for the following tax year.

It is clarified that the estimated taxable income calculated toward the end of the tax year for each of the years 2017-2021 was calculated based on estimates and assessments and financial figures that are unaudited.

B. Income tax assessments and tax certificates:

1. On October 20, 2021 the Partnership published final tax certificates for an entitled holder for the holding of a participation unit of the Partnership and of Avner (the Partnership and Avner will be referred to below as the "**Partnerships**") for the 2015 tax year.
2. On December 13, 2017, the Partnership published temporary tax certificates for an entitled holder for the holding of a participation unit for the tax year 2016 of the Partnerships. It is noted that against the background of the disputes that have arisen between the Partnership and the Tax Authority and disagreements regarding the amount of the partnerships' taxable income for 2016, assessments to the best of judgment were received from the Tax Authority on November 22, 2018, pursuant to Section 145(a)(2)(b) of the Income Tax Ordinance (in this section: the "**Tax Assessments**"), whereby the taxable income from a business for 2016 of the Partnership and the Avner Partnership is approx. \$154.9 million and approx. \$140.2 million, respectively (instead of approx. \$128.3 million and approx. \$113.8 million, respectively, as included in the partnerships' tax reports, which were filed with the Tax Authority). The capital gain for 2016 of the Partnerships is approx. \$55.8 million and approx. \$74.3 million, respectively (instead of approx. \$7.6 million and approx. \$17.6 million, respectively, as included in the partnerships' tax reports, which were filed with the Tax Authority). It is noted that the aforesaid amounts were translated from shekels to dollars according to the dollar rate known as of December 31, 2021. Further to an administrative objection filed by the Partnership against the tax assessments, the partnerships were issued assessments in an order under Section 152(b) of the Ordinance (the "**Orders**") by the Tax Authority. The dispute over the Orders primarily pertains to the method of recognition of financial expenses and additional expenses borne by the partnerships in practice and the method of calculation of the capital gain from the sale of the Karish and Tanin leases. According to the Orders, and insofar as all of the Tax Authority's arguments are accepted, the Partnership will be required to make an additional tax payment (including linkage differentials and interest) on account of the tax owed by holders of participation units in the partnerships in the sum total of approx. \$49.7 million. On September 15, 2020, the Partnership filed an appeal from the Orders with the Tel Aviv District Court. The assessment reasons in this appeal were filed by the Assessing Officer on December 9, 2020. The notice stating the grounds for the appeal was filed by the Partnership on May 3, 2021. A pretrial hearing on the appeal was held on November 25, 2021 and a date for an additional pretrial hearing was scheduled for September 15, 2022.

Note 20 – Oil and Gas Profit Levy and Taxes (Cont.):

B. Income tax assessments and tax certificates (Cont.):

3. On November 8, 2018, the Partnership published a temporary tax certificate for an entitled holder for holding a participation unit for the tax year 2017. In view of the disputes that have arisen between the Partnership and the Tax Authority and disagreements in respect of the amount of the Partnership's taxable income for 2017, the Partnership received a tax assessment to the best of judgment was received pursuant to Section 145(a)(2)(b) of the Ordinance, 5721-1961 (the "**Tax Assessment**" and the "**Ordinance**", respectively), whereby the Partnership's taxable business income in 2017 is approx. $405.9 million (*in lieu* of approx. $239.6 million, as included in the Partnership's tax report filed with the Tax Authority) and the Partnership's capital gain in 2017 is approx. $728.8 million (*in lieu* of approx. $597.9 million as included in the Partnership's tax report filed with the Tax Authority). It is noted that the aforesaid amounts were translated from shekels to dollars according to the dollar rate known as of December 31, 2021.
   The disputes primarily pertain to the interpretation of the manner of recognition of financial expenses and other expenses actually incurred by the Partnership, attribution of financial income deriving from exchange rate differences to assets under construction, the manner of implementation of Section 20(b) of the Law regarding the deduction of depreciation expenses; and the manner of calculation of the capital gain from the sale of 9.25% (out of 100%) of the Partnership's interests in the Tamar and Dalit Leases.
   As of the date of the financial statements and according to the Tax Assessment, and insofar as all of the Tax Authority's arguments are accepted, the Partnership will be required to make an additional tax payment (including linkage differentials and interest), on account of the holders of participation units of the Partnership, in the amount of approx. $87 million. It is noted that on December 10, 2020 the Partnership filed a reasoned administrative objection regarding the tax assessment.
4. On February 19, 2020, the Partnership released a temporary tax certificate for an entitled holder due to the holding of a participation unit of the Partnership for the tax year 2018. Against the backdrop of the disputes which erupted between the Partnership and the Tax Authority and disagreements regarding the amount of the taxable income of the Partnership for 2018, on March 24, 2021, a tax assessment not under agreement was received from the Tax Authority, pursuant to Section 145(a)(2)(b) of the Income Tax Ordinance, 5721-1961 (in this section: the "**Tax Assessment**"). According to the Tax Assessment the Partnership's taxable income from a business for 2018 is approx. $209.4 million (in lieu of approx. $160.8 million, as included in the Partnership's tax report that was filed with the Tax Authority) and the Partnership's capital gain for 2018 is approx. $18.5 million, as declared in the report filed thereby as aforesaid. Note that the foregoing amounts were translated from ILS to $ according to the dollar rate known as of December 31, 2021. The main disputes pertain to the interpretation of the manner of recognition of financial expenses and additional expenses borne by the Partnership *de facto*, similar to the disputes for which assessments to the best judgment were issued for 2016 and 2017, as specified above.
   As of the date of approval of the financial statements and pursuant to the Tax Assessment, and insofar as all the Tax Authority's claims are accepted, the Partnership will be required to make an extra tax payment (including interest and linkage differentials) at the expense of holders of Participation Units in the Partnership in the amount of approx. $14.4 million. On June 10, 2021 the Partnership filed a reasoned administrative objection regarding all of the assessing officer's determinations in the tax assessment.

Note 20 – Oil and Gas Profit Levy and Taxes (Cont.):

B. Income tax assessments and tax certificates (Cont.):

5. In the Partnership's estimation, based on the opinion of its professional advisors, the chances of the Partnership's main arguments being accepted or at least of authorization of deduction of the expenses that are the subject matter of the disputes for tax years 2016-2018, are higher than 50%.
6. On July 14, 2021 the Partnership published a temporary tax certificate for an entitled holder for the holding of a participation unit of the Partnership for 2019. According to the tax report filed by the Partnership for 2019 which is subject to an audit by the Tax Authority, the taxable income is approx. ILS 573.6 million.
7. According to the tax report filed by the Partnership for 2020 which is subject to an audit by the Tax Authority, the taxable income is approx. ILS 277.6 million.
8. In December 2021, the board of the General Partner and the Trustee approved a payment to the holders of the participation units, in the context of which the Partnership made-up advances according to the maximum tax rate which applies to individuals due to the estimated taxable income for 2021, based *inter alia* on the estimations of the General Partner, various tax opinions and assumptions, to the total amount of approx. ILS 1 billion and a capital gain from the sale of the Tamar and Dalit project (see Note 7C1) in the total amount of approx. ILS 2 billion.
9. It is clarified that in respect of each of the tax years 2016 forth, regarding which the Tax Authority's audit of the Partnership's tax reports has not yet ended and/or final income tax assessments have not yet been issued, it may transpire, after completion of the Tax Authority's audit and issuance of final tax assessments (including after decisions in the administrative objections and/or appeals) that Assessment Differences exist, such that the final tax assessment is higher than the tax payments made by the Partnership (net of refunds paid thereto), in which case the Partnership will be required to pay the Tax Authority, on account of the holders, the tax balance that derives from the Assessment Differences, according to the Calculation of the Tax Pursuant to Section 19.

   It is clarified that in accordance with the provisions of the aforementioned judgment of June 28, 2021, no balancing payments will be made due to Assessment Differences as aforesaid, starting from tax year 2017 (if any). If in the future it transpires that the Partnership made advance payments in amounts exceeding the amounts required pursuant to the law, the balance will be returned to the Partnership.
10. In view of the aforesaid, the issuance of a final tax certificate for an entitled holder for holding participation units of the Partnerships for the tax year 2016 forth may be delayed, pending conclusion of the proceedings required to determine the final assessment. Upon determination of the taxable income amount for an entitled holder for each tax year, a final certificate will be published for the purpose of calculation of the taxable income of an entitled holder in respect of the aforesaid tax years, in accordance with the Income Tax Regulations.

Note 20 – Oil and Gas Profit Levy and Taxes (Cont.):

B. Income tax assessments and tax certificates (Cont.):

11. It is clarified that participation unit holders in the Partnership will be entitled (but not obligated) to include in their tax reports, for each one of the years 2016 through 2019, their share in the liable income of the Partnership and their share in the tax amount that was paid by the Partnership, including tax that was deducted in the framework of the additional payments that the Partnership made in respect of such tax years, in accordance with the temporary tax certificates.

    Unit holders that will act according to the aforesaid shall be required to amend their reports in accordance with the final tax certificates that will be released by the Partnership, in which case the amount of the refund or the payment to which the entitled holder is entitled or for which it is liable may decrease or increase as a result of the aforesaid, and accordingly, unit holders may also be required to repay the Tax Authority amounts that were received thereby based on the temporary certificate.

12. The tax issues, including the implementation of the Law (as specified in Paragraph C below), which are related to the operations of the limited partnership have not yet been contemplated in case law of the Israeli courts (other than as stated below), and it is difficult to foresee or determine how the courts shall rule if and when said legal questions will be presented for their adjudication. In addition, in respect of some of the legal questions, it is difficult to foresee the position of the tax authorities.

    Since the Partnership's operations are subject to a unique tax regime, the changes that shall be caused due to an amendment of the law, case law or a change in the position of the Tax Authority, as aforesaid, may have material consequences on the tax regime applying to the Partnership.

13. **Taxation in Cyprus:**

    In accordance with the production sharing contract with the Cypriot Government, payment of the Cypriot Government's share in the gas and/or petroleum that shall be produced from Block 12, to the extent produced, includes a gross-up of the corporate tax payments that the owners of the rights in such project, including the Partnership, must pay the Republic of Cyprus.

    The production sharing contract determines a new mechanism for the distribution of the natural gas output, which is based on a factor of the R-Factor type. According to such mechanism, the partners will be entitled to 55% of the annual revenues to be derived from the natural gas output, up to the coverage of all of their recognized capital and current expenditures (the "**Expenditure Coverage Output**"), whereas the balance (the "**Distributable Output**") will be distributed among the partners and the Government of Cyprus according to the R-Factor, the numerator of which consists of the total of Net Accrued Revenues and the denominator of which consists of the total of Accrued Capital Investments. Under the new mechanism, the share of the Government of Cyprus in the Distributable Output linearly increases as a function of the factor and will reach the maximum rate when the R-Factor equals 2.5. For this purpose:

    "Net Accrued Revenues" shall mean, the partners' share in revenues actually received from the gas output (including the Expenditure Coverage Output), net of the operating expenses borne by the partners in the area of the PSC, from the date of signing of the Production Sharing Contract (October 28, 2008) to the end of the quarter preceding the day of the calculation (the "**Calculation Period**").

Note 20 – Oil and Gas Profit Levy and Taxes (Cont.):

B. Income tax assessments and tax certificates (Cont.):

13.Taxation in Cyprus (Cont.):

"Accrued Capital Investments" shall mean, the development expenses, production expenses of a capital nature (excluding operating expenses) and all exploration expenses, in respect of the area to which the Production Sharing Contract pertains, which were actually expended during the Calculation Period.

The Partnership received an approval from the Israel Tax Authority in respect of its operations in Block 12. Said approval prescribes, *inter alia*, the following provisions – the Partnership operations in Block 12 shall not prejudice the Partnership's status as a "partnership" for the purposes of the Participation Unit Regulations; the income that shall be generated in Block 12 shall be considered income that is taxable in Israel and the tax shall be calculated according to Israeli law; insofar as exploration investments prove to be investments which do not justify production (dry well), said investments shall be recognized as an expense that will be spread over a five-year period; should the exploration investments prove to be recoverable investments, the Block 12 operations will be deemed a separate standalone sector for tax purposes, and the exploration investments will be recognized in Israel as an expense, solely against income from Cyprus (thus, expenses incurred by the Partnership in Cyprus for its operations in Block 12 will not be included in its tax reports in the context of expenses which may be deducted in Israel, but rather shall be deducted in the future from income that the Partnership will generate from Block 12), all subject to the law applying in Israel; the recognition method of income, including credit for taxes paid in Cyprus, will be effected according to the instructions of the Tax Authority Director, considering the conditions that will be relevant at the prevailing time and the conditions that were known at the time of issuance of the approval.

It is noted that the Commissioner gave his approval, in accordance with Regulation 8 of Income Tax Regulations (Deductions from Income of Petroleum Right Holders), 5716-1956, for application of the Regulations to the Partnership also in Block 12, subject to conditions prescribed by him.

C. Taxation of Profits from Natural Resources Law, 5771-2011:

In April 2011, the Knesset passed the Taxation of Profits and Natural Resources Law, 5771-2011 (the "**Law**"). Implementation of the Law has led to a change in the taxation rules applicable to the Partnership's revenues, which include, *inter alia*, the introduction of a oil and gas profits levy according to a mechanism specified in the Law and cancellation of the depletion deduction. The Law includes transitional provisions with respect to producing ventures or ones that commenced production by 2014.

The Law's main provisions are as follows:

1) The introduction of an oil and gas profits levy at a rate to be determined as stated below. The rate of the levy will be calculated according to a proposed R-factor mechanism, according to the ratio between the net aggregate revenues from the project and the aggregate investments as defined in the Law. A minimum levy of 20% will be collected commencing from the point when the R-factor ratio reaches 1.5, and the levy will progressively increase up to a maximum rate when the ratio reaches 2.3. The maximum rate of the levy is 50% minus the product of 0.64 and the difference between the corporate tax rate set forth in Section 126 of the Income Tax Ordinance, 5721-1961 (in respect of each tax year) and the 18% tax rate. According to the corporate tax rate in 2021, the maximum rate is 46.8%.

Note 20 – Oil and Gas Profit Levy and Taxes (Cont.):

C. Taxation of Profits and Natural Resources Law, 5771-2011 (Cont.):

1) (Cont.):

Additional provisions were also determined regarding the levy, *inter alia*, the levy will be recognized as an expense for the purpose of calculation of income tax; the levy limits shall not include transmission plants that are used for export; the levy shall be calculated and imposed in relation to each lease separately (ring fencing); the charge of a recipient of payment from a holder of a petroleum interest which is calculated, *inter alia*, as a percentage of the petroleum produced, (the "**Derivative Payment**") *[sic]* in accordance with the amount of the Derivative Payment received thereby, while the amount of the levy attributed to the recipient of the Derivative Payment will concurrently be deducted from the levy amount owed by the holder of the petroleum right. In addition, the Law prescribes rules for consolidation or separation of petroleum ventures for purposes of the Law.

According to the Law, the holder of the petroleum right will be given fixed annual accelerated depreciation on a deductible asset, as defined in the law, which is owned thereby, at a fixed rate of up to 10% (at the choice of the holder of the petroleum right) or, alternatively, variable current annual depreciation up to the amount of the taxable income in that year (and not more than 10%).

The provisions regarding the imposition of an oil and gas profits levy apply from April 10, 2011 and include transition provisions with respect to ventures that began commercial production by January 1, 2014.

a) A venture, the date of commencement of commercial production from which occurred before the commencement date, will be subject to the provisions of this Law with the following changes:
   (1) If a levy payment duty applies with respect to such venture in the tax year which the commencement date occurs, the rate of the levy in such tax year will be half of the rate of the levy that would have been imposed on the petroleum profits if not for the provisions of this paragraph and no more than 10%;
   (2) In the event that the levy coefficient in the tax year in which the commencement date occurs exceeds 1.5, rules were set for the manner of calculation of the levy coefficient in each tax year thereafter;
   (3) The rate of the levy which will be imposed on the petroleum profits of the venture in each of the tax years 2012 to 2015 will be equal to half the rate of the levy that would have been imposed on the petroleum profits as aforesaid, if not for the provisions of this paragraph.
b) A venture with respect to which the commercial production commencement date occurs in the period between the commencement date and January 1, 2014, will be subject, *inter alia*, to the following provisions:
   (1) The minimal levy coefficient will be at a rate of 2 instead of 1.5 and the maximal rate will be 2.8 instead of 2.3;
   (2) The accelerated annual depreciation rate regarding a deductible asset purchased in the years 2011-2013 will be 15% instead of 10%.

2) The Law includes provisions regarding the taxation of petroleum partnerships as of 2011 - see Paragraph A above.
3) Pursuant to the Law, the reporting partner of the petroleum project files reports that include, *inter alia*, accrued data regarding proceeds and investments for the purpose of calculating the R-factor, as specified in Section 1 above.

Note 20 – Oil and Gas Profit Levy and Taxes (Cont.):

C. Taxation of Profits and Natural Resources Law, 5771-2011 (Cont.):

4) It is noted that disputes have arisen between the Assessing Officer for Large Enterprises and the holders of the rights in the Leviathan Leases regarding the levy reports for the Leviathan Leases for the years 2013-2015, which disputes chiefly pertained to the method of classification and quantification of data in the levy reports for the Leviathan Leases for the said years. In October 2018 the parties reached agreements with respect to the said disputes in the framework of a levy assessment agreement for the years 2013-2015, which, in October 2018, was sanctioned as a judgment by the Tel Aviv District Court.
Furthermore, a levy assessment agreement was signed in December 2019 between the Assessing Officer for Large Enterprises and the holders of the rights, with respect to the levy reports for the years 2016-2017 and in October 2021 an assessment agreement was signed with respect to the Leviathan levy assessment for 2018. It is further noted that, as of the date of approval of the financial statements, several interpretive disputes are being heard in the context of administrative objection proceedings vis-à-vis the assessing officer with regard to the implementation of the provisions of the Law in the levy reports of the Leviathan Leases for 2019, including pertaining to recognition of payments borne by the holders of the interests in the leases in order to enable feasibility of export of natural gas to Egypt.
It is noted that the rate of the levy coefficient in the Leviathan Leases as of the date of the financial statements is lower than 1.5 and the effect of the above-mentioned assessments and disputes may be reflected in the levy amount calculation. However, even if the assessing officer's position is fully accepted, to date it is not expected to result in a coefficient rate higher than 1.5 from which actual collection of the levy begins.
In addition, the right holders in the Leviathan venture reached agreements with the Tax Authority on the consolidation of the Leviathan Leases (north and south) as a single petroleum venture for purposes of the Law and the reports thereunder, according to the provisions of Section 8(a) of the Law.

5) It is noted that disputes have arisen between the Assessing Officer for Large Enterprises and the holders of rights in the Tamar venture as to the Tamar venture levy reports for the years 2013-2019, which disputes chiefly pertain to the recording of notional revenues, the method of recognition and classification of exploration and construction investments in the Tamar SW reservoir and Tamar SW reservoir construction payments and recognition of various payments borne by the holders of the interests in the venture including in order to enable feasibility of export of natural gas to Egypt (jointly below, the "**Disputed Issues**"). It is noted that the disputes as to the levy reports for the years 2013-2018 are adjudicated between the parties in the context of appeals conducted before the Tel Aviv District Court, whereas the disputes pertaining to the levy report for 2019 are adjudicated in the context of an administrative objection before the Assessing Officer for Large Enterprises. It is clarified that insofar as it is determined in a final and binding proceeding that the Tax Authority's position regarding the aforesaid disputes is accepted in full, the Partnership may incur an additional liability of payment of an oil and gas profit levy to the Tax Authority in an estimated amount, as of December 31, 2021, of approx. $35 million.
In the Partnership's estimation, based on the opinion of its legal counsel with respect to the Disputed Issues, the chances that the Partnership's arguments with respect to most of the Disputed Issues will be accepted are higher than the chances of rejection thereof.

Note 20 – Oil and Gas Profit Levy and Taxes (Cont.):

C. Taxation of Profits and Natural Resources Law, 5771-2011 (Cont.):

6) It is noted that disputes have arisen between the Assessing Officer for Large Enterprises and the holders of rights in the Ashkelon venture and the Noa venture (jointly below, the "**Yam Tethys Ventures**"), in respect of the levy reports of the Yam Tethys Ventures for the years 2018-2019. It is noted that the disputes in respect of the levy reports for the years 2018-2019 are being heard by the Tel Aviv District Court. The Partnership's share in the disputed amounts is approx. $1.6 million.
7) On November 10, 2021, the Knesset approved in second and third reading, Amendment No. 3 to the Taxation of Profits from Natural Resources Law, 5781-2021 (the "**Amendment to the Law**"), according to which, *inter alia*, in the event of a dispute, an advance payment of oil and gas profit levies will be required in the amount of 75% of the disputed amounts, subject to the decision of the assessing officer on the objection (prior to completion of legal proceedings which are under dispute in court, if any). In accordance with the Amendment to the Law as aforesaid, 75% of the said disputed amount may be advanced.
8) **Taxation of Profits from Natural Resources Regulations:**

   On December 2, 2020, the Taxation of Profits from Natural Resources Regulations (Advances due to the Petroleum Profit Levy), 5781-2020 (in this section: the "**Advances Regulations**") were published. The Advances Regulations regulate the payment of the advances that shall be paid by holders of petroleum interests in a petroleum project, including the method of calculation of the advances, the dates of payment thereof, and the reporting thereon.

   The Advances Regulations were promulgated by virtue of Sections 10(b) and 51 of the Law and their purpose is to regulate the issue of payment of the advance payments that will be made by the holders of a petroleum interest in a petroleum project. The Regulations mainly pertain to the determination of the calculation of the advances, the dates of payment thereof, and the reporting thereon.

   In 2020 and 2021, the Partnership paid advances due to a petroleum profit levy in the total amount of approx. $37.4 million, due to its rights in the Tamar project. According to the Partnership's estimation and appraisals, based on the existing disputes with the Tax Authority, in 2021 the Partnership recorded expenses due to an oil and gas profit levy in the amount of and *[sic]* approx. $43.8 million, which are presented in the item of discontinued operations due to sale of Tamar project as provided in Note 7C1 above.

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 21 – Transactions and Balances vis-à-vis Interested Parties, Related Parties and Control Holders:

A. Balances:

		December 31, 2021		December 31, 2020	
	Note	Parent companies	Related parties and other interested parties	Parent companies	Related parties and other interested parties
Trade receivables		-	-	-	3,097
Trade and other receivables	5	8	707	8	933
Other long-term assets	8A	2,199	18,036	2,199	23,125
Trade and other payables	9	2,695	1,076	2,119	2,366
The highest current debt balance this year		9	1,744	38	1,523

B. Transactions with related parties and interested parties:

For the year ended December 31, 2021:

	Note	Parent companies	Related parties and other interested parties
Revenues from gas sale	14, 7C1	235	5,211
Expenses due to overriding royalties	15	-	11,361
Expenses of General Partner management fees	12A	960	-
Compensation of directors		-	293
Compensation of directors of a company accounted for at equity	6	-	36
Reimbursement of expenses from a parent company	21E4	(6)	-
Guarantee fee to Delek Group	21D 12K4	368	-
Expenses due to control holder benefit against a capital reserve	13G	4,339	-

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 21 – Transactions and Balances vis-à-vis Interested Parties, Related Parties and Control Holders (Cont.):

B. Transactions with related parties and interested parties (Cont.):

For the year ended December 31, 2020:

	Note	Parent companies	Related parties and other interested parties
Revenues from gas sale[44]	14	384	21,868
Expenses due to overriding royalties	15, 7C1	6,127	19,074
Expenses of General Partner management fees	12A	960	-
Compensation of directors		-	276
Compensation of directors of a company accounted for at equity	6	-	66
Reimbursement of expenses from a parent company	21E4	(44)	-
Guarantee fee to Delek Group	21D 12K4	368	-
Expenses due to control holder benefit against a capital reserve	13G	2,954	-
D&O insurance	21E5	131	-

[44] Including the share of a related party in the commercial arrangement, as stated in Note 7C5.

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 21 – Transactions and Balances vis-à-vis Interested Parties, Related Parties and Control Holders (Cont.):

For the year ended December 31, 2019:

	Note	Parent companies	Related parties and other interested parties
Revenues from gas sale[45]	14	-	14,451
Gas purchase costs as part of commercial arrangement	7C4	(29)	217
Expenses due to overriding royalties	15, 7C1	6,374	26,363
Expenses of General Partner management fees	12A	960	-
Compensation of directors		-	249
Compensation of directors of a company accounted for at equity	6	-	151
Reimbursement of expenses from a parent company	21E4	68	-
Guarantee fee to Delek Group	21D 12K4	368	-
Expenses due to control holder benefit against a capital reserve	13G	2,375	-
D&O insurance	21E5	257	-
Dividend	7C1C1	-	9,040

C. **Terms of Employment of the CEO of the General Partner, Mr. Yossi Abu ("Mr. Abu"** or the **"CEO"):**

Mr. Yossi Abu serves as CEO of the General Partner in a full-time position (100%) since April 1, 2011. In the period from July 3, 2018 until March 14, 2020, Mr. Abu served in his current position as CEO of the General Partner in an 80% (instead of 100%) position, and simultaneously served as the CEO of Delek Energy in a 20% position.

It is clarified that the cost of employment of Mr. Abu is imposed on the General Partner only in the framework of the management services provided by the General Partner to the Partnership.

On July 10, 2019, the general meeting of the holders of the Partnership's participation units approved the updated terms of office and employment of Mr. Abu, starting from May 1, 2019[46] until April 30, 2024 according to the compensation policy (the "**2019 Terms**"). Mr. Abu's terms of office are as follows: his total monthly salary as of December 31, 2021 is ILS 163 thousand (in gross terms) (100%) (the "**Monthly Salary**"), updated according to changes in the Consumer Price Index (positive only) once every 3 months; the CEO will be entitled to the related benefits standard in the market among executives; the CEO will be entitled to an annual bonus every calendar year and a special one-time bonus, in accordance with the compensation policy; in the event that his employment comes to an end,

[45] Including the share of a related party in the commercial arrangement, as stated in Note 7C5.

[46] Mr. Abu's previous terms of office and employment were established in an employment agreement dated June 2016 (the "**2016 Agreement**").

Note 21 – Transactions and Balances vis-à-vis Interested Parties, Related Parties and Control Holders (Cont.):

C. Terms of Employment of the CEO of the General Partner, Mr. Yossi Abu ("Mr. Abu" or the **"CEO") (Cont.):**

the CEO will be entitled to an adjustment bonus and to a retirement bonus, in accordance with the compensation policy as updated from time to time. In addition, in the context of the 2019 Terms, the General Partner gave Mr. Abu 2,742,231 phantom units (whose underlying asset is a participation unit conferring a working interest in the rights of the limited partner in the Partnership (the "**Phantom Units**")[47]. The Phantom Units shall vest in three installments (the "**Overall Package**"), with each one of the installments included in the Overall Package being exercisable from the vesting date of such installment until the lapse of one year from the vesting date of the third installment (i.e. June 1, 2023).

The fair value of the Phantom Units granted to the CEO on the date of grant, May 22, 2019 is approx. ILS 6.4 million (the fair value valuation was prepared using the binomial model). The main assumptions on which the said valuation was based are as follows: (1) an exercise price of ILS 10.79 for the first installment, with the next installments including an addition of 5% per installment; (2) a participation unit price of approx. ILS 10.57; (3) a standard deviation rate of 32.3%; (4) a risk-free interest rate of 0.95%; (5) a contractual life of approx. 4 years; (6) rate of abandonment after the vesting period 0%; (7) benefit limitation as specified above.

In 2021 Mr. Abu received an annual bonus in the amount of approx. ILS 3,000 thousand (2020: approx. ILS 2,169 thousand, 2019: approx. ILS 1,650 thousand). The aforesaid grants were paid according to the goals predefined by the compensation committee and the board of directors. In addition, on October 31, 2021, the general meeting of the unit holders at the Partnership gave approval, subject to the closing of the transaction for sale of the Partnership's rights in the Tamar and Dalit project, to authorize the Partnership to pay Mr. Yossi Abu, CEO of the General Partner, a special bonus in the amount of 6 monthly salaries, gross. In view of completion of the sale of the Partnership's interests in the Tamar and Dalit leases in December 2021, Mr. Abu received a grant in the amount of approx. ILS 976 thousand.

D. Further to Note 7C3 in respect of the Partnership's exploration rights in Block 12 in Cyprus, as a condition for the endorsement, the Cypriot Government requested, in accordance with terms of the production sharing contract, that a performance guarantee, unlimited in amount, shall be provided in favor of the Republic of Cyprus to secure the fulfillment of all of the undertakings under the production sharing contract (the "**Guarantee**"), that was provided on the date of transfer of the rights by Delek Group.

Delek Group agreed to provide the Guarantee, against payment of a guarantee fee by the Partnership (see Note 12K4 above), as approved by the general meeting of participation unit holders in the Partnership, and subject to several conditions as summarized below:

1. The purchase of insurance coverage to the satisfaction of Delek Group.
2. In addition, the Partnership undertook that from the date of provision of the Guarantee and for as long as the Guarantee is in effect, the following provisions shall apply:
   a) In the event that the Partnership sells its rights to Block 12, the Partnership will act to release Delek Group from the Guarantee, or from its relative share (in the event of any partial sale of the rights);
   b) Delek Group will be entitled to demand that the Partnership, by written notice, at any time and at its discretion, shall cause the release of Delek Group from the Guarantee, or in the alternative, shall sign an agreement for the sale of the rights in Block 12;

[47] In the 2016 Agreement phantom units were allotted to Mr. Abu but because he did not exercise them, they expired.

Note 21 – Transactions and Balances vis-à-vis Interested Parties, Related Parties and Control Holders (Cont.):

D. (Cont.):

c) The Partnership will indemnify Delek Group for any damage of any kind whatsoever and/or expenses of any kind whatsoever and/or payments that shall be incurred by Delek Group, without any sum limitation.

d) Since the undertakings of the Partnership and Chevron Cyprus under the production sharing contract are jointly and severally, an agreement was signed between Delek Group and Chevron Cyprus, and the parent company of BG Cyprus, regarding division of the responsibilities and mutual indemnification among themselves, in respect of the operations in Block 12, according to the respective holding percentage of the Partnership, Chevron Cyprus and BG Cyprus in the rights in Block 12;

e) The Partnership shall provide Delek Group with a copy of any resolution and/or notice by the Cypriot authorities in connection with the production sharing contract and/or the Guarantee and will also act to inform Delek Energy of any event that may, to the best of its knowledge, result in the enforcement of the Guarantee.

According to the production sharing contract, any change in control of the Delek Group or the Partnership, directly or indirectly, is subject to advance approval by the Republic of Cyprus.

E. Additional information regarding transactions with related parties and interested parties:

1. See Notes 12B and 15 above regarding the payment of royalties by the Partnership to its control holders.
2. The Partnership has gas sale agreements with Rapac Energy Ashkelon Ltd. (formerly, I.P.P. Delek Ashkelon Ltd.), Rapac Energy Sorek Ltd. (formerly, I.P.P. Delek Sorek Ltd.) and Delek Israel Ltd. For information regarding sale volumes, revenues from sale of gas to related parties and other interested parties, see Section B above. In the report period the aforementioned ceased being related parties.
3. The General Partner of the Partnership entered into a lease agreement with Delek Group with respect to offices used by the General Partner and the Partnership, including a management fee agreement (see Note 12A above). The Partnership recorded expenses in the statement of comprehensive income against a capital reserve (see Note 13G) for its share in the aforesaid benefit in the sum of approx. $378 thousand (2020: approx. $339 thousand; 2019: approx. $394 thousand).
4. On July 24, 2018, the general meeting of the participation unit holders in the Partnership approved an engagement with Delek Group in an agreement regulating the division of worker employment costs. The terms of the engagement provide, *inter alia*, that the engagement is for a period of three years commencement on the date of approval by the general meeting.

   The arrangement will apply to employees and officers in pre-determined areas, the scope of employment of the workers by Delek Group companies shall not exceed a 5% position on an annual average, [and?] the total cost of employment to be borne by the Delek Group includes, *inter alia*, salary, options, related benefits, a proportionate share of office costs and other office overhead. On December 25, 2020, the audit committee and the board of the General Partner of the Partnership approved the Partnership's engagement with Delek Group in an addendum to the agreement that restricts the liability of the Partnership and/or the employees and officers thereof. With respect to the cost of the transaction as aforesaid, it is mentioned that on July 23, 2021 the agreement expired.

Note 21 – Transactions and Balances vis-à-vis Interested Parties, Related Parties and Control Holders (Cont.):

E. Additional information regarding transactions with related parties and interested parties (Cont.):

5. On June 30, 2021, the compensation committee, in accordance with the compensation policy and the recommendation of the Partnership's insurance consultant, approved the Partnership's engagement in an independent D&O liability insurance policy, including for Leviathan Bond, with a limit of liability of $129 million per occurrence and for a period of one year from July 1, 2021, for a premium of approx. $1.8 million for the said period (the "**Independent Policy**"), and authorized the Partnership's management to purchase additional insurance coverage in the amount of up to approx. $180 million and to present it for the approval of the compensation committee, all under terms and conditions which comply with the compensation policy. On August 10, 2021, the compensation committee approved an increase in the limit of liability in the Independent Policy by another $15 million (i.e., to a total amount of approx. $144 million) per occurrence and in the aggregate, in consideration for an additional premium of $150 thousand for the period (i.e., for a total amount of approx. $1.95 million).
6. In the matter of commercial arrangement for the supply of natural gas between the Yam Tethys partners and the Leviathan partners, see Note 7C4 above.
7. On July 26, 2021, the General Partner's board of directors approved a pledge of approx. 4.5% of the Partnership's participation unit capital held by the General Partner to secure bonds issued by Delek Group, which holds (indirectly) all of the issued share capital of the General Partner. It is noted that, as of the date of approval of the financial statements, the General Partner holds approx. 1.1% of the unpledged participation unit capital of the Partnership.
8. On December 23, 2021, the General Partner's board of directors approved the General Partner's engagement with Delek Group in an agreement for the provision of management services by Delek Group, including director services to the General Partner through the directors serving also as officers in Delek Group according to the terms and conditions set forth, commencing January 1, 2021.
9. Mr. Yossi Gvura's office as Deputy CEO ended on December 31, 2021.
10. Mr. Tzachi Habusha was appointed as the Partnership's VP Finance on November 18, 2021, and took office on January 1, 2022.
11. The Partnership had, in the report year, additional engagements in which Delek Group has a personal interest, which are classified as negligible transactions, such as the receipt of "*Dalkan*" services [automatic billing for fueling] from Delek Israel and receipt of services from the NYX Herzliya Hotel of the Fattal Hotels Chain and an accounting with Delek Group and Mr. Yitzhak Sharon (Tshuva) in connection with legal costs in the context of a motion for certification of the class action mentioned in Note 12L8.

Note 22 – Financial Instruments:

A. Manner of determining the fair value of the financial instruments:

Due to their nature, the fair value of financial instruments, such as cash and cash equivalents, trade and short-term receivables, and trade and short-term payables, is an adequate approximation to their book value.

Short-term non-negotiable assets and liabilities bearing interest with a fixed maturity date	-	Their book value reflects their fair value as of the date of the statements of financial position, since the average interest rate thereon is not materially different from the interest rate customary in the market for similar items as of the date of the statements of financial position.
Short-term receivables and payables	-	The book value constitutes an approximation of their fair value.
Assets and liabilities with no maturity date	-	The fair value is determined according to the payable amount per demand on the report date.
Assets and liabilities at variable interest	-	The fair value of assets and liabilities at variable interest, due to which no material changes have occurred, was determined based on the contractual conditions of the instrument.
Interest rate SWAP and forward contracts	-	The fair value is based on the market price. In the absence of market price, the fair value is based on economic models.

B. Fair value hierarchy:

For disclosure purposes, the Partnership classifies fair value measurements under one of the levels in the fair value hierarchy that reflects the significance of the data used when making the measurements. The fair value hierarchy is:

Level 1	-	Quoted prices (unadjusted) in active markets for identical assets or identical liabilities.
Level 2	-	Inputs other than quoted prices included within Level 1, which are observable with regard to the asset or liability, directly or indirectly.
Level 3	-	Inputs that are not observable for the asset or liability.

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 22 – Financial Instruments (Cont.):
B. Fair value hierarchy (Cont.):

Below are figures on the fair value hierarchy of the financial instruments that are measured in fair value that were recognized in the statement of financial position:

	31.12.2021			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:				
ETFs	19,945	-	-	19,945
-Royalties receivable from the Karish and Tanin leases (see Note 8B above)	-	-	262,183	262,183
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B above)	-	64,400	-	64,400
Total Financial assets at fair value through profit or loss:	19,945	64,400	262,183	346,528

	31.12.2020			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:				
-Royalties receivable from the Karish and Tanin leases (see Note 8B above)	-	-	242,200	242,200
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B above)	-	72,300	-	72,300
Total Financial assets at fair value through profit or loss:	-	72,300	242,200	314,500
Financial assets at fair value through other comprehensive income:				
- Investments in equity instruments designated for measurement at fair value through other comprehensive income	17,033	-	-	17,033
Total financial assets	17,033	72,300	242,200	331,533

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 22 – Financial Instruments (Cont.):

B. Fair value hierarchy (Cont.):

Adjustment due to fair value measurements classified as level 3 in the financial instruments fair value hierarchy:

	For the year ended December 31, 2021	
	Future production-based royalties	Total
Balance as of January 1	242,200	242,200
Remeasurement recognized in profit or loss	19,983	19,983
Balance as of December 31	262,183	262,183

	For the year ended December 31, 2020		
	Future production-based royalties	Cash flow hedging transactions	Total
Balance as of January 1	161,900	(5,523)	156,377
Remeasurement recognized in profit or loss	80,300	(34)	80,266
Disposals / revenues	-	10,314	10,314
Remeasurement recognized in other comprehensive profit	-	(4,757)	(4,757)
Balance as of December 31	242,200	-	242,200

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 22 – Financial Instruments (Cont.):

C. Fair value of financial instruments:

The fair value of the financial instruments presented in the financial statements matches or is close to their book value, with the exception of the bonds issued as stated in Note 10:

	As of December 31, 2021	
	Fair value	Book value
Bonds:		
Leviathan Bond	2,392,604	2,224,813
Total	2,392,604	2,224,813

	As of December 31, 2020	
	Fair value	Book value
Bonds:		
Series A	391,716	393,806
Tamar Bond	666,022	635,358
Leviathan Bond	2,500,236	2,219,341
Total	3,557,974	3,248,505

D. Groups of financial instruments:

	As of December 31,	
	2021	2020
Financial assets:		
Cash and cash equivalents	220,188	69,979
Investments and deposits	221,324	269,896
Trade receivables	152,534	145,681
Trade and other receivables	73,408	20,212
Other long-term assets	305,340	340,697
Total financial assets	972,794	846,465
Financial liabilities:		
Trade and other payables	5,468	36,075
Bonds (see Note 10 above)	2,224,813	3,248,505
Total financial liabilities	2,230,281	3,284,580

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 22 – Financial Instruments (Cont.):

E. **Risk Management policy:**
The Partnership's transactions expose the Partnership to various financial risks, such as: market risk (including currency risk, fair value risk due to interest rate, linkage to the U.S. CPI and price risk), credit risk, liquidity risk and cash flow risk due to the exposure to the LIBOR interest rate. The general risk management plan of the Partnership focuses on acts to minimize possible negative effects on the Partnership's financial performances. The Partnership at time uses derivative financial instruments to hedge certain exposures to risks.

F. **Market risks:**
Market risks derive from the risk that the fair value or future cash flow of a financial instrument will change as a result of changes in market prices. Market risks include three types of risks: currency risk, other price risk and fair value risk due to interest rate as follows:

1. **Currency risk**:
Exchange rate risk derives mainly from assets and liabilities stated in ILS and from the fact that the tax advances paid by the Partnership based on a Shekel tax report. Also, the Partnership has expenses in ILS that are exposed to exchange rate changes.
2. **Interest risk**:
An interest risk is the risk that the fair value or the future cash flows of financial assets will change as a result of changes in the market interest rates. The financial instruments that bear variable interest expose the Partnership to a cash flow and profit and loss risk due to changes in the interest rate. In addition, until August 2020, the Partnership was exposed to possible changes in the cash flow that may derive from changes in the LIBOR interest rate, mainly from an agreement for financing the share of the Partnership in the Leviathan project development costs, the liabilities in respect of which were paid in the context of the issuance of the bonds of Leviathan bond as provided in Note 10B above. In 2021 the Partnership had short-term investments that bear variable interest.

Following are the balances of financial instruments that bear interest according to their book value:

	As of December 31,	
	2021	2020
Financial instruments at variable interest:		
Assets:		
Deposits in banks (including cash and cash equivalents)	320,900	333,029
Trade and other receivables in the context of joint ventures	23,316	4,603
Long-term receivables in the context of joint ventures	-	1,256
	344,216	338,888

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 22 – Financial Instruments (Cont.):
F. Market risks (Cont.):
2. Interest risk (Cont.):

Following is the effect of the change in the event of a 0.5% change in the LIBOR interest rate, with the other variables remaining constant:

	Effect on Profit or Loss		
	Increase in interest rate		Decrease in interest rate
	0.5%		**0.5%**
2021	1,721		(1,721)
2020	1,694		(1,694)

Further to the provisions of Note 8B in connection with the sale of the Partnership's interests in the Karish and Tanin leases, the Partnership recorded royalties receivable from the Karish and Tanin leases in the sum of approx. $262.2 million (as of December 31, 2020 in the sum of approx. $242.2 million) and amounts receivable in connection with a loan extended to Energean in the context of the sale of the Karish and Tanin leases in the sum of approx. $64.4 million (as of December 31, 2020: in the sum of approx. $72.3 million).

Following are tests of sensitivity to a change in the capitalization interest, with the other variables remaining constant:

	As of December 31, 2021				
	Profit (loss) from the change in the capitalization interest				
	2%	1%	Fair value	-1%	-2%
Royalties receivable from the Karish and Tanin leases	(18,972)	(9,821)	262,183	10,560	21,937
Loan to Energean in the context of the sale of the Karish and Tanin leases (See Note 8B above)	(2,835)	(1,448)	64,400	1,512	3,091
Total	(21,807)	(11,269)	326,583	12,072	25,028

	As of December 31, 2020				
	Profit (loss) from the change in the capitalization interest				
	2%	1%	Fair value	-1%	-2%
Royalties receivable from the Karish and Tanin leases	(21,733)	(11,728)	242,200	12,188	25,386
Loan to Energean in the context of the sale of the Karish and Tanin leases (See Note 8B above)	(3,657)	(1,872)	72,300	1,965	4,029
Total	(25,390)	(13,600)	314,500	14,153	29,415

Note 22 – Financial Instruments (Cont.):

F. Market risks (Cont.):

3. **Price risk**:

   Natural gas and condensate prices risk:

   Contracts for the supply of natural gas determined the gas price according to price formulas which include various linkage components, including linkage to the Electricity Production Tariff, linkage to the Brent barrel price and linkage to the ILS/$ exchange rate (see Notes 12C1 below). Contracts for the supply of natural gas signed by the Partnership determined, in addition to the price formulas, also floor prices which limit, to a certain extent, the exposure to fluctuations in the linkage components, but there is no certainty that the Partnership will be able to determine such floor prices also in new contracts that shall be signed thereby in the future.

   A decrease in the Electricity Production Tariff and/or a decline in the Brent prices and/or a rise in the ILS/$ exchange rate (a devaluation of the ILS against the dollar), may have an adverse effect on the Partnership's revenues from the existing and future gas sale agreements.

   It is noted that the frequent methodological changes made by the Electricity Authority to the method of calculation of the Electricity Production Tariff make it difficult to predict the same, and may lead to disputes between the gas suppliers and customers in connection with the method of calculation thereof. In this context it is noted that with respect to some of the private power plants (including plants that were sold by the IEC)), the Electricity Authority introduced system marginal price (SMP) regulation whereby every 30 minutes, the wholesale electricity price is determined according to the marginal cost for production of one additional kilowatt-hour in the economy, based on half-hour tenders conducted by the manager of the electricity system between the various power producers each day.

   The said pricing method may have an effect on the prices of the natural gas that shall be sold by the Partnership to power producers in the domestic market in a case where the gas prices in future contracts shall be linked to the said pricing.

   The demand for natural gas of customers of the Partnership and the price thereof are affected, *inter alia*, by significant changes in the prices of oil, natural gas, including LNG, and the prices of other energy sources, including coal, sources of renewable energy and other substitutes for the produced natural gas that is marketed by the Partnership, both in the domestic market and in the international markets. Thus, for example, low LNG prices in the international markets may lead to increased import of LNG to Israel and/or to the regional markets, reduce the demand for natural gas in the markets relevant to the Partnership and adversely affect the Partnership's revenues from the Leviathan reservoir.

   An increase in supply, a decrease in demand or a decrease in prices of energy sources which are alternatives to natural gas (including coal, sources of renewable energy and other products) in the domestic market or in the international markets may reduce the demand on the part of existing and potential customers, and lead to a decrease in the price of natural gas sold by the Partnership, which may have an adverse effect on the Partnership, its financial position and its results of operations.

   Reforms and decisions relating to the electricity sector and the energy sector generally, including changes to environmental laws, may also reduce the demand for the natural gas sold by the Partnership and/or affect the price thereof.

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 22 – Financial Instruments (Cont.):

F. Market risks (Cont.):

3. Price risk (Cont.):

In addition, material events in the global economy such as an economic slowdown, recession, inflation, irregular volatility in foreign exchange rates, trade wars, an impairment of the efficient functioning of the global manufacture and supply chains in general, and the segments of engineering, manufacture and supply of components for the oil and gas industry in particular, as well as weather conditions, including global warming, the eruption of epidemics such as Covid and natural disasters, may also reduce the demand for the natural gas sold by the Partnership and/or affect the price thereof and/or adversely affect the Partnership's revenues from existing and future gas sale agreements, as well as the making of decisions on investment in new natural gas projects and/or expansion of existing projects.

4. Securities and commodities prices risk:

The Partnership sometimes invests some of its surplus cash in dollar bonds, thereby exposing itself to the fluctuations in the bond prices, which is inherent to such market. The Partnership also invested in ETFs and structured deposits, the yield deriving from which is dependent on the performance of indices or commodities. Investment decisions are made by the management of the Partnership's General Partner, based on the recommendations of professional advisors and the guidance of the investment committee of the board of the Partnership's General Partner.

As of December 31, 2021 the Partnership invested cash surplus in ETFs whose fair value was approx. $19,945 thousand.

Below are tests of sensitivity due to a change in the price, with the other variables remaining constant:

	As of December 31, 2021				
	Securities price				
	10%	5%	Fair value	-5%	-10%
ETFs	1,994	997	19,945	(997)	(1,994)

Below are expanded tests of sensitivity due to a change in the prices of the natural gas and condensate, with the other variables remaining constant:

	As of December 31, 2021								
	Profit (loss) from the change in the price of natural gas								
	30%	20%	10%	5%	Fair value	-5%	-10%	-20%	-30%
Royalties receivable from the Karish and Tanin leases	14,820	12,202	72,204	(1,975)	262,183	(6,748)	(12,056)	(18,236)	(25,070)

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 22 – Financial Instruments (Cont.):

F. Market risks (Cont.):

4. Securities and commodities prices risk (Cont.):

	As of December 31, 2021								
	Profit (loss) from the change in the price of condensate								
	30%	20%	10%	5%	Fair value	-5%	-10%	-20%	-30%
Royalties receivable from the Karish and Tanin leases	7,814	7,208	872	(2,807)	262,183	(4,689)	(8,946)	(11,806)	(20,697)

	As of December 31, 2020								
	Profit (loss) from the change in the price of natural gas								
	30%	20%	10%	5%	Fair value	-5%	-10%	-20%	-30%
Royalties receivable from the Karish and Tanin leases	18,910	14,614	4,383	(1,421)	242,200	(5,478)	(10,981)	(15,775)	(22,832)

	As of December 31, 2020								
	Profit (loss) from the change in the price of condensate								
	30%	20%	10%	5%	Fair value	-5%	-10%	-20%	-30%
Royalties receivable from the Karish and Tanin leases	13,378	6,577	(276)	3,490	242,200	(3,198)	(6,424)	(12,958)	(15,048)

G. Credit risks:

Credit risk is the risk that one party to financial instruments will cause a financial loss to the other party by failure to meet liabilities. A credit risk derives mainly from trade accounts receivable and deposits in banks. The Partnership's principal customers in the report period is the IEC which accounted for approx. 10.3% of the sales in 2021 (approx. 32% of the sales in 2020), NEPCO which accounted for approx. 30% of the sales in 2021 and Blue Ocean which accounted for approx. 33.8% of the sales in 2021 (approx. 19% and 17% of the sales, respectively, in 2020). The trade receivables balance as of December 31, 2021 is a current balance. The Partnership estimates that the credit risk vis-à-vis the IEC is low and that the credit risk relative to the produced gas vis-à-vis Blue Ocean and NEPCO is low since the current balances against them are backed up by collateral that was provided thereby.

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 22 – Financial Instruments (Cont.):

G. Credit risks (Cont.):

1. Turnover and aging of trade receivables, the value of which was not affected:

		Trade receivables balance as of December 31, 2021		
	Revenues for the year ended December 31, 2021	Total	Current balance	Disputed balance
IEC	91,107	128	128	-
NEPCO	264,792	35,514	35,514	-
Blue Ocean	298,232	96,920	96,920	-
Other customers	228,406	19,972	19,972	-
Total	882,537	152,534	152,534	-

		Trade receivables balance as of December 31, 2020		
	Revenues for the year ended December 31, 2020	Total	Current balance	Disputed balance
IEC	183,549	17,774	17,774	-
NEPCO	178,963	39,428	39,428	-
Blue Ocean	144,653	65,806	65,806	-
Other customers	79,920	22,673	22,673	-
Total	587,085	145,681	145,681	-

2. The Partnership has cash and cash equivalents and deposits that are mostly held with large banking corporations in Israel and overseas. Accordingly, the Partnership expects no material losses due to credit risks for said balances.
3. The balance of the financial assets in the statement of financial position as presented in Paragraph D above reflects the maximal exposure to credit risk as of the date of the statement of financial position.
4. The Partnership has amounts receivable in respect of a company accounted for at equity in the sum of approx. $17.5 million, which were included under other short- and long-term assets. The amounts were revaluated according to the effective interest rate method, based on the Partnership's estimation in respect of their date of return, and interest reflecting the credit risk that reflects the business environment of the company accounted for at equity.

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 22 – Financial Instruments (Cont.):

H. Liquidity risk:

Liquidity risks result from the management of the Partnership's working capital, and from the financial expenses and principal repayments of the debt instruments of the Partnership. A liquidity risk is the risk that the Partnership will have difficulties in fulfilling undertakings related to financial liabilities.

The management of the General Partner reviews the cash flow forecasts on a monthly basis for a 12-month period at least, as well as information regarding the cash balances and the deposits.

The Partnership strives to ensure that the cash, the held deposits and short-term investments, together with the forecasted income, shall always be sufficient to cover liabilities on the respective maturity dates thereof. The foregoing does not take into account the effects of extreme scenarios that cannot be foreseen.

The contractual maturities of the financial liabilities subsequent to the date of the statement of financial position (according to the various stated payment values that are different to their value in the books), based on the interest rates and exchange rates as of the date of the statement of financial position, are as follows:

2021	Up to 3 months	More than 3 months and up to 1 year	1-3 years	3-5 years	More than 5 years	Total
Trade and other payables	5,468	-	-	-	-	5,468
Bonds	-	141,625	740,125	770,625	1,299,438	2,951,813
Total	5,468	141,625	740,125	770,625	1,299,438	2,957,281

2020	Up to 3 months	More than 3 months and up to 1 year	1-3 years	3-5 years	More than 5 years	Total
Trade and other payables	36,075	-	-	-	-	36,075
Bonds	-	588,289	1,156,037	1,162,012	1,375,563	4,281,901
Total	36,075	588,289	1,156,037	1,162,012	1,375,563	4,317,976

Notes to the Financial Statements for December 31, 2021 (Dollars in thousands)

Note 22 – Financial Instruments (Cont.):
H. Liquidity risk (Cont.):

Changes in liabilities deriving from financing activity:

	Balance as of Jan. 1, 2021	Cash Flow	Effect of changes in amortized cost	Other changes	Balance as of Dec. 31, 2021
Bonds	3,248,505	(1,035,303)	11,611	-	2,224,813
Profits for distribution, declared and provision for balancing and tax payments	36,462	(236,585)	-	286,301	86,178
Total liabilities deriving from financing activity	3,284,967	(1,271,888)	11,611	286,301	2,310,991

	Balance as of Jan. 1, 2020	Cash Flow	Effect of changes in amortized cost	Other changes	Balance as of Dec. 31, 2020
Bonds	1,350,830	1,892,393	5,283	-	3,248,505
Liabilities to banking corporations	1,927,271	(1,946,169)	18,898	-	-
Profits for distribution, declared and provision for balancing and tax payments	33,657	(134,141)	-	136,946	36,462
Total liabilities deriving from financing activity	3,311,758	(187,917)	24,181	136,946	3,284,967

Note 23 – Material Subsequent Events:

a. See Note 1F for details regarding an appeal and a motion for stay of execution in connection with an arrangement under Sections 350 and 351 of the Companies Law.
b. See Note 1G for details regarding a military conflict between Russia and Ukraine.
c. See Note 7C2D for details regarding a reserves and resources report in the Leviathan project.
d. See Note 12C1D for details regarding piping of natural gas to Egypt through Jordan according to a series of agreements including an agreement for export of natural gas to Egypt with Blue Ocean.

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Part D

Additional details about the corporation

Name of the Corporation:	NewMed Energy – Limited Partnership[1]	**Corporation No. at the Registrar:**	550013098
Address:	19 Abba Eban Blvd., Herzliya Pituach, 4672537		
Telephone:	09-9712424	**Facsimile:**	09-9712425
Balance Sheet Date:	December 31, 2021	**Report Date:**	March 23, 2022

Below are additional details regarding the Partnership, according to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Reports Regulations**"):

Regulation 8B: Valuations

For details regarding a very material valuation, which is attached hereto, regarding royalties receivable from the I/16 Tanin and I/17 Karish leases which are owned by Energean Israel Limited, see Annex B to the Board of Directors' Report (Chapter B of this Report) and Note 8B to the financial statements (Chapter C of this Report).

Regulation 9D: Status of liabilities report according to payment dates

Concurrently with the release of this periodic report, the Partnership is releasing an immediate report regarding the status of the liabilities of the Partnership and the companies consolidated in its financial statements, according to payment dates, which constitutes an integral part of the periodic report.

Regulation 10A: Summary of the Partnership's statements of comprehensive income for each one of the quarters in 2021 and for 2021 in its entirety

[1] The Partnership's previous name was Delek Drilling – Limited Partnership. On February 21, 2022, the Partnership's name was changed to its current name.

See Section 2B of Part One of the Board of Directors' Report (Chapter B of this Report).

Regulation 10C: **Use of the proceeds from securities with reference to the purposes of the proceeds according to the prospectus**

On May 14, 2019, the Partnership released a shelf prospectus (the "**Shelf Prospectus**"). For further details, see the Partnership's immediate report of May 14, 2019 (Ref. no.: 2019-01-041106), the information appearing in which is incorporated herein by way of reference. For details regarding extension of the period for the offering of securities under the Shelf Prospectus until May 14, 2022, see the Partnership's immediate report of May 9, 2021 (Ref. no.: 2021-01-080940), the information appearing in which is incorporated herein by way of reference.

Regulation 11: **List of the Partnership's investments in subsidiaries and companies accounted for at equity thereof**[2,3]

Name of the company	Type of security	No. of shares	Total par value	Share value in the Partnership's separate financial statement as of December 31, 2021	Price of the shares listed on TASE as of December 31, 2021 (in Agorot)	% of the holding in the capital, in voting and in the authority to appoint directors	Balance of loans to subsidiaries and to companies accounted for at equity as of December 31, 2021 (Dollars in thousands)	Main terms of the loans		
								Final maturity date	Linkage terms	Additional details
Yam Tethys Ltd.[4]	Ordinary shares	48,500	ILS 48,500	-	-	48.5	-	-	-	-

[2] For further details regarding the Partnership's subsidiaries and companies accounted for at equity, see Section 1.9 of Chapter A of this Report.

[3] The Partnership undertook to keep in escrow for New Med Energy Plc. ("**New Med**"), a wholly (indirectly) owned subsidiary of the Partnership, the sum of £50 thousand, which was transferred therefor for the purpose of its establishment by Delek Energy Limited, a wholly owned subsidiary of the Partnership which was incorporated in England and is New Med's parent company, and which shall be paid to New Med upon its request.

[4] A special purpose company (SPC) established by the partners in the Yam Tethys project for purposes of receiving a gas transmission license. For further details, see Section 1.9.1 of Chapter A of this Report.

Name of the company	Type of security	No. of shares	Total par value	Share value in the Partnership's separate financial statement as of December 31, 2021	Price of the shares listed on TASE as of December 31, 2021 (in Agorot)	% of the holding in the capital, in voting and in the authority to appoint directors	Balance of loans to subsidiaries and to companies accounted for at equity as of December 31, 2021 (Dollars in thousands)	Main terms of the loans		
								Final maturity date	Linkage terms	Additional details
Leviathan Bond Ltd. ("**Levithan Bond**") [5]	Ordinary shares	100	ILS 100	-	-	100	100,000	June 2030	Dollar	-[6]
Leviathan Transmission System Ltd.[7]	Ordinary sharescc	45,340	ILS 4,534	-	-	45.34	-	-	-	-
NBL Jordan Marketing Limited[8]	Ordinary shares	4,534	$4,534	-	-	45.34	-	-	-	-
EMED Pipeline B.V. ("**EMED B.V.**")[9]	Ordinary shares	5,000	$5,000	$75,005,000	-	25	40,347	-[10]	Dollar	-

[5] An SPC wholly owned by the Partnership which was established for the offering of bonds to the institutional market in Israel and overseas, which are secured by the Partnership's interests in the Leviathan leases. For further details, see Sections 1.7.9 and 7.20.2 of Chapter A of this Report and Note 10B to the financial statements (Chapter C of this Report).

[6] The loan funds were deposited with the bank and are used as a safety cushion for the repayment of the principal of the bonds issued by Leviathan Bond. For further details, see Notes 4 and 10B to the financial statements (Chapter C of this Report) and Part Five of the Board of Directors' Report (Chapter B of this Report). It is noted that the loan principal does not include accrued interest in the sum of approx. $167 thousand.

[7] An SPC which was established for the purpose of obtaining a license for transmission of natural gas from the Leviathan project. For further details, see Sections 1.7.4 and 7.23.5(l)3 of Chapter A of this Report.

[8] An SPC incorporated in the Cayman Islands for the purpose of engagement in the gas supply agreement with the Jordan National Electric Power Company. For further details, see Sections 1.7.5, 7.11.5(a)1 and 7.11.5(b)1 of Chapter A of this Report.

[9] An SPC incorporated in Holland in connection with the EMG transaction (as defined in Section 7.25.5 of Chapter A of this Report), whose shares are held as follows: EMED Pipeline Holding Limited (for further details, see Footnote 11 below) – 25%; Chevron Cyprus Limited – 25%; and Sphinx EG BV, a wholly owned subsidiary of East Gas Company S.A.E. ("**East Gas**") (for further details, see Footnote 12 below) – 50%.

[10] The loan is for the Partnership's investments in refurbishment of the EMG pipeline, which were made through EMED B.V. As of the report approval date, the loan agreement has not yet been signed and no final maturity date has yet been defined.

Name of the company	Type of security	No. of shares	Total par value	Share value in the Partnership's separate financial statement as of December 31, 2021	Price of the shares listed on TASE as of December 31, 2021 (in Agorot)	% of the holding in the capital, in voting and in the authority to appoint directors	Balance of loans to subsidiaries and to companies accounted for at equity as of December 31, 2021 (Dollars in thousands)	Main terms of the loans		
								Final maturity date	Linkage terms	Additional details
EMED Pipeline Holding Limited ("**EMED Pipeline**")[11]	Ordinary shares	5,000	€5,000	-	-	100	-	-	-	-
Eastern Mediterranean Gas Company S.A.E ("**EMG**")[12]	Ordinary shares	57,330,000	$57,330,000	-	-	9.75	-	-	-	-

[11] An SPC wholly owned by the Partnership which was incorporated in Cyprus in connection with the EMG transaction. For further details see Section 7.25.6 of Chapter A of this Report.
[12] A private company registered in Egypt which owns the EMG pipeline, and whose shares are held as follows: EMED B.V. – 39% (for further details, see Footnote 9 above); Snam S.p.A. – 25%; Mediterranean Gas Pipeline Ltd. – 17%; East Gas – 9%; Egyptian General Petroleum Corporation – 10%. For further details see Sections 1.7.8 and 7.25.5 of Chapter A of this Report.

Regulation 12: **Changes in investments in subsidiaries and in companies accounted for at equity in the report period**

(a) For details regarding an off-TASE transaction for the sale of all of the Partnership's holdings (22.6%) in Tamar Petroleum Ltd. ("**Tamar Petroleum**"), see the Partnership's immediate report of April 28, 2021 (Ref. no.: 2021-01-072519), the information appearing in which is incorporated herein by way of reference.

(b) On December 9, 2021, upon the closing of the transaction for the sale of the Partnership's remaining interests in the Tamar and Dalit leases (the "**Tamar Sale Transaction**"), the Partnership's share in the shares of Tamar 10-Inch Pipeline Ltd. was transferred to the buyers, Tamar Investment 1 RSC Limited and Tamar Investment 2 RSC Limited. For further details, see Section 7.24.12 of Chapter A of this Report.

(c) Following the closing of the Tamar Sale Transaction, in December 2021 the Partnership fully repaid the bonds issued by Delek & Avner (Tamar Bond) Ltd. ("**Tamar Bond**"), a wholly owned subsidiary of the Partnership, which were secured by pledges on the Partnership's interests in the Tamar project. As of the report approval date, Tamar Bond is in voluntary dissolution.

Regulation 13: **Revenues of and from the Partnership's subsidiaries and companies accounted for at equity (Dollars in thousands)**

Name of the company	Profit (loss) before tax	Other comprehensive income (loss)	Profit (loss) after tax	Dividends received as of December 31, 2021	Dividends received (or receivable by the Partnership) after December 31, 2021	Dividend payment dates after December 31, 2021	Management fees received as of December 31, 2021	Management fees received (or receivable by the Partnership) after December 31, 2021	Management fee payment dates after December 31, 2021	Interest	Interest payment dates
Tamar Bond	509	509	509	-	-	-	-	-	-	-	-
Leviathan Bond	471	471	471	-	-	-	-	-	-	-	-
EMED Pipeline	(4,534)	(5,218)	(5,218)	-	-	-	-	-	-	-	-
EMED B.V.	(17,896)	(17,987)	(17,987)	-	-	-	-	-	-	-	-
EMG	1,727	(382)	(382)	-	-	-	-	-	-	-	-

NEWMEDENERGY

Regulation 21: Compensation of interested parties and senior officers[13]

(a) Below is a specification regarding the compensation given, in the report year, to the highest-paid senior officers of the Partnership and/or the General Partner and/or corporations controlled thereby in connection with their term of office at the Partnership and/or the General Partner and/or corporations controlled thereby, as well as regarding the compensation given to interested parties of the Partnership and/or the General Partner in connection with services provided by them as office holders at the Partnership and/or the General Partner in 2021 (Dollars in thousands), as recognized in the financial statements as of December 31, 2021[14]:

[13] For further details regarding the terms of employment of the officers and the interested parties stated in the table, see Regulation 21(b) below. The compensation given to some of the officers stated in the table includes a sum of approx. $6 thousand in accordance with an agreement which regulates the manner of division of costs of employees, the validity of which came to an end on July 23, 2021. For further details, see Section 22(i) of Chapter D of the Partnership's 2020 periodic report, as released on March 17, 2021 (Ref. no.: 2021-01-036588) (the "**2020 Periodic Report**").

[14] Since the cost of provision of the management services by the General Partner to the Partnership (which includes, *inter alia*, the cost of Mr. Abu's employment) is higher than the management fees and expense reimbursements paid to the General Partner in accordance with the Partnership Agreement, the Partnership's financial statements include the sum of the management service costs that exceeds the sum of the management fees as aforesaid under a capital reserve recorded due to a benefit granted to the Partnership by the General Partner and/or the General Partner's controlling shareholder and under G&A expenses, in the sum of approx. $4.3 million. For further details, see Regulation 21(b)(7) below.

Senior officers of the Partnership and/or the General Partner														
Details of Compensation Recipient				Compensation for Services							Other Compensation			Total
Name	Title	Position percentage	% of holding in participation units	Salary	Bonus	Share-based payment	Manage-ment fees	Consult-ing fees	Comm-ission	Other	Interest	Rent	Other	
Yossi Abu[15]	CEO of the General Partner	100%	0.05%	762.3	1,234.2	250.4	-	-	-	-	-	-	138.9	**2,385.8**
Yossi Gvura[16]	Served as Deputy CEO until his term of office ended on December 31, 2021	100%	-	708.4	549.7	-	-	-	-	-	-	-	93.1 [17]	**1,351.2**
Zvi Karcz	VP Exploration	100%	-	352.0	92.0	-	-	-	-	-	-	-	60.8	**504.8**
Sari Singer Kaufman	General Counsel, VP	100%	-	306.6	79.7	-	-	-	-	-	-	-	47.5	**433.8**
Nadav Perry	VP Regulatory & Public Affairs	100%		288.5	58.5	-	-	-	-	-	-	-	50.0	**397.0**

[15] Mr. Abu is employed by the General Partner, which also bears the cost of his employment.

[16] Mr. Yossi Gvura served as Deputy CEO of the Partnership (in a 90% position) and of the General Partner (in a 10% position), and accordingly, the Partnership (90%) and the General Partner (10%) bore the cost of his employment.

[17] Including leave encashment.

Interested parties of the Partnership and/or the General Partner														
Details of Compensation Recipient				Compensation for Services							Other Compensation			Total
Name	Title	Position percentage	% of holding in participation units	Salary	Bonus	Share-based payment	Management fees	Consulting fees	Commission	Other	Interest	Rent	Other	
NewMed Energy Management Ltd. (the "General Partner")[18]	General Partner	-	-	-	-	-	960[19]	-	-	-	-	-	-	**960**
Fahn Kanne & Co., CPAs, together with Keidar Supervision and Management (collectively, the "Supervisors")	Supervisor	-	-	224.2	-	-	-	-	-	60.5	-	-	-	**284.7**
NewMed Energy Trusts Ltd. (the "Trustee" or the "Limited Partner")[20]	Trustee and Limited Partner	-	-	1	-	-	-	-	-	-	-	-	-	**1**
External directors[21]	-	-	-	292.6	-	-	-	-	-	-	-	-	-	**292.6**

[18] The General Partner's previous name was Delek Drilling Management (1993) Ltd. On February 24, 2022, its name was changed to its current name.

[19] For further details regarding the management fee arrangement between the General Partner and the Partnership, see Regulation (b)(7) below and Note 12A to the financial statements (Chapter C to this Report).

[20] The Limited Partner's former name was Delek Drilling Trusts Ltd. On February 24, 2022, its name was changed to its current name.

[21] Messrs. Amos Yaron and Jacob Zack have been serving as external directors on the General Partner's board of directors since October 22, 2015 (a first term of office which was extended on October 10, 2018 for a second 3-year term of office, until October 22, 2021, and on October 14, 2021, for a third and final 3-year term of office until October 22, 2024). Mr. Efraim Sadka has been serving as an external director on the General Partner's board of directors since April 1, 2019 (a first term of office). It is noted that on February 17, 2022, the Partnership released a notice of a special general meeting of the participation unit holders, in the context of which it was proposed to approve the reappointment of Mr. Sadka as an external director with accounting and financial expertise on the General Partner's board of directors for a second 3-year term of office commencing on the date of conclusion of his current term of office, i.e. April 1, 2022. For further details, see the Partnership's immediate report of February 17, 2022 (Ref. no.: 2022-01-019783), the information appearing in which is incorporated herein by way of reference.

(b) Below is a specification regarding the terms of office and employment of officers who are the highest-paid senior officers of the Partnership and/or the General Partner:

(1) Compensation policy

With respect to the compensation policy for officers of the Partnership and the General Partner, that was approved by the meeting of the participation unit holders on July 10, 2019 for a period of 3 years from that date, see the Partnership's immediate reports of May 23, 2019, June 3, 2019, July 1, 2019, July 2, 2019, July 3, 2019 and July 10, 2019 (Ref. no.: 2019-01-043911, 2019-01-047886, 2019-01-056580, 2019-01-056889, 2019-01-057213 and 2019-01-059625, respectively), the information appearing in which is incorporated herein by way of reference (the "**Compensation Policy**").

On August 18, 2020, the meeting of the participation unit holders approved an amendment to Section 13 of the Compensation Policy, according to which the compensation committee was authorized to determine the amounts of the premiums and excess in the liability insurance policies for directors and officers of the Partnership and the General Partner, which the Partnership shall purchase, in accordance with market conditions as being on the date of purchase of the policies, and after consulting with an expert advisor in this field of insurance, and subject to the limits of liability in the insurance policies as defined in the Compensation Policy, which remained unchanged. For further details, see the Partnership's immediate reports of July 13, 2020, August 6, 2020, August 10, 2020 and August 18, 2020 (Ref. no.: 2020-01-067288, 2020-01-085728, 2020-01-076858 and 2020-01-080758, respectively), the information appearing in which is incorporated herein by way of reference.

(2) Yossi Abu

Mr. Yossi Abu ("**Mr. Abu**" or the "**CEO**") has served as the General Partner's CEO in a full-time position since April 1, 2011.

On July 10, 2019, the meeting of the participation unit holders approved updated terms of office and employment for Mr. Abu commencing from May 1, 2019[22] until April 30, 2024 according to the Compensation Policy (the "**2019 Terms**")[23], such that Mr. Abu's terms of office and employment are as follows:

Mr. Abu's monthly salary is approx. ILS 163 thousand gross (100%)[24] (the salary is updated every 3 months in accordance with the CPI). Mr. Abu is entitled to the related benefits that are customary among

[22] The previous terms of office and employment of Mr. Abu were established in an employment agreement of June 2016 (the "**2016 Agreement**").

[23] For further details, see the Partnership's immediate reports of July 10, 2019 and July 3, 2019, (Ref. no.: 2019-01-059625 and 2019-01-057213, respectively), the information appearing in which is incorporated herein by way of reference.

[24] As of December 31, 2021.

managers in the economy, including: contributions to a pension fund and/or managers' insurance; contributions to a study fund; work disability insurance; a car (the value of the use of the car is grossed-up and paid by the employer); communication expenses (mobile phone, internet, newspapers, etc.); participation in professional training; annual leave (including entitlement to leave cash-in); recuperation pay; sick pay; health insurance at the General Partner's expense; severance pay (since the date of the 2016 Agreement, Mr. Abu has not signed a Section 14 of the Severance Pay Law, 5723-1963 clause, and therefore the severance pay to which he is entitled from such date is pursuant to the said law); reimbursement of *per diem* expenses from the General Partner for the purpose of performing his duties at the General Partner, and reimbursement of *per diem* expenses from the Partnership in respect of expenses of overseas travel. In addition, Mr. Abu is included in insurance arrangements and is entitled to officers' indemnification and exemption, and is entitled to an annual bonus each calendar year during the term of the employment agreement as well as to a special one-time bonus. In the case of conclusion of his employment, Mr. Abu will be entitled to an adjustment bonus and a retirement bonus, all in accordance with the Compensation Policy, as shall be updated from time to time.

In addition, in the context of the 2019 Terms[25], the General Partner granted Mr. Abu 2,742,231 phantom units (whose underlying asset is a participation unit which confers a right of participation in the rights of the Partnership's Limited Partner)[26] (in this section: the "**Phantom Units**"). The Phantom Units will vest in 3 installments[27], such that the first installment vested on June 1, 2020, the second installment vested on June 1, 2021 and the third installment will vest on June 1, 2022. Each one of the installments included in the total package is exercisable from the vesting date of such installment until the lapse of one year from the vesting date of the third installment (i.e., June 1, 2023). The exercise price of the Phantom Units is ILS 10.79 for the first installment; ILS 11.33 for the second installment; and ILS 11.89 for the third installment.

According to a valuation received by the General Partner, the economic value of the Phantom Units as of December 31, 2021 totaled approx. ILS 1.2 million, and was calculated using the Binomial model, based on the following assumptions: (a) a participation unit price as of December 31, 2021 of ILS 6.72; (b) the exercise price of

[25] Phantom units in the context of the 2016 Agreement which were allotted to Mr. Abu have expired due to non-exercise thereof.

[26] The exercise prices, as specified above, and/or the number of the current Phantom Units, are subject to adjustments in circumstances of profit distributions and/or in circumstances of payment of tax advances by the General Partner on account of the tax owed by the participation unit holders and/or in circumstances of a distribution of bonus securities and/or in circumstances of capital splits and consolidations and/or in circumstances of a restructuring and/or in circumstances of rights offerings of securities and/or in circumstances of mergers and acquisitions.

[27] The General Partner shall be entitled, subject to the approval of the compensation committee and the board of directors, to approve an acceleration of the vesting period for all or part of the equity compensation, according to conditions determined for such purpose in the Compensation Policy.

each option (adjusted to a profit distribution and tax advances) was calculated according to ILS 9.1 for the first installment, ILS 9.64 for the second installment, and ILS 10.2 for the third installment; (c) standard deviation at a rate of 37.7%; (d) a risk-free interest rate of approx. 0.02%; (e) contractual life of approx. 1.42 years from December 31, 2021; (f) rate of abandonment after the vesting period that was taken into account - 0%; and (g) limitation of the maximum benefit that Mr. Abu shall derive from exercise of each phantom unit shall not exceed 100% of the exercise price determined for the phantom unit.

In 2021, Mr. Abu received an annual bonus in the sum of approx. ILS 2,200 thousand for 2020. The annual bonus was granted to Mr. Abu based on the following components:

(a) A business target-dependent component (40%) – Mr. Abu met the business targets specified below, and was therefore entitled, in respect of this component, to the sum of ILS 880 thousand: (1) Refinancing for the Leviathan project; (2) adoption of a decision regarding the performance of production tests in the New Ofek license; (b) A component dependent on the following quantitative tests (35%): (1) change in adjusted net profit[28] (7%): the bonus for the Change in the Adjusted Net Profit[29] is paid linearly due to a 90%-120% change, with the threshold condition for compliance with this criterion being that the Adjusted Net Profit in the year for which the bonus is granted does not fall below $50 million. In 2020, the Change in the Adjusted Net Profit was in the range as aforesaid, and therefore Mr. Abu was entitled, due to such criterion, to an annual bonus of ILS 154 thousand; (2) the making of investments/adoption of an investment decision (14%): the actual making of investments by the Partnership in a petroleum asset in an amount of no less than $50 million or alternatively, adoption of a decision to invest in a petroleum asset in an amount exceeding $300 million (100%), all excluding investments in exploration wells. In 2020, Mr. Abu met this criterion because investments were made in the Leviathan project and in the Tamar project in a total sum exceeding $50 million, and therefore Mr. Abu was entitled, due to this criterion, to an annual bonus of ILS 308 thousand; (3) raising of money/signing of natural gas sale agreements/signing of export agreements (14%): raising of money with the Partnership's share not falling below $200 million, or alternatively the signing of binding agreements for the sale of a volume of over 25 BCM of gas, or alternatively the signing of export agreements. Mr. Abu met this criterion due to the completion of the offering of the Leviathan Bond bonds, and therefore he was entitled, due to this criterion, to an annual bonus of ILS 308 thousand; and (c) Board of directors' discretion component (25%): ILS 550 thousand.

[28] The rate received from division of the adjusted net profit (within the meaning thereof below) in the year for which the bonus is paid, by the average adjusted net profit of the Partnership in the 3 years preceding the year for which the bonus is paid ("**Change in the Adjusted Net Profit**").

[29] For this purpose, "**Adjusted Net Profit**" means the net profit attributed to the holders of the Partnership's participation units in the year for which the bonus is granted, without taking into account expenses for exploration wells as appear in the Partnership's statement of comprehensive income for such year.

In addition, on June 3, 2021, the compensation committee and the board of directors authorized the granting to Mr. Abu of a special bonus in the sum of 5 monthly salaries, gross, in the sum of ILS 808 thousand, due to commencement of the flow of natural gas from the Leviathan reservoir to Egypt, with the balance of the special bonus up to the sum of a monthly salary, gross, (the Compensation Policy cap) being paid subject to the necessary approvals.
In addition, and further to the authorization of the compensation committee and the board of directors of September 22, 2021, on October 31, 2021, the special general meeting of the participation unit holders approved that, subject to approval and the closing of the transaction for the sale of Tamar, Mr. Abu would be granted another special bonus in the sum of 6 monthly salaries, gross, in the sum of approx. ILS 976 thousand, in a deviation from the Compensation Policy, in view of his special contribution to the promotion and closing of the transaction, which was paid by the Partnership. For further details, see the Partnership's immediate reports of September 24, 2021 and October 31, 2021 (Ref. no.: 2021-01-148602 and 2021-01-161679, respectively), the information appearing in which is incorporated herein by way of reference.

For further details regarding the 2019 Terms, see the Partnership's immediate reports of July 3, 2019 and July 10, 2019 (Ref. no.: 2019-01-057213 and 2019-01-059625, respectively), the information appearing in which is incorporated herein by way of reference.

(3) Yossi Gvura

From July 19, 2012 until December 31, 2021, Mr. Yossi Gvura ("**Mr. Gvura**") served as Deputy CEO of the Partnership (in a 90% position) and of the General Partner (in a 10% position), and accordingly, the Partnership (90%) and the General Partner (10%) bore the cost of his employment.

For details regarding the terms of Mr. Gvura's office and employment, see Regulation 21(b)(3) of Chapter D of the Partnership's 2020 Periodic Report.

In 2021, Mr. Gvura received an annual bonus in the sum of ILS 875 thousand for 2020, as a derivative of the components of the CEO's annual bonus.

On December 31, 2021, Mr. Gvura ended his position as Deputy CEO of the Partnership. For further details, see the Partnership's immediate report of November 18, 2021 (Ref. no.: 2021-01-168168), the information appearing in which is incorporated herein by way of reference. On November 17, 2021, the compensation committee and the board of directors authorized the engagement of the Partnership and the General Partner with Mr. Gvura in a retirement agreement according to which Mr. Gvura will receive an annual bonus for 2021 in the sum of ILS 875 thousand, and in a consulting agreement in the framework of which Mr. Gvura continues to provide consulting services to the Partnership.

(4) Zvi Karcz

Mr. Zvi Karcz ("**Mr. Karcz**") has served as VP Exploration at the Partnership in a full-time position since August 12, 2014 (prior to which, from September 2011, he was employed as Chief Geologist).

Mr. Karcz's gross monthly salary is approx. ILS 76 thousand[30] (the salary is updated every 3 months in accordance with the CPI). In accordance with the terms of his employment (in this section: the "**Employment Agreement**"), Mr. Karcz is entitled to standard social benefits, a study fund, a pension plan, annual leave days (including entitlement to leave cash-in), sick days and recuperation pay. The Partnership provides Mr. Karcz with a car, as is standard for his position, and bears any and all expenses entailed by the use of the car. The value of the use of the car is grossed-up and paid by the Partnership. Mr. Karcz is also entitled to additional related benefits, such as his inclusion in officer indemnification and insurance arrangements, mobile telephone maintenance, payment of expenses in respect of reasonable use of his home phone, subscription to a daily newspaper, reimbursement of expenses for the performance of his duties, and reimbursement of *per diem* expenses during foreign travel on behalf of the Partnership. The Partnership may grant Mr. Karcz, each year, an annual bonus for the previous calendar year, provided that he shall be employed by the Partnership at least 3 months in such year, all in accordance with the Compensation Policy and as shall be updated from time to time.

The parties may terminate the Employment Agreement at any time by giving prior written notice of 3 months. In addition, the Employment Agreement includes provisions regarding maintaining confidentiality and a non-competition clause for a period of 9 months. Mr. Karcz is entitled to an adjustment bonus in the sum of 50% of his gross salary for the entire non-competition period (i.e., a bonus in a total amount of up to 4.5 gross monthly salaries). In that period, the Partnership shall make the car and the mobile telephone available to Mr. Karcz. In addition, phantom units were allotted to Mr. Karcz, but since he did not exercise them, they expired. The Partnership bears the full cost of his employment (100%).

In 2021, Mr. Karcz received from the Partnership an annual bonus in the sum of ILS 300 thousand for 2020, as a derivative of the components of the CEO's annual bonus.

(5) Sari Singer Kaufman

Ms. Sari Singer Kaufman ("**Ms. Singer**") has served as VP, General Counsel on a full-time basis since May 2018 (prior to which, from March 2012, she was employed as a legal advisor).

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[30] As of December 31, 2021.

Ms. Singer's monthly salary is approx. ILS 66 thousand[31] (the salary is updated every 3 months according to the CPI). In accordance with the terms of her employment (in this section: the "**Employment Agreement**"), Ms. Singer is entitled to standard social benefits, a study fund, a pension plan, annual leave days (including entitlement to leave cash-in), sick days and recuperation pay. The Partnership provides Ms. Singer with a car, as is standard for her position, and bears any and all expenses entailed by use of the car. The value of the use of the car is grossed-up and paid by the Partnership. Ms. Singer is further entitled to additional related benefits, such as her inclusion in officer indemnification and insurance arrangements, communication expenses (mobile phone, internet, newspapers, etc.), medical assessments and private health insurance at the Partnership's expense, participation in professional training, reimbursement of expenses for performance of her duties and reimbursement of *per diem* expenses during foreign travel on behalf of the Partnership. The Partnership may grant Ms. Singer, each year, an annual bonus for the previous calendar year, provided that she shall be employed by the Partnership at least 3 months in such year, all in accordance with the Compensation Policy and as shall be updated from time to time.

The parties may terminate the Employment Agreement at any time by giving prior written notice of 3 months. In addition, the Employment Agreement includes provisions regarding maintaining confidentiality and a non-competition clause for a period of 3 months. The Partnership bears the full cost of her employment (100%).

In 2021, Ms. Singer received from the Partnership an annual bonus in the sum of ILS 260 thousand for 2020, as a derivative of the components of the CEO's annual bonus.

(6) Mr. Nadav Perry

Mr. Nadav Perry ("**Mr. Perry**") has served as VP Regulatory & Public Affairs in a full-time position since May 2018 (prior to which, from June 2015, he was employed as Head of Media & Public Affairs).

Mr. Perry's gross monthly salary is approx. ILS 64.5 thousand[32] (the salary is updated every 3 months in accordance with the CPI). In accordance with the terms of his employment (in this section: the "**Employment Agreement**"), Mr. Perry is entitled to standard social benefits, a study fund, a pension plan, annual leave days, sick days and recuperation pay. The Partnership provides Mr. Perry with a car, as is standard for his position, and bears any and all expenses entailed by the use of the car. The value of the use of the car is grossed-up and paid by the Partnership. Mr. Perry is also entitled to additional related benefits, such as his inclusion in officer

[31] As of December 31, 2021.
[32] As of December 31, 2021.

indemnification and insurance arrangements, mobile telephone maintenance, payment of expenses in respect of reasonable use of his home phone, subscription to a daily newspaper, reimbursement of expenses for the performance of his duties, and reimbursement of *per diem* expenses during foreign travel on behalf of the Partnership. The Partnership may grant Mr. Perry, each year, an annual bonus for the previous calendar year, provided that he shall be employed by the Partnership at least 3 months in such year, all in accordance with the Compensation Policy and as shall be updated from time to time.

The parties may terminate the Employment Agreement at any time by giving prior written notice of 3 months. In addition, the Employment Agreement includes provisions regarding maintaining confidentiality and a non-competition clause for a period of 3 months. The Partnership bears the full cost of his employment (100%).

In 2021, Mr. Perry received from the Partnership an annual bonus in the sum of approx. ILS 191 thousand for 2020, as a derivative of the components of the CEO's annual bonus.

(7) <u>The General Partner</u>

According to the partnership agreement that was signed on July 1, 1993 (as amended from time to time) between the General Partner and the Limited Partner (the "**Partnership Agreement**"), the General Partner was entitled to 0.01% of the Partnership's income and bore 0.01% of the expenses and losses of the Partnership. The General Partner also bore expenses and losses of the Partnership which, due to the limitation on the Limited Partner's liability for obligations of the Partnership, were not borne by the Limited Partner.

In addition, according to the provisions of the Partnership Agreement, until April 23, 2021, the date on which 6 years lapsed from the date of commencement of the Law for Amendment of the Partnerships Ordinance (No. 5), 5775-2015 (the "**Commencement Date**" and "**Amendment No. 5**", respectively), the General Partner was entitled to current management fees in an amount in ILS equal to $40,000 per month[33] and in addition, to management fees at a

[33] It is noted that the management fees were paid for management of the Partnership, including in respect of the services of the General Partner's directors (who are not external directors), the General Partner's CEO, comptroller services, secretarial services and rent for the Partnership's offices, which are located in a building that is owned by Delek Group Ltd. ("**Delek Group**"), the Partnership's control holder. Since the cost of provision of the management services by the General Partner to the Partnership was higher than the management fees and the expense reimbursements paid to the General Partner as aforesaid, the Partnership's financial statements include the sum of the costs that exceed the management fees, in a capital reserve, totaling approx. $4.3 million. In this context it is noted that the cost of provision of the management services by the General Partner to the Partnership was calculated, *inter alia*, based on the undertaking of the General Partner (which is a wholly (indirectly) owned subsidiary of Delek Group) to pay Delek Group amounts for provision of management services by Delek Group, including directors' services, in accordance with an agreement of December 26, 2021, and for the rent for the Partnership's offices, in accordance with the lease agreement of December 2017 (as amended from time to time). It is clarified that the Partnership does not bear the said payments.

rate of 7.5% of one half of the Partnership's expenses for petroleum exploration activities, on a quarterly basis, and no less than a total sum of $120,000 per quarter.

The General Partner was also entitled to reimbursement of any and all direct expenses entailed by management of the Partnership and incurred by the General Partner. Unless the Supervisor's approval was received for expenses of other types, the said expenses included only the following expenses:

Fees for accounting services, legal advice, geological advice, investment advice, reservoir engineering and geophysical advice, engineering advice, economic (financial) advice, insurance advice, strategic and media advice, investor relations advice, regulatory advice, marketing advice and reimbursement of expenses in connection with financing and marketing activity, and expenses in respect of preparation of financial statements for the joint ventures, expenses of preparing financial statements and reports pursuant to the Securities Law, 5728-1968, and expenses of preparing certificates for tax purposes, payments that are required to be made to the ISA, to TASE, to the Registrar of Companies and to the Registrar of Partnerships.

The Partnership Agreement further determined that, the aforesaid notwithstanding, the Partnership was entitled to directly employ employees and/or officers who would provide the Partnership with services of the type for which the General Partner was entitled to reimbursement of expenses as specified above, and in such a case the Partnership bore the full cost of their salary, and the General Partner was not entitled to reimbursement of expenses in respect of such services.

According to the transitional provisions included in Amendment No. 5, an arrangement for the provision of services between the Partnership and the General Partner will require the approval of the audit committee, the board of directors and the general meeting of the participation unit holders by a super majority, pursuant to Section 65YY(c) of the Partnerships Ordinance [New Version], 5735-1975, within 6 years from the Commencement Date, i.e. until April 23, 2021, such that as of the report approval date, the arrangement set forth in the Partnership Agreement, as specified above, is not in effect.

Accordingly, as of the report approval date, the Partnership is continuing to act for the formulation of agreements with the control holder, Delek Group, with respect to a new arrangement for the provision of management services, which will be presented for approval in accordance with the requirements of the law. In this context, it is noted that since May 2021, the Partnership has not transferred to the General Partner management fees against the management services which the General Partner is continuing to provide to the Partnership. In view of the aforesaid, a provision was recorded on the Partnership's books in the sum of approx. $640 thousand.

(8) The Supervisor

1. The Supervisor is entitled to receive from the Trustee, out of the trust assets, a fee of approx. ILS 60 thousand per month (plus VAT). The monthly fee will be updated every 3 months in accordance with changes in the CPI in relation to the index rate for May 2017.

Notwithstanding the aforesaid, in the event of the publication of a prospectus (including a shelf prospectus), the Supervisor will be entitled to additional compensation for its additional work that is entailed by the publication of the prospectus, in an amount in ILS equal to $40 thousand (plus VAT, if applicable), irrespective of the actual working hours (in this section: the "**Additional Compensation**"). It is clarified that in the case of a shelf prospectus, the Additional Compensation also includes compensation in respect of all of the work that shall be required of the Supervisor after publication of the shelf prospectus, in connection with the shelf prospectus in respect of which the Supervisor received the Additional Compensation, insofar as required, including shelf offering reports that shall be published under the shelf prospectus and/or any offering performed under the shelf prospectus and/or any financing round performed under the shelf prospectus (in this section: "**Work After the Publication of the Shelf Prospectus**"). After the Supervisor is paid the Additional Compensation, the Supervisor will not be entitled to any additional payment for his work in connection with the publication of a prospectus as aforesaid, in respect of which the Additional Compensation was paid to the Supervisor, as well as in connection with the Work After the Publication of the Shelf Prospectus.

The Supervisor is further entitled to a payment in ILS equal to $40 thousand (plus VAT), irrespective of actual working hours, for his work, insofar as required, in connection with the closing of financing agreements made against a pledge of a petroleum asset of the Partnership.

In addition, the Supervisor is entitled to reimbursement of additional expenses, subject to approval by a meeting of the participation unit holders, or that the expenses are in an amount and of a type approved for such purpose by the meeting as aforesaid. It is noted that on December 22, 2016, the meeting of the participation unit holders confirmed, without derogating from the provisions of the Partnership Agreement and the trust agreement of July 1, 1993, which was signed between the Trustee and the Supervisors (as amended from time to time) (the "**Trust Agreement**"), that the types of expenses for which the Supervisor will be entitled to reimbursement of expenses out of the trust assets will include expenses of traveling to meetings of the Partnership's organs, to meetings with the General Partner's management and to meetings with the representatives of the General Partner vis-à-vis various regulators, courier services, and parking expenses in respect of all of the above, and that the sum of the expense reimbursement as aforesaid shall not exceed ILS 1,000 (plus VAT) per month.

2. On August 18, 2020, the meeting of the participation unit holders approved the Supervisor's budget for the purpose of its representation as a respondent in the legal proceeding with respect to Section 19 of the Taxation of Profits from Natural Resources Law, 5771-2011. For further details regarding the said meeting, see the Partnership's immediate reports of August 10, 2020 and August 18, 2020 (Ref. no.: 2020-01-076858 and 2020-01-080758, respectively), the information appearing in which is incorporated herein by way of reference.

3. Further to the approval by the meeting of the participation unit holders of a budget for the Supervisor for overseeing the restructuring process of July 17, 2019, on March 3, 2021, the meeting of the participation unit holders approved an additional budget for the Supervisor, for his continued engagement with professional consultants and a fee in addition to his monthly fee for oversight of the restructuring process by the Supervisor. For further details regarding the said meetings, see the Partnership's immediate reports of July 2, 2019, July 17, 2019, February 8, 2021 and March 3, 2021 (Ref. no.: 2019-01-056910, 2019-01-061854, 2021-01-015963 and 2021-01-025905, respectively), the information appearing in which is incorporated herein by way of reference.

4. Further to the approval by the meeting of the participation unit holders of a budget for advising the Supervisor in the process of examination of the investment recovery date in the Tamar project (the "**Supervisor's Claim**") of September 6, 2018, on June 1, 2020, the meeting of the participation unit holders approved the Supervisor's budget for an additional engagement with an expert for the purpose of advising the Supervisor in the Supervisor's Claim and engaging therewith for examination of the draft directives released by the Ministry of Energy, in an amount that shall not exceed ILS 200 thousand, plus VAT. For further details regarding the said meetings, see the Partnership's immediate reports of September 2, 2018, September 12, 2018, May 25, 2020 and June 1, 2020 (Ref. no.: 2018-01-081628, 2018-01-083635, 2020-01-052383 and 2020-01-056283, respectively), the information appearing in which is incorporated herein by way of reference. In addition, on March 3, 2021, the meeting of the participation unit holders authorized the Supervisor to use the legal and economic consultants retained thereby for the conduct of the Supervisor's Claim also for monitoring and supervising the

Partnership's management of the defense in the counterclaim regarding the investment recovery date. For further details regarding the said meeting, see the Partnership's immediate reports of February 8, 2021 and March 3, 2021 (Ref. no.: 2021-01-015963 and 2021-01-025905, respectively), the information appearing in which is incorporated herein by way of reference.

(9) The Trustee

The Trustee is entitled to receive, out of the trust assets, a fee equal to $1,000 (plus VAT) for every year in which it serves as trustee according to the Trust Agreement (or a proportionate share of such amount in respect of part of a year). This amount will be paid to the Trustee on the last day of the year for which it is being paid. In addition, the Trustee is entitled to receive expenses explicitly permitted in the Trust Agreement or which were approved in advance and in writing by the Supervisor.

(10) External directors

On October 22, 2015, the meeting of the participation unit holders decided that Messrs. Amos Yaron and Jacob Zack, who were appointed on such date as external directors by the said meeting, would be entitled to annual compensation and participation compensation, in accordance with the fixed amounts appearing in the Second Schedule and the Third Schedule to the Companies Regulations (Rules Regarding Compensation and Expenses for External Directors), 5760-2000 (the "**Compensation Regulations**"), as being from time to time, and in accordance with the Partnership's rank, as being from time to time.

From commencement of his second term of office (i.e., October 22, 2018), Mr. Zack, who is classified as an expert external director, as defined in the Compensation Regulations, is entitled to participation compensation and annual compensation in the "maximum amount" set forth in the Fourth Schedule to the Compensation Regulations, as being from time to time, and according to the Partnership's rank, as being from time to time.

For further details regarding the appointment of the said external directors for a second term of office and for a third and final term of office, see the Partnership's immediate reports of September 20, 2018, October 10, 2018, September 5, 2021, October 3, 2021, October 14, 2021 and October 24, 2021 (Ref. no.: 2018-01-085579, 2018-01-091300, 2021-01-144591, 2021-01-150285, 2021-01-156177 and 2021-01-158988, respectively) the information appearing in which is incorporated herein by way of reference.

Further to the resolution of the meeting of the participation unit holders of January 28, 2019 to appoint Mr. Efraim Sadka ("**Mr. Sadka**") as an external director commencing from April 1, 2019, it was determined that Mr. Sadka, who is classified as an expert external director, as defined in the Compensation Regulations, will be entitled, from the start of his term of office as aforesaid, to participation compensation and annual compensation in the "maximum amount" set forth in the Fourth Schedule to the Compensation Regulations, as being from time to time, and according to the Partnership's rank, as being from time to time.

For further details regarding the appointment of the said external director, see the Partnership's immediate reports of December 16, 2018 and January 28, 2019 (Ref. no.: 2018-01-115258 and 2019-01-008335, respectively), the information appearing in which is incorporated herein by way of reference.

It is noted that on February 17, 2022, the Partnership released a notice of a special general meeting of the participation unit holders, proposing to approve the reappointment of Mr. Sadka as an external director with accounting and financial expertise to the General Partner's board of directors, for a second 3-year term of office commencing on the date of expiration of his current term of office, namely April 1, 2022. For further details, see the Partnership's immediate report of February 17, 2022 (Ref. no.: 2022-01-019783), the information appearing in which is incorporated herein by way of reference.

Regulation 21A: The Partnership's controlling interest holder

The controlling interest holder (indirectly) of the Partnership is Mr. Yitzhak Sharon (Tshuva).

As of the report approval date, Delek Group, which is controlled by Mr. Yitzhak Sharon (Tshuva), holds, directly and indirectly (through Delek Energy Systems Ltd. ("**Delek Energy**") and the General Partner, and through an indirect holding in Avner Oil & Gas Ltd. ("**Avner Oil & Gas**")) approx. 54.66% of the issued unit capital of the Partnership[34].

Regulation 22: Transactions of the Partnership with the General Partner or transactions in which the General Partner's controlling shareholder has a personal interest

Below are details, to the best of the Partnership's knowledge, regarding any transaction with the General Partner or the General Partner's controlling shareholder, or in the approval of which the General Partner's controlling shareholder has a personal interest, in which the Partnership or a corporation controlled thereby or an affiliate of the Partnership engaged during or after the report year until the report approval date, or which is still in effect on the report

[34] To the best of the Partnership's knowledge, and according to Delek Group's reports, as of the report approval date, the vast majority of the participation units held by Delek Group is pledged in favor of the holders of the bonds issued by Delek Group. In addition, on July 26, 2021, the General Partner's board of directors approved a pledge of approx. 4.5% of the Partnership's participation unit capital held by the General Partner to secure bonds issued by Delek Group, which holds (indirectly) all of the issued share capital of the General Partner. It is noted that, as of the report approval date, the General Partner holds approx. 1.1% of the unpledged participation unit capital of the Partnership.

approval date, with the exception of negligible transactions, as defined in Section 6 of Part Three of the Board of Directors' Report (Chapter B of this Report):

(a) According to the Partnership Agreement, as updated from time to time, the General Partner was entitled to management fees as specified in Regulation 21(b)(5) above. As of the report approval date, the Partnership is continuing to act for the formulation of agreements with Delek Group with respect to a new arrangement for the provision of management services, which will be presented for approval in accordance with the requirements of the law.

(b) According to a 1993 agreement, Delek Group and Delek Energy are entitled to receive royalties from the Partnership, as specified in Section 7.25.10(d)2 of Chapter A of this Report. As of the report approval date, the holder of the right to the royalties of Delek Group and Delek Energy in the Leviathan project is Delek Leviathan Overriding Royalty Ltd. ("**Delek Overriding Royalty**"), a wholly owned subsidiary of Delek Energy[35].

In 2021, the Partnership recorded expenses in respect of royalties to Delek Overriding Royalty for the Leviathan project in the total sum of approx. $11.4 million.

(c) With respect to engagements in agreements for the supply of natural gas with affiliates:

1. According to an agreement of August 2005, as amended in November 2012[36], the Partnership, together with its partners in the Yam Tethys project, supplies natural gas to I.P.P Delek Ashkelon Ltd., a company which was (indirectly) held by Delek Group ("**Delek Ashkelon**")[37]. The agreement is in effect until June 30, 2022, and the remaining contract quantity for supply is approx. 0.06 BCM. In 2021, the Partnership's share in the revenues from the sale of natural gas to Delek Ashkelon, until the date on which Delek Ashkelon stopped being an affiliate of the Partnership, was approx. $1.1 million.

2. On December 3, 2013, the Partnership, together with its other partners in the Tamar project, engaged in an

[35] To the best of the Partnership's knowledge, and according to Delek Group's reports, in October 2020, Delek Group and Delek Energy transferred their right to receive Delek Group's royalties from the Partnership's share (45.34%) in the petroleum and/or gas and/or other valuable substances that shall be produced and exploited from the Leviathan leases to Delek Overriding Royalty.

[36] The amendment to the said agreement was approved on November 25, 2012 by the General Partner's board of directors.

[37] It is noted that the said transaction is no longer classified as a transaction in which the General Partner's controlling shareholder has a personal interest, since on February 22, 2021, a transaction was closed for the sale of the holdings of Delek the Israel Fuel Corp. Ltd., an affiliate of Delek Group ("**Delek Israel**"), in Delek Ashkelon.

agreement for the supply of natural gas with Delek Israel. For further details, see Regulation 22(d)(2) of Chapter D of the 2020 Periodic Report. In 2021, the Partnership's share in the revenues from the sale of natural gas to Delek Israel was approx. $1.5 million.

3. On September 19, 2019, an agreement was signed for the supply of natural gas between the Leviathan partners and IPP Delek Sorek Ltd. ("**Delek Sorek**")[38]. For further details, see Regulation 22(d)(3) of Chapter D of the 2020 Periodic Report. In 2021, the Partnership's share in the revenues from the sale of natural gas to Delek Sorek from the Leviathan project, until the date on which Delek Ashkelon stopped being an affiliate of the Partnership, was approx. $2.6 million.

(d) According to the terms and conditions of the Production Sharing Contract (PSC) in Block 12, the Partnership is required by the Republic of Cyprus to provide a performance guarantee for its undertakings by the Partnership's parent company. Accordingly, on April 18, 2013, Delek Group provided a performance guarantee in an unlimited amount in favor of the Republic of Cyprus to secure fulfillment of all of the Partnership's undertakings under the PSC (the "**Guarantee**"), all as specified below:

1. For provision of the Guarantee by Delek Group, the Partnership pays a fee, on an annual basis, from the date of provision of the Guarantee and so long as the Guarantee is in effect. The annual fee is $368 thousand. If the holding rate of the Partnership in Block 12 decreases, the amount of the fee will decrease *pro rata* to the decrease in the holding in the asset. In addition, in a case where Delek Group is absolutely released from the Guarantee, whether due to the finding of an alternative guarantor or due to the sale of the interests in Block 12 by the Partnership, the Partnership and Delek Group agreed that payment of the fee will be discontinued immediately. The sum of the Guarantee fee that the Partnership paid Delek Group in 2021 totaled $368 thousand.[39]

[38] It is noted that the said transaction is no longer classified as a transaction in which the General Partner's controlling shareholder has a personal interest, since on February 22, 2021, a transaction was closed for the sale of the holdings of Delek Israel in Delek Sorek.

[39] The said engagement was approved on April 14, 2013 by the board of directors of the General Partner and on April 18, 2013 by the meeting of the participation unit holders. For further details, see the Partnership's immediate reports of April 18, 2013 and April 14, 2013 (Ref. no.: 2013-01-039418 and 2013-01-036844, respectively), the information appearing in which is incorporated herein by way of reference. On July 8, 2018, the audit committee approved that fixing the payment in respect of the Guarantee for a guarantee period of 25 years which was determined on the date of approval of the Guarantee transaction for the first time is a reasonable period.

2. From the date of provision of the Guarantee and so long as the Guarantee is in effect, the Partnership will not approve a new work plan/s in Block 12 and/or in relation to any other activity in Block 12 by virtue of the Joint Operating Agreement with Chevron Cyprus Limited ("**Chevron Cyprus**"[40] and "**Block 12 Work Plan**"[41], respectively), in the absence of: (a) insurance that covers expenses of taking control of a well, control of which was lost, including coverage for bodily injuries and property damage and cleaning expenses deriving from the risks of accidental contamination in respect of the Partnership's activity in Block 12, to the satisfaction of Delek Group (insurance policies for loss of control of a well and third party liability)[42]; and (b) approval pursuant to the law by the Partnership's competent organs of the terms of the engagement with Delek Group, as specified above and below, and of the arrangements regarding payment of a Guarantee fee by the Partnership to Delek Group.

3. In addition, the Partnership undertook that from the date of provision of the Guarantee and so long as the Guarantee is in effect, the following provisions will apply:

   a. In a case where the Partnership sells its interests in Block 12, the Partnership will act to release Delek Group from the Guarantee, or from its proportionate share (in the case of a partial sale of the interests) in the context of such sale, all subject to the provisions of the PSC and the decisions of the authorities in Cyprus on the matter. It is noted that the sale of some of the interests in Block 12 will be possible only subject to reaching arrangements on division of liability and mutual indemnification with the potential buyer of some of the interests as aforesaid, in respect of its proportionate share.

   b. Delek Group will have the right to demand, in a written notice, at any time and at its discretion, that the Partnership act for its release from the Guarantee. In the case of such a demand, the Partnership undertakes to perform the actions required for the release of Delek Group from the

[40] Chevron Cyprus is a subsidiary of Noble Energy Inc. (the "**Noble Parent Company**"), which in 2020 merged with a wholly owned subsidiary of Chevron Corporation ("**Chevron Corp.**"). Chevron Cyprus's previous name was Noble Energy International Ltd., and it was changed following the said merger.

[41] The Partnership will deliver to Delek Group prior notice of any intention to approve a Block 12 Work Plan.

[42] The Partnership entered into insurance policies that provide it with coverage in respect of accidental and unexpected damage related to expenses due to loss of control of well and third party liability insurance in relation to the activity in Block 12.

Guarantee, including, if and insofar as required for the release of Delek Group from the Guarantee as aforesaid, the sale of its interests, in whole or in part, in Block 12 and/or waiver thereof, with no need for additional approvals at the Partnership. In the case of such a demand, the Partnership undertakes that within 12 months from the date of the giving of the written demand, it will cause the release of Delek Group from the Guarantee or will alternatively sign an agreement for the sale of the interests in Block 12. In the case of such a sale, the Partnership undertakes to close the sale within 6 months from the date of the signing of the sale agreement.

c. The Partnership will indemnify Delek Group for damage of any type whatsoever and/or any type of expenses and/or payments borne by Delek Group (including expenses and/or legal fees and/or experts' fees) in respect of enforcement of the Guarantee and/or a claim and/or demand, whose cause is related to the Guarantee and/or enforcement thereof, with no limitation on amount. Without derogating from the aforesaid, Delek Group will deliver to the Partnership, without delay, a notice regarding the filing of the said claim and/or demand upon its receipt thereby, and will allow the Partnership and/or another on its behalf to conduct a proper legal defense as is deemed necessary by the Partnership in the circumstances against any such demand and/or claim, and/or negotiations for a settlement as aforesaid and/or to mitigate the damage insofar as it is able to do so.

4. Since the undertakings of the Partnership and Chevron Cyprus according to the PSC are joint and several, an agreement was signed between Delek Group and the Noble Parent Company, and the parent company of BG Cyprus, regarding division of liability and mutual indemnification between them, with respect to the activity in Block 12, according to the holding rates of the Partnership, Chevron Cyprus and BG Cyprus in the interests in Block 12 (in this section: the "**Agreement**"). The Agreement determines, *inter alia*, that:

a. Each party to the Agreement will be liable for damage or liability relating to the activity in Block 12 according to the rate of the corporation's participation in respect of which it provided a guarantee in favor of the Republic of Cyprus as aforesaid in Block 12 (i.e., Delek Group at a rate of 30%, the Noble Parent Company at a rate of 35%, and the parent company of BG Cyprus at a rate of 35%).

b. Therefore, each party to the Agreement undertook to indemnify or release the other party from liability for damage and/or liability relating to activity in Block 12 over and above the rate of the corporation's participation in respect of which it provided a guarantee in favor of the Republic of Cyprus, as aforesaid, in Block 12.

c. The parties' undertaking as aforesaid is not limited in amount or by the scope of the insurance coverage of the Partnership, Chevron Cyprus and BG Cyprus in the context of their activity in Block 12.

d. Each party to the Agreement undertook to obtain from its insurer a waiver of a right of subrogation against the other party to the Agreement in respect of damage or liability relating to its activity in Block 12.

e. The Agreement determines a binding arbitration mechanism for resolution of disputes between the parties.

f. The Agreement will be in effect until conclusion of the joint operating agreement that applies to Block 12, subject to a final accounting between the parties with respect to the Agreement.

(e) With respect to the engagement of the Yam Tethys partners with the Tamar partners in the agreement of July 23, 2012, according to which the Yam Tethys partners will grant the Tamar partners rights to use the existing facilities in the Yam Tethys project as well as the right to upgrade and/or build facilities for the purpose of transporting and storing natural gas from the Tamar project, see Section 7.25.11 of Chapter A of this Report[43,44].

(f) On May 3, 2020, the Partnership, Chevron Mediterranean Limited ("**Chevron**")[45], Delek Group and Ratio Energies – Limited Partnership ("**Ratio**") signed an agreement for the supply of natural gas, in the context of which the supply of gas to customers which had signed previous agreements with

[43] The said engagement was approved on July 23, 2012 by the board of directors of the General Partner.
[44] In the context of the Tamar Sale Transaction, the Partnership assigned to the buyers its rights in the usage agreement as a partner in the Tamar project.
[45] Chevron is a subsidiary of the Noble Parent Company, which was merged in 2020 with a wholly owned subsidiary of Chevron Corp., as aforesaid. Chevron's previous name was Noble Energy Mediterranean Ltd., and it was changed following the said merger.

each of the Yam Tethys partners would be performed from the Leviathan reservoir. Accordingly, the Yam Tethys partners that are Leviathan partners (the Partnership and Chevron) take from the gas which is in their possession, in accordance with the rate of their holdings in the Yam Tethys project, while the remainder of the gas required for supply by each of the Yam Tethys partners will be purchased from Ratio, according to the consideration determined in the agreement as aforesaid, which is the average monthly price set forth in the agreements which were signed between the Leviathan partners and their customers in the domestic market. For further details, see Section 7.7 of Chapter A of this Report. In 2021, the Partnership's share in the revenues from the sale of gas for Delek Group's share in the Yam Tethys project totaled approx. $235 thousand.

(g) For details regarding exercise of an option for the purchase of a policy for an extended run-off period in the context of the D&O liability insurance policy that was approved in the context of the previous independent policy and in the context of a group insurance policy that was purchased by Delek Group, see Regulation 22(k) of the 2020 Periodic Report.

(h) For details regarding a compensation policy for officers of the Partnership and the General Partner, see Regulation 21(b)(1) above.

(i) At present, the Partnership is promoting a transaction for a possible restructuring by way of approval of an arrangement pursuant to Sections 350 and 351 of the Companies Law (the "**Arrangement**"). For further details, see Section 7.26.4 of Chapter A of this Report. It is noted that, for the sake of caution, the Arrangement will be presented for approval as a transaction in which the controlling interest holder has a personal interest.

<u>Negligible transactions</u> – Over and above the transactions specified above, the Partnership has other engagements in which the Partnership's controlling interest holder has a personal interest, which are classified as negligible transactions, as defined in Section 6 of Part Three of the Board of Directors' Report (Chapter B of this Report), such as: receipt of "*dalkan*" [automatic billing for fueling] services from Delek Israel, receipt of services from NYX Hotel Herzliya of the Fattal hotel chain, and an accounting with Delek Group and with Mr. Yitzhak Sharon (Tshuva) in relation to legal costs in the context of a class certification motion.

<u>Regulation 24</u>: <u>Holdings of interested parties and senior officers</u>

For details regarding holdings of interested parties and senior officers of the Partnership and/or the General Partner as of December 31, 2021, see the Partnership's immediate report of

January 2, 2022 (Ref. no.: 2022-01-000280), the information appearing in which is incorporated herein by way of reference.

Regulation 24A: **Authorized capital, issued capital and convertible securities**

	Authorized Capital Par Value	Issued and Paid-Up Capital Par Value
Participation units of par value ILS 1 each	1,173,814,690.76	1,173,814,690.76

As of the report approval date, the Partnership has no convertible securities.

Regulation 24B: **Register of the Partnership's participation unit holders**

	Name of Holder	Number of Units
1	Delek Group Ltd.	1
2	Mizrahi Tefahot Nominee Company Ltd.	1,173,116,181.89
3	Chaim Leventhal	1.19
4	Nathan Turkia	1
5	Yaakov Maroz	1
6	Moshe Kramer	1.19
7	Avner Andera	1
8	Ariel Yanko	289.47
9	Ran Levy	184.8
10	Tova Berger	12
11	Azriel Zolti	1.19
12	Varda and Baruch Kotlarsky	143,562.10
13	Daniel Goldstein	18.80
14	Yasmin Even	1,317.67
15	Daniel Dayan	234,962.37
16	Dorit Dayan	234,962.37
17	Yosef Vank	52,505.44
18	Amikam Reshef	590.60
19	Tamar and Avraham Adani	62.59
20	Sarah Morah	30,032.89
21	Yehuda Luria	0.19
	Total	**1,173,814,690.76**

Regulation 25A: **Registered address**

Address: 19 Abba Eban Blvd., Herzliya Pituach, 4672537
Telephone: 09-9712424
Facsimile: 09-9712425

E-mail address: info@newmedenergy.com

Regulation 26: The directors of the General Partner[46]

	Details	Gabi Last	Leora Pratt Levin	Idan Wells	Tamir Polikar
1	I.D. number:	004787933	057906919	033658246	059749408
2	Position at the General Partner:	Chairman of the Board	Director	Director	Director
3	Date of birth:	September 9, 1946	October 12, 1962	January 8, 1977	August 14, 1965
4	Address for service of process:	19 Abba Eban Blvd., Herzliya	19 Abba Eban Blvd., Herzliya	19 Abba Eban Blvd., Herzliya	19 Abba Eban Blvd., Herzliya
5	Nationality:	Israeli	Israeli	Israeli	Israeli and Portuguese
6	Membership of board committees:	No	No	No	No
7	(a) Is he an external director:	No	No	No	No
	(b) Does he have accounting and financial expertise or professional qualifications:	Holds professional qualifications	Holds professional qualifications	Holds professional qualifications	Has accounting and financial expertise
	(c) Is he an expert external director[47] :	No	No	No	No
	(d) Is he an independent director:	No	No	No	No
8	Is he an employee of the General Partner, a subsidiary, an affiliate or of	Chairman of the Board of Delek Group and the Delek Foundation for Education,	Senior VP, Chief Legal Counsel and Secretary of Delek Group and director of	CEO of Delek Group and director of subsidiaries of Delek Group	Deputy CEO and CFO of Delek Group and director of subsidiaries of Delek Group

[46] The specification of this regulation presents the directors who serve on the board of directors of the General Partner as of the report approval date. It is noted that on November 29, 2021, Mr. Ronnie Bar-On stepped down as an independent director on the General Partner's board of directors. For further details, see the Partnership's immediate report of November 30, 2021 (Ref. no.: 2021-01-174102), the information appearing in which is incorporated herein by way of reference.

[47] Within the meaning of the term in Section 1 of the Compensation Regulations.

	an interested party:	Culture and Science (CIC), and a director of subsidiaries of Delek Group	subsidiaries of Delek Group		
9	The date on which his office as a director began:	May 17, 2001, and began as Chairman of the Board from January 8, 2020	August 26, 2015	January 7, 2020	September 10, 2020
10	His education:	LL.B from Tel Aviv University, M.A. in Social Sciences and Mathematics from the University of Haifa and A.M.P (a management program for senior officers) from Harvard University, U.S.	LLB from the University of Reading, England, B.A. in Political Science from Tel Aviv University.	LL.B from Tel Aviv University	B.A. in Accounting from the College of Management, MBA from Heriot-Watt University, CPA
11	His occupation in the last five years:	Chairman of the Board of Delek Group, Delek Energy and the Delek Foundation for Education, Culture and Science (CIC) and director of subsidiaries of Delek Group	Senior VP, Chief Legal Counsel and Corporate Secretary of Delek Group and director of subsidiaries of Delek Group	CEO of Delek Group, Deputy CEO of Delek Group, director of Delek Group, CEO and representative of Delek Group's controlling shareholder (Tshuva group (through El-Ad USA Holdings and Tashluz Investments and Holdings), strategic consultant at Delek Group and director of subsidiaries of Delek Group	Real estate developer in Israel and overseas, business consultant and director of Polikar Holdings Ltd., CEO of Aspen Group Ltd. and director of subsidiaries of Delek Group and other private companies
12	Other corporations in which he serves as a director:	Chairman of the Board of Delek Group and the Delek Foundation for Education, Culture and Science (CIC), and serves as a director of the following companies: Delek Energy, Delek Power	Delek Energy, Delek Sea Maagan 2011 Ltd., Delek Israel Holdings Group Ltd., Delek Overriding Royalty, Delek North Sea Limited and DKL Energy Limited	Delek Energy and private companies owned by him.	Delek Sea Maagan (2011) Ltd., Delek Israel Holdings Group Ltd., Delek Energy, Delek Power Plant Management Ltd., Delek Petroleum Ltd., Delek Infrastructures Ltd., Delek

		Plant Management Ltd., Delek Petroleum Ltd., Delek Infrastructures Ltd., Delek Group Royalty Ltd., Avner Oil & Gas, and private subsidiaries of the partnerships (SPCs).			Group Royalty Ltd., Delek Property Development Ltd., Delek Overriding Royalty, Delek Hungary Limited, Ithaca Energy Limited, Polikar Holdings Ltd., Gallipoli Real Estate Investments Ltd., Briza Lgyrp Ltd., and subsidiaries thereof and Elysee Downtown Ltd.
13	Is he a relative of another interested party of the General Partner:	No	No	No	No
14	Does the General Partner deem him as having accounting and financial expertise for purposes of compliance with the minimum number determined by the board of directors pursuant to Section 92(a)(12) of the Companies Law, 5759-1999 (the "**Companies Law**"):	No	No	No	Yes

	Details	Amos Yaron	Jacob Zack	Efraim Sadka
1	I.D. number:	005301262	004868048	046002747
2	Position at the General Partner:	External director	External director	External director
3	Date of birth:	February 5, 1940	April 11, 1946	July 10, 1946
4	Address for service of process:	22 Shazar St., Ramat Gan	5 Hashoftim St., Herzliya	5 Dulchin Arieh St., Tel Aviv
5	Nationality:	Israeli	Israeli	Israeli
6	Membership of board committees:	Audit committee member Compensation committee member, Chairman Member of the Financial Statements Review Committee ("**Finance Committee**") Investment committee member	Audit committee member, Chairman Finance Committee member, Chairman Compensation committee member Investment committee member[48]	Audit committee member Finance Committee member Compensation committee member Investment committee member, Chairman
7	(a) Is he an external director:	Yes	Yes	Yes
	(b) Does he have accounting and financial expertise or professional qualifications:	Holds professional qualification	Has accounting and financial expertise	Has accounting and financial expertise
	(c) Is he an expert external director[49] :	No	Yes	Yes
	(d) Is he an independent director:	Yes	Yes	Yes
8	Is he an employee of the General Partner, a subsidiary, an affiliate or of an interested	No	No	No

[48] Since December 9, 2021.

[49] Within the meaning of the term in Section 1 of the Compensation Regulations.

	party:			
9	The date on which his office as director began:	October 22, 2015	October 22, 2015	April 1, 2019
10	His education:	B.A. in General History, Tel Aviv University, Graduate of the National Security College.	B.A. in Accounting and Economics from Tel Aviv University, MBA from Tel Aviv University, CPA	B.A. in Economics and Statistics from Tel Aviv University, Ph.D. in Economics from the Massachusetts Institute of Technology (MIT)
11	His occupation in the last five years:	Consultant to Israel Aerospace Industries, director of ICIC – Israeli Credit Insurance Company Ltd. of the Harel Group	-	External director of Paz, independent director of Ravad Ltd., director of other companies and NPOs (as specified below).
12	Other corporations in which he serves as a director:	-	-	Atidim High Tech Industries Co. Ltd., the Sports Center at Tel Aviv University, Artzdka Ltd. (Chairman), Babylonian Jewry Heritage Center (Chairman), The Pinhas Sapir Center for Development (Chairman).
13	Is he a relative of another interested party of the General Partner:	No	No	No
14	Does the General Partner deem him as having accounting and financial expertise for the purpose of compliance with the minimum number determined by the board of directors pursuant to Section 92(a)(12) of the Companies Law:	No	Yes	Yes

Regulation 26A: Senior officers of the Partnership and/or the General Partner[50]

Officer	I.D. number	Date of birth	Date of commencement of office	Position at the Partnership, the General Partner, a subsidiary, affiliate or interested party	Is he an interested party of the Partnership and/or the General Partner	Is he a relative of another senior officer or of an interested party of the Partnership and/or the General Partner	His education	His experience in the last 5 years
Yossi Abu	033840372	December 7, 1977	April 1, 2011	CEO of the General Partner, director of private subsidiaries of the Partnership (SPCs).	Yes	No	LL.B from the Hebrew University of Jerusalem, attorney, member of the Israel Bar Association.	CEO of Delek Energy, CEO of Avner Oil & Gas Exploration – Limited Partnership ("**Avner Partnership**"), Chairman of the board of Tamar Petroleum, director of Ithaca (until March 1, 2018), director of private subsidiaries of the Partnership and private companies owned by him.
Sari Singer Kaufman	037485174	February 22, 1980	May 14, 2018 - General Counsel, VP, March 10, 2012	General Counsel, VP	No	No	LL.B from Tel Aviv University, attorney, member of the Israel Bar Association	General Counsel of the Partnership and Avner Partnership, external director of MeaTech 3D Ltd.

50 The specification of this regulation presents the officers who hold office at the Partnership and/or the General Partner as of the report approval date. It is noted that Mr. Yaniv Friedman's office as Deputy CEO ended on March 31, 2021 and Mr. Yossi Gvura's office as Deputy CEO ended on December 31, 2021. For further details, see the Partnership's immediate reports of January 26, 2021 and November 18, 2021 (Ref. no.: 2021-01-010639 and 2021-01-168168, respectively), the information appearing in which is incorporated herein by way of reference.

			– legal advisor					
Zvi Karcz	059784355	February 24, 1967	August 12, 2014 - VP Exploration, September 8, 2011 - Chief Geologist	VP Exploration	No	No	B.Sc. in Geology from the Hebrew University of Jerusalem, M.Sc. in Geology from the Hebrew University of Jerusalem and Ph.D. in Geology from Columbia University, New York, U.S.	Chief Geologist of the Partnership and Avner Partnership
Ronen Edward	024652745	October 13, 1969	January 1, 2022 - VP Leviathan Project August 1, 2017 - CFO	VP Leviathan Project	No	No	B.A. in Accounting and Business Administration from the College of Management, CPA	CFO at the Partnership, the General Partner, Avner Partnership and Avner Oil & Gas
Tzachi Habusha	027268317	March 23, 1974	January 1, 2022	CFO	No	No	B.A. in Economics majoring in accounting from Bar-Ilan University, LL.M from Bar-Ilan University, MBA majoring in financing from the College of Management, CPA	CFO at Israel Airports Authority, director of Eilat Ashkelon Pipeline Co. Ltd.
Nadav Perry	040365447	April 24, 1980	May 14, 2018 - VP Regulatory & Public Affairs June 14, 2015 - Head of Media & Public Affairs	VP Regulatory & Public Affairs	No	No	B.A. in Government, Diplomacy and Strategy from the Interdisciplinary Center Herzliya, MBA from Bar-Ilan University	Head of Media & Public Affairs at the Partnership
Saar Prag	037693942	October 17, 1975	August 1, 2017	VP Natural Gas Trade	No	No	LL.B from the Hebrew University of Jerusalem, attorney, member of the Israel Bar Association	Head of Natural Gas Trade at the Partnership, partner at Shlomo Nass & Co. law offices
Lior	30301423	April 3,	July 25, 2021	Financial	No	No	B.A. in Accounting and	Controller at Gottex Retail

Cohen	7	1989		Controller			Economics from Tel Aviv University, CPA	Brands, CPA at Kost Forer Gabbay & Kasierer
Gali Gana	05967477 0	June 2, 1965	February 1,	Internal auditor of the Partnership and the General Partner, and chief internal auditor of Delek Group	No	No	B.A. in Business Administration majoring in accounting from the College of Management, M.A. in Public Administration and Internal Audit from Bar-Ilan University, certified information system auditor (CISA), certified internal auditor (CIA), certification in risk management assurance (CRMA), and certified in Risk and Information Systems Control (CRISC), CPA	Partner at Rosenblum-Holtzman, CPAs

Regulation 26B: Independent authorized signatories

As of December 31, 2021, and as of the report approval date, there are no independent authorized signatories at the Partnership or the General Partner.

Regulation 27: The Partnership's CPAs

Ziv Haft CPAs, of 46-48 Menachem Begin Rd., Tel Aviv, and the accounting firm Kost, Forrer, Gabbay & Kasierer of 144 Menachem Begin Rd., Tel Aviv, jointly serve as the auditors of the Partnership.

Regulation 29: Recommendations and decisions of the directors

Regulation 29(a):

(a) With respect to approval by the General Partner's board of directors of the plan to purchase the Series A bonds of the Partnership, see the Partnership's immediate report of August 15, 2021 (Ref. no.: 2021-01-131739), the information appearing in which is incorporated herein by way of reference, and Section E of Part One of the Board of Directors' Report (Chapter B of this Report).

(b) On September 22, 2021, the General Partner's board of directors decided, after receiving the recommendation of the Finance Committee, on a profit distribution in the sum total of $100 million, with the effective date for the distribution falling on October 6, 2021 and the date of the distribution falling on October 13, 2021. For further details, see the Partnership's immediate report of September 23, 2021 (Ref. no.: 2021-01-148473), the information appearing in which is incorporated herein by way of reference.

(c) On December 9, 2021, the General Partner's board of directors decided, after receiving the recommendation of the Finance Committee, on a profit distribution in the sum total of $100 million, with the effective date for the distribution falling on December 16, 2021 and the date of the distribution falling on December 23, 2021. For further details, see the Partnership's immediate report of December 9, 2021 (Ref. no.: 2021-01-178155), the information appearing in which is incorporated herein by way of reference.

(d) On December 23, 2021, the Partnership fully and finally prepaid the series 2023 and 2025 bonds which were issued by Tamar Bond, in the sum total of $640 million, plus accrued interest in the sum total of approx. $16.2 million. For further details, see the Partnership's immediate reports of December 6, 2021 and December 9, 2021 (Ref. no.: 2021-01-176682 and 2021-01-178137, respectively), the information appearing in which is incorporated herein by way of reference, and Note 10D to the financial statements (Chapter C of this Report).

(e) On December 31, 2021, the Partnership fully and finally repaid the Series A bonds of the Partnership, in accordance with the terms and conditions of the indenture for the said bonds. For further details, see the Partnership's immediate reports of December 6, 2021, December 9, 2021 and January 2, 2022 (Ref. no.: 2021-01-176682, 2021-01-178137 and 2022-01-000253, respectively), the information appearing in which is incorporated herein by way of reference, and Note 10E to the financial statements (Chapter C of this Report).

__Regulation 29(c)__:

(a) With respect to the decision of the meeting of the participation unit holders of March 3, 2021 to authorize the Supervisor to use the legal and economic consultants retained thereby for the conduct of the Supervisor's Claim and also for monitoring and supervising the Partnership's management of the defense in the counterclaim regarding the investment recovery date, see Regulation 21(b)(8) above.

(b) With respect to the decision of the meeting of the participation unit holders of March 3, 2021 to approve an additional budget for the Supervisor for its continued engagement with professional consultants and a fee in addition to its monthly fee for overseeing the restructuring process, see Regulation 21(b)(8) above.

(c) With respect to the decision of the meeting of the participation unit holders of October 14, 2021 to approve the appointment of the external directors Messrs. Jacob Zack and Amos Yaron for a third and final term of office, see Regulation 21(b)(10) above.

(d) With respect to the decision of the meeting of the participation unit holders of October 31, 2021 to approve the Tamar Sale Transaction, see the Partnership's immediate reports of September 24, 2021 and October 31, 2021 (Ref. no.: 2021-01-148602 and 2021-01-161679, respectively), the information appearing in which is incorporated herein by way of reference.

(e) With respect to the decision of the meeting of the participation unit holders of October 31, 2021 to approve that subject to the approval and closing of the Tamar Sale Transaction, Mr. Abu will be granted a special bonus in the sum of 6 monthly salaries, gross, in the sum of ILS 976 thousand, which will be paid by the Partnership, see Regulation 21(b)(2) above.

__Regulation 29A:__ __Decisions of the Partnership__

__Regulation 29A(4)__: __Exemption, insurance or undertaking to indemnify an officer__

(a) For details regarding insurance, indemnification and exemption from liability that may be granted to officers of the Partnership and the General Partner in accordance with Section 13 of the Partnership's Compensation Policy, see Regulation 21(b)(1) above.

(b) For details regarding indemnification undertakings and exemptions from liability that were granted in the past to directors and officers of the Partnership, the General Partner and Leviathan Bond, and for details regarding D&O liability insurance policies, see Regulation 29A(4) of Chapter D of the 2020 Periodic Report.

(c) On June 30, 2021, the compensation committee, in accordance with the Compensation Policy and the recommendation of the Partnership's insurance consultant, approved the Partnership's engagement in an independent D&O liability insurance policy, including for Leviathan Bond, with a limit of liability of $129 million per occurrence and for a period of one year from July 1, 2021, for a premium of approx. $1.8 million for the said period (the "**Independent Policy**"), and authorized the Partnership's management to purchase additional insurance coverage in the amount of up to $180 million and to present it for the approval of the compensation committee, all under terms and conditions which comply with the Compensation Policy, as specified in Regulation 21(b)(1)) above. On August 10, 2021, the compensation committee approved an increase in the limit of liability in the Independent Policy by another $15 million (i.e., to a total amount of $144 million) per occurrence and in the aggregate, in consideration for an additional premium of $150 thousand for the period (i.e., for a total amount of $1.95 million).

NewMed Energy - Limited Partnership

by the General Partner, NewMed Energy Management Ltd.

Names and positions of signatories:
Gabi Last, Chairman of the Board
Yossi Abu, CEO

Date: March 23, 2022

NEWMEDENERGY

Part E

Report on the effectiveness of internal control over financial reporting and disclosure

NewMed Energy – Limited Partnership

<u>**Annual report for 2021 on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 9B(a) of the Securities Regulations (Immediate and Periodic Reports), 5730-1970**</u>:

The management of the general partner in NewMed Energy – Limited Partnership (the "**General Partner**" and the "**Partnership**", respectively), under the supervision of the board of directors of the General Partner, is responsible for setting and maintaining proper internal control over financial reporting and disclosure at the Partnership.

For this purpose, the members of management are:

1. Gabi Last, Chairman of the Board of the General Partner;
2. Yossi Abu, CEO of the General Partner;
3. Tzachi Habusha, VP Finance and Market Risk Manager.

Internal control over financial reporting and disclosure consists of controls and procedures existing at the Partnership, designed by, or under the supervision of, the CEO and the most senior financial officer, or by anyone actually performing such functions, under the supervision of the board of directors of the General Partner, which are designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the reports according to the provisions of the law, and to ensure that information which the Partnership is required to disclose in reports released thereby according to the law is gathered, processed, summarized and reported within the time frames and in the format set forth by the law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information which the Partnership is thus required to disclose, is gathered and transferred to the management of the General Partner, including the CEO and the most senior financial officer, or anyone actually performing such functions, in order to enable the timely decision making in reference to the disclosure requirement.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide absolute assurance that misrepresentation or omission of information in the reports will be avoided or discovered.

The management of the General Partner, under the supervision of the board of directors of the General Partner, has performed an examination and evaluation of the internal control over financial reporting and disclosure in the Partnership and of the effectiveness thereof.

The evaluation of the effectiveness of the internal control over financial reporting and disclosure carried out by the General Partner's management under the supervision of the board of directors of the General Partner included: entity-level controls, including control over the process of preparation and closing of financial reporting, general control over information systems, control over the accounting process vis-à-vis the operators of the joint transactions, and controls over the process of management of cash, including investments and process of raising and management of bonds and loans.

Based on the evaluation of the effectiveness performed by the management of the General Partner under the supervision of the board of directors of the General Partner, as specified above, the board of directors and the management of the General Partner came to the conclusion that the internal control over financial reporting and disclosure at the Partnership, as of December 31, 2021, is effective.

Statement of CEO pursuant to Regulation 9B(d)(1):

Statement of Managers

Statement of CEO

I, Yossi Abu, represent that:

(1) I have reviewed the periodic report of NewMed Energy – Limited Partnership (the "**Partnership**") for 2021 (the "**Reports**");

(2) To my knowledge, the Reports do not contain any misrepresentation nor an omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports;

(3) To my knowledge, the financial statements and other financial information included in the Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Partnership for the periods and as of the dates covered by the Reports;

(4) I have disclosed to the Partnership's auditors, the board of directors and the audit and financial statements review committees of the General Partner in the Partnership, based on my most current evaluation of internal control over financial reporting and disclosure:

(a) Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure which may reasonably adversely affect the Partnership's ability to gather, process, summarize or report financial information in a manner which casts a doubt on the reliability of the financial reporting and preparation of the financial statements in conformity with the provisions of the law; and –

(b) Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;

(5) I, myself or jointly with others in the General Partner of the Partnership:

(a) Have set controls and procedures or confirmed that such controls and procedures have been set and maintained under my supervision, which are designed to ensure that material information in reference to the Partnership is brought to my knowledge by others at the General Partner in the Partnership, particularly during the preparation of the Reports; and –

Have set controls and procedures or confirmed that such controls and procedures have been set and maintained under my supervision, which are designed to reasonably ensure reliability of financial reporting and preparation of the financial statements in conformity with the provisions of the law, including in conformity with GAAP;

(b) Have evaluated the effectiveness of internal control over financial reporting and disclosure, and presented in this report the conclusions of the board of directors and the management of the General Partner in the Partnership with regard to the effectiveness of the internal control as aforesaid, as of the date of the Reports.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

March 23, 2022	Yossi Abu	CEO	
Date	Full Name	Position	Signature

Statement of the most senior financial officer pursuant to Regulation 9B(d)(2):

Statement of Managers

Statement of the most senior financial officer

I, Tzachi Habusha, represent that:

(1) I have reviewed the financial statements and other financial information included in the reports of NewMed Energy – Limited Partnership (the "**Partnership**") for 2021 (the "**Reports**");

(2) To my knowledge, the financial statements and the other financial information included in the Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports;

(3) To my knowledge, the financial statements and other financial information included in the Reports adequately reflect, in all material respects, the financial position, operating results of operations and cash flows of the Partnership for the periods and as of the dates covered by the Reports;

(4) I have disclosed to the Partnership's auditors and to the board of directors and the audit and financial statement review committees of the General Partner in the Partnership, based on my most current evaluation of internal control over financial reporting and disclosure:

(a) Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure insofar as it relates to the financial statements and the other financial information included in the Reports, which may reasonably adversely affect the Partnership's ability to gather, process, summarize or report financial information in a manner which casts a doubt on the reliability of the financial reporting and preparation of the financial statements in conformity with the provisions of the law; and –

(b) Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;

(5) I, myself or jointly with others in the General Partner of the Partnership:

(a) Have set controls and procedures, or confirmed that such controls and procedures have been set and maintained under my supervision, which are designed to ensure that material information in reference to the Partnership, insofar as the same is relevant to the financial statements and other financial information included in the Reports, is brought to my knowledge by others at the Partnership, particularly during the preparation of the Reports; and

(b) Have set controls and procedures or confirmed that such controls and procedures have been set and maintained under our supervision, which are designed to reasonably ensure reliability of financial reporting and preparation of the financial statements in conformity with the provisions of the law, including in conformity with GAAP;

(c) Have evaluated the effectiveness of the internal controls over financial reporting and disclosure, insofar as the same pertain to the financial statements and the other financial information included in the Reports, as of the date of the Reports; My conclusions with regard to my aforesaid evaluation were presented to the board of directors and the management of the General Partner in the Partnership, and are incorporated in this report.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

March 23, 2022	Tzachi Habusha, CPA	VP Finance	
Date	Full Name	Position	Signature

Valuation

NewMed Energy - Limited Partnership

Valuation of Royalties
From the Sale of the I/16 "Tanin" and
I/17 "Karish" Leases

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March 2022

This document is a translation of the original Hebrew-language document of Giza Singer Even Ltd. of March 2022. It is prepared solely for convenience purposes. Please note that the Hebrew version is the binding version, and in any event of discrepancy – the Hebrew version shall prevail.

Table of Contents

1. Introduction and Disclaimer

1.1 General

This paper (the "**Paper**" and/or the "**Opinion**") was prepared by GSE Financial Advisory Ltd. ("**GSE**") for the purpose of valuation of the royalties to which the limited partnership NewMed Energy[1,2] ("**NewMed Energy**" and/or the "**Partnership**") is entitled for the sale of its interests in the I/16 "Tanin" (the "**Tanin Royalties**") and I/17 "Karish" (the "**Karish Royalties**") leases (collectively: the "**Royalties**") as of December 31, 2021 (the "**Valuation Date**"). We are aware that the Paper is intended to be used by NewMed Energy, *inter alia*¸ for quarterly and periodic financial statements, and therefore we agree that the Paper will be referred to and/or included in any report released by the Partnership and the interested parties therein, according to the Securities Law, 5728-1968 and the regulations thereunder.

For the preparation of the Paper we relied, *inter alia*, on representations, forecasts and explanations (the "**Information**") which we received from the Partnership and/or anyone on its behalf. GSE assumes that this Information is reliable and it does not carry out an independent examination of the Information, nor have we become aware of anything which could indicate it being unreasonable. The Information was not examined independently, and therefore the Paper furnished to you does not constitute verification to the correctness, integrity and accuracy of this Information. An economic valuation is supposed to reflect in a reasonable and fair manner a given situation at a certain time, based on known data and while referring to basic assumptions and forecasts which were evaluated.

This Opinion includes a description of the methodology and the main assumptions and analyses which were used for the determination of the fair value of the Royalties to which the Partnership is entitled. However, the description does not purport to be a full and detailed description of all of the procedures which we implemented upon the formulation of the Opinion.

This Paper does not constitute a due diligence inspection and does not replace it. Furthermore, the Paper is also not intended to determine the value of the Royalties for the specific investor and it does not constitute legal advice or opinion.

The Paper does not include accounting auditing regarding the compliance with the accounting principles. GSE Financial Advisory is not responsible for the manner of accounting presentation of the financial statements of the Partnership regarding the accuracy and integrity of the data and the implications of such accounting presentation, if any.

Should the Information and data on which GSE relied, be incomplete, inaccurate or unreliable, the results of this Paper may change. We reserve the right for ourselves, to re-update the

[1] On May 17, 2017, NewMed Energy merged with the partnership Avner Oil Exploration – Limited Partnership ("**Avner**", hereinafter collectively: the "**Partnerships**") and as a result, Avner partnership was stricken off with no dissolution.

[2] On February 22, 2022, the Partnership changed its name from "Delek Drilling – Limited Partnership" to "NewMed Energy – Limited Partnership".

Paper in view of new data which were not presented to us. For the avoidance of doubt, this Paper is valid as of the date of signing hereof only.

It is emphasized that the Information specified in this Paper, including with respect to forecasts and the primary commercial terms in the agreement for the sale of the reservoirs, its total financial scope, the rights transferred thereunder, and the Royalties agreed therein, constitute forward-looking information in the meaning thereof in the Securities Law, 5728-1968, of which there is no certainty that it will materialize, in whole or in part, in the said manner or otherwise. The actual performance of the said Information may differ materially due to various factors such as delays in the timetables for the development of the reservoirs, etc.

We hereby confirm that we have no personal interest and/or dependence on the Partnership and/or on the general partner in the Partnership, apart from the fact that we are receiving a fee for this Paper. Furthermore, we confirm that our fee is not dependent on the results of the Paper.

In accordance with the engagement agreement, if we are charged with payment of any amount to a third party in connection with performance of the services specified in the engagement agreement in a legal proceeding or in another binding proceeding, the Partnership undertakes to indemnify us for any such amount that shall be paid by us over and above an amount equal to three times our fees. The indemnity undertaking shall not apply if it is ruled that we acted in performance of the work maliciously or with gross negligence.

Neither GSE nor any company controlled thereby directly and/or indirectly as well as any controlling shareholder, officer and employee therein, are responsible for any damage, loss or expense whatsoever, including direct and/or indirect, which will be incurred by anyone relying on the contents of this Paper in whole or in part.

1.2 Sources of information

<u>The main sources of information used in the preparation of the Opinion are specified below:</u>

- Information regarding the terms of the transaction for the sale of the Partnership's interests in the I/16 Tanin and I/17 Karish leases.
- Reports and publications released by Energean Oil & Gas plc (the parent company of Energean Israel Limited), including a resources and reserves report as of December 31, 2021 prepared by DeGolyer and MacNaughton ("**D&M CPR**").
- Immediate reports of publicly traded companies and public information released on websites (including Energean's website), journalistic articles or other public sources.
- Internal sources and databases of Giza Singer Even.
- Meetings and/or phone calls with office holders at the Partnership.

1.3 Details of the valuating company

GSE Financial Advisory Ltd. is a subsidiary of Giza Singer Even Ltd., which is a leading financial advisory and investment banking firm in Israel. The firm has extensive experience in the advising of the large companies, the prominent privatizations and the important transactions in the Israeli market, which it accrued over its thirty years of operation. Giza Singer Even operates in three fields, through independent business divisions: financial advisory; investment banking; analytical research and corporate governance.

The Paper was carried out by a team headed by CPA Nir Harush, a partner and CEO of the economic department at Giza Singer Even. Nir has vast experience with financing and infrastructure projects. Nir holds a BA in accounting and business administration and an MBA from the College of Management Academic Studies.

Sincerely,

GSE Financial Advisory

March 23, 2022

2. Executive Summary

2.1 Background

NewMed Energy (formerly: "Delek Drilling – Limited Partnership") is a public limited partnership (in the meaning thereof in the Partnerships Ordinance) listed on the Tel Aviv Stock Exchange (TASE). The Partnership engages in the exploration, development and production of petroleum, natural gas and condensate.

During the years 2012 and 2013 the Partnership reported to TASE that the Tanin and Karish gas reservoirs constitute natural gas discoveries.

Following the decision of the Israeli government on a framework for the increasing of the amount of natural gas produced from the Tamar natural gas field and the quick development of the Leviathan, Karish and Tanin natural gas fields and other natural gas fields (the "**Gas Framework**"), NewMed Energy and Avner Oil Exploration – Limited Partnership ("**Avner**") (jointly, the "**Partnerships**") (which jointly held (in equal shares between them) 52.941% of the reservoirs) and Chevron Energy Mediterranean ("**Chevron**") (which held 47.059% of the reservoirs) were required, *inter alia*, to sell their holdings in the Karish and Tanin reservoirs within 14 months of the signing date of the exemption resolutions related to the Gas Framework (December 17, 2015) in order to comply with the conditions which would entitle them to an exemption from several provisions of the Restrictive Trade Practices Law, 5748-1988 (the "**Restrictive Trade Practices Law**").

On August 16, 2016, an agreement was executed for the sale of all of the interests in Karish and Tanin between the Partnerships and Energean, within which the Partnerships are entitled to consideration in the amount of $148.5 million, comprising cash payment of $40 million (paid on the date of the transaction closing) and $108.5 million which will be paid spread into 10 annual equal payments plus interest, with this amount depending on the Buyer's decision to develop the reservoir, or on the date on which the Buyer's total expenses in respect of the development of the leases will exceed $150 million, whichever is earlier (the "**Debt Component**"). Furthermore, the Partnerships will be entitled to royalties from the revenues generated for the Buyer from the sale of natural gas and condensate produced from the leases, at the rates of 7.5% (before the payment of petroleum profit levy) and 8.25% (after payment of petroleum profit levy), net of the rate of the existing royalties,[3] by which the Partnerships are charged regarding the original share of NewMed Energy and Avner in the leases (the "**Royalties**'). The first payment for the Debt Component was made by Energean to NewMed Energy[4] on March 29, 2018 and has since been regularly paid each year on that date.

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[3] As defined in the reports of NewMed Energy and Avner to the TASE on December 25, 2016.

[4] In May 2017, NewMed Energy merged with Avner, as a result of which Avner was delisted from the stock exchange.

Following are the quantities of natural gas and hydrocarbon liquids (condensate and natural gas liquids) at the Karish and Tanin reservoirs (100%) as released in D&M CPR's report of March 17, 2022 by Energean Oil & Gas plc,[5] the parent company of Energean Israel Limited[6]:

Reservoir	Reserves and Resources	
	Natural Gas (BCM)	Hydrocarbon Liquids (MMBBL)
	2P	**2P**
Karish Center	40.3	66.4
Karish North	33.3	30.7
Tanin	26.5	4.2
Total	**100.2**	**101.3**

2.2 Result of the valuation

The value of the Royalties in the transaction of sale of the Karish and Tanin leases was estimated through the Discounted Cash Flow method, while adjusting the discounting rates to the risks embodied in the development of the reservoirs and the cash flow (including the impact of the Covid crisis). According to the assumptions specified in the Paper itself, the value of the Royalties as of December 31, 2021 is estimated at approx. $262.2 million (the value of the Karish Royalties (including Karish North) and the Tanin Royalties are estimated at approx. $227.1 million and approx. $35.1 million, respectively).

Below is the sensitivity analysis for the value of the Royalties in relation to changes in the cap rate and the changes in the natural gas prices (U.S. $ in millions):

		Change in the Natural Gas Price Vector (U.S. $ per MMBTU)						
		(1.50)	(1.00)	(0.50)	-	0.50	1.00	1.50
Change in Cap Rates (in Base Points)	+250 bp	207.8	216.2	225.0	238.9	243.3	248.4	260.1
	+150 bp	215.4	224.2	233.3	247.7	252.3	257.7	269.8
	+50 bp	223.6	232.7	242.2	257.2	262.0	267.7	280.2
	-	227.9	237.2	246.9	**262.2**	267.1	273.0	285.8
	-50 bp	232.4	241.8	251.7	267.4	272.4	278.4	291.5
	-150 bp	241.8	251.6	262.0	278.3	283.6	290.0	303.6
	-250 bp	252.0	262.2	273.2	290.1	295.8	302.6	316.7

[5] https://www.energean.com/media/5159/024343-energean-israel-2021ye-cpr.pdf.
[6] Formerly Ocean Energean Oil and Gas Ltd.

3. Description of Transaction for the Sale of the Interests in the Karish and Tanin Leases

3.1 Description of the Partnership

NewMed Energy is a limited partnership (within the meaning thereof in the Partnerships Ordinance) listed on the TASE. The Partnership engages in the exploration, development and production of petroleum, natural gas and condensate. Following is a description of the overriding royalties' mechanisms due to offshore petroleum assets applicable to the Partnership as of the date hereof with respect to its original share in the Karish and Tanin leases (approx. 52.941%):

For 50% of the Revenues from the Karish and Tanin Leases	For 50% of the Revenues from the Karish and Tanin Leases
3% before the Investment Recovery Date[7] (0.794% of the total revenues of the reservoir)	6% (1.588% of the total revenues of the reservoir)
13% after the Investment Recovery Date (3.441% of the total revenues of the reservoir)	

3.2 The sold interests

On February 7, 2012, and on May 22, 2013, the Partnerships reported to TASE that significant quantities of natural gas were discovered in the Tanin-1 and Karish-1 wells in the area of the exploration licenses Alon A and Alon C, respectively. In December 2015, the Petroleum Commissioner at the Ministry of Energy award the holders of rights in the exploration licenses, NewMed Energy (26.4705%), Avner (26.4705%) and Chevron (47.059%), the lease deeds of "Tanin" and "Karish", respectively. It is noted that in May 2017, NewMed Energy merged with Avner and consequently the Avner partnership was stricken off without dissolution.

[7] The term "**Investment Recovery Date**" means the date after the signing of the agreement for the transfer of rights between the Partnership and Delek Energy Systems and Delek Israel (now Delek Group) which was signed in 1993 (as amended from time to time) according to which the Net Proceeds Value which the Partnership received or is entitled to receive for oil and/or gas and/or other valuable materials which were produced and used from the Petroleum Asset (i.e. – license or lease) where the finding is located, calculated in Dollars shall reach an amount which is equal to the full Value of All of the Partnership's Expenses in such Petroleum Asset calculated in Dollars.
The term "**Net Proceeds Value**" means the value of all of the proceeds as shall be approved by the accountants of the Partnership for oil and/or gas and/or other valuables which were produced and used from the Petroleum Asset (i.e. – license or lease) (the "**Gross Proceeds Value**") net of any and all production expenses thereof and royalties paid in respect thereof.
The term the "**Value of All of the Partnership's Expenses**" means all of the expenses incurred by the Partnership in the Petroleum Asset (i.e. – license or lease) where the oil and/or the gas and/or the other valuables are produced but excluding expenses (up to the Net Proceeds Value) which were deducted from the Gross Proceeds Value for the determination of the amount of the all of the Net Proceeds Value and as they shall be approved by the Partnership's accountants.
For details and elaboration regarding agreements pertaining to the payment of royalties to the State, to interested parties and to third parties of the Partnership, see Section 7.25.10 of NewMed Energy's periodic report for 2020.

On August 16, 2015, a government resolution was made regarding a framework for the regulation of the natural gas market in Israel including with respect to the interests of the Partnership in the natural gas reservoirs Tamar, Leviathan, Karish and Tanin. Under the Framework the gas and petroleum corporations operating in the gas market in Israel, including the Partnerships, were granted an exemption from several provisions of the Restrictive Trade Practices Law given compliance with several conditions, including the sale of Karish and Tanin leases within 14 months.

On November 14, 2015, the Partnerships announced that they purchased from Chevron the right to sell the share of Chevron in the Karish and Tanin leases, in equal parts, in consideration for a total amount of approx. $67 million. According to the agreement between the Partnerships and Chevron, the latter will not be entitled to any further consideration for the sale of the rights to a third party.

On December 17, 2015, the then Prime Minister Netanyahu (in his capacity as Minister of Economic Affairs) signed several exemptions from the Antitrust Law which were adopted in the context of the government resolution on the Gas Framework.

On August 16, 2016, an agreement was executed for the sale of all of the interests in the Karish and Tanin leases between NewMed Energy and Avner and Energean Israel Ltd. (formerly Ocean Energean Oil and Gas Ltd.), a company registered in Cyprus which is a subsidiary of Energean E&P Holdings Ltd..[8] The Buyer's principal business is exploration, development and production of gas and petroleum reservoirs in Greece and other countries in the Balkan and Middle East area.

On December 27, 2016, the Partnerships announced that the closing conditions for the transaction were fulfilled. On March 27, 2018, Energean notified the Partnerships of the adoption of an investment decision for the development of the Karish reservoir. In addition, on January 14, 2021, Energean reported the adoption of a Final Investment Decision (FID) in the "Karish North" reservoir.

3.3 The consideration

Following is a description of the consideration components in the purchase agreement:

a. The Buyer will purchase from NewMed Energy and Avner (the "**Sellers**") all of the interests of the Sellers and of Chevron in the Karish and Tanin leases (the "**Sold Interests**").

b. In consideration for the Sold Interests, the Buyer will pay the Sellers a total amount of $148.5 million which will be received in the following manner:

   i. Cash payment of $10 million which was paid to the Sellers on the transaction closing date;

[8] Energean Israel Ltd. serves as the operational arm of Energean E&P Holdings Ltd. in Israel.

ii. An additional payment of $30 million which was paid to the Sellers on the transaction closing date;

iii. The consideration balance, in an amount of $108.5 million, will be paid to the Sellers in ten annual equal installments plus interest according to the mechanism set in the agreement. These payments will be made immediately after the date on which a Final Investment Decision (FID) will be adopted regarding the development of the leases, or on the date which the total expenses of the Buyer in relation to the development of the leases will exceed $150 million, whichever is earlier[9];

iv. The Buyer will transfer to the Sellers royalties for natural gas and condensate which will be produced from the leases at a rate of 7.5% before payment of a petroleum profits levy by virtue of the Natural Resources Taxation Law (the "**Levy**") and 8.25% after the commencement of payment of the Levy, net of the rate of the existing royalties[10] borne by the Sellers in respect of their original share in the leases. Such rates are in 'wellhead' terms, while the effective payment rate is expected to be adjusted to hydrocarbon sales at the point of entry to the Israeli transmission system.

[9] On March 27, 2018 Energean notified the Partnerships of the adoption of an investment decision for the development of the Karish reservoir, and in March 2018, March 2019, March 2020 and March 2021 it paid NewMed Energy the first four payments.

[10] As defined in the reports of NewMed Energy and Avner to TASE on December 25, 2016.

4. Description of the Business Environment

4.1 General

The natural resources exploration, development and production activity in Israel is subject to the provision of approvals under the Petroleum Law, 5712-1952 (the "**Petroleum Law**") which controls the regulation in the field and defines the type of approvals given to defined field blocks and subject to the approval of a work plan for the performance of exploration and production work.

The natural gas sector in Israel began developing upon the discoveries of the natural gas reservoirs Noa and Mari B in the years 1999 and 2000, respectively. These discoveries allowed companies in the market, headed by the Israel Electric Corporation ("**IEC**"), to transition to more extensive use of natural gas instead of the use of more expensive contaminating fuels such as coal, diesel oil and fuel oil. The development of the sector was accelerated upon the discovery of the Tamar and Leviathan reservoirs in the years 2009 and 2010 respectively. These discoveries materially affect the energy independence of Israel and the development and expansion of uses of natural gas in the Israeli market.

Pursuant to the development of the industry, the natural gas sector in Israel is undergoing significant changes that include *inter alia* regulatory, economic and environmental changes. Within a few years, the natural gas in the Israeli economy has become the central component in the power production fuel basket, and a significant source of energy for the Israeli industry. The natural gas resources discovered in Israel are able to provide all of the gas needs of the domestic market in the coming decades and the majority of its energy needs and thus, significantly reduce the dependence of the State of Israel on foreign energy sources.

The economic merit of investments in exploration and development of natural gas reservoirs is largely influenced by the oil and gas prices worldwide, and the demand for natural gas in the domestic, regional and global market, and the ability to export natural gas which requires, *inter alia*, the discovery of gas resources in significant scopes and the engagement in long-term agreements for the sale of natural gas in significant quantities, that will justify the high cost of construction of such infrastructures.

The use of natural gas holds many benefits for the Israeli market, including:

- **Reduced energy costs in the industry and in electricity production –** The low price of natural gas compared with currently common alternative fuels such as diesel oil and fuel oil, leads to significant saving of production costs, and thereby also to a decrease in the final product prices whose production costs mainly consist of the costs of electricity. Most of the power plants constructed in recent years in Israel generate electricity through turbines which are operated by natural gas combustion and are characterized by low construction costs,[11] shorter construction time, smaller areas of land[12] and many operational advantages. In addition to the relatively low price, power plants operated by

[11] About one half of the cost of a coal power plant, about one third of the cost of a nuclear power plant and about 15% of a wind energy operated plant.

[12] The natural gas is transported by an underground pipe and unlike other fuels, requires no storage areas. Furthermore, power plants which are based on natural gas need a considerably smaller area compared to plants which are based on coal or solar energy.

natural gas are more efficient than plants which are operated by other fuels and therefore power plants and enterprises operate with a high energetic efficiency level which is also ultimately reflected in cost saving[13]. According to the estimates of the Natural Gas Authority[14], the transition to natural gas in the years 2004-2020 saved the Israeli market an estimated total of approx. ILS 78.6 billion. Most of such saving derives from the electricity sector (approx. ILS 59.9 billion), total consumption by which in 2020 amounted to approx. 9.23 BCM, which represents 78% of the demand for natural gas. The rest of the amount saved due to the transition to use of natural gas is primarily attributed to industrial plants (approx. ILS 18.7 billion), total consumption by which in 2020 amounted to approx. 2.51 BCM which represents an increase of 13% versus 2019.

- **Clean energy** – The main substances emitted from the burning of natural gas are carbon dioxide and water vapor. Since coal and petroleum are more complex fuels, with higher ratios of Carbon and Nitrogen and Sulphur components, then upon their combustion more contaminants are released, including ash particles of materials which are not burned and are emitted into the atmosphere and add to the air pollution. Natural gas combustion on the other hand, releases a relatively small quantity of contaminants, and therefore the use thereof reduces the air pollution. In such context it is noted that thanks to the conversion of most of the electricity production in Israel from coal, fuel oil and diesel oil to use of natural gas, air pollution levels caused by electricity production in Israel have been reduced by tens of percentage points.

- **Energy independence** – The geopolitical characteristics of Israel make it an energetic island with limited ability to import fuels from neighboring countries, which forced it to rely for many years on costly fuels import from Europe. Israel's energetic isolation was somewhat reduced between the years 2008 and 2012 upon the commencement of supply of natural gas from Egypt, however, the sudden cut of supply illustrated the importance of the development of local energy sources. The development of the natural gas market in Israel provides the Israeli industry with energetic security in the long term and will reduce its dependence on international energy prices.

- **Natural gas as a governmental source of income through taxation -** The Israeli natural gas market is directly benefiting and is expected to continue to directly benefit the domestic economy through governmental revenues from the taxation of the companies and from the VAT from sales to the ultimate consumer. Moreover, the Israeli market has a few unique taxation systems which apply to the natural gas sector, in addition to excise tax, which apply to natural gas, similarly to all of the other fuel products[15]. Furthermore, according to the Petroleum Law, the State charges royalties at a rate of up to. 12.5% of the total sales of natural gas at the wellhead. Moreover, following the conclusions of the Sheshinski Committee the State is entitled to proceeds of petroleum and gas profits levy at a rate of up to 50% (depending, *inter alia*, on the corporate tax rate) of the revenues of

[13] A combined cycle power plant combining gas and steam turbines is characterized by an efficiency rate of 55%, significantly higher than power plants which are operated by other fuels. Cogeneration plants utilizing the thermal energy produced in the production process reach an efficiency rate of approx. 80%.

[14] https://www.gov.il/BlobFolder/reports/ng_2020/he/ng_2020.pdf

[15] Other than the electricity and industry sectors in which consumers do not pay excise tax for the gas.

the holders of the petroleum rights, net of royalties, operation costs and development costs.

- **Upgrade of Israel's geostrategic position** – Thanks to the development of the gas reservoirs in Israel's EEZ, the State has at its disposal gas resources at a scope that exceeds the existing and expected needs of the domestic market. Thus, and further to Government Resolution 442 of June 13, 2014 regarding the policy on the export of natural gas, commercial quantities of natural gas are being exported from Israel to the countries in the region. In such context, export from the Tamar reservoir to industrial enterprises located on the Jordanian side of the Dead Sea commenced in 2017, and from 2020, with the beginning of production from the Leviathan reservoir, very significant quantities of natural gas are being exported to Jordan and Egypt.

4.2 Consumers

The natural gas market in Israel comprises several groups of consumers differentiated from each other in the nature of their activity and the characteristics of the natural gas consumption:

- **Israel Electric Corporation** – The IEC is a governmental company supervised by the Electricity Authority, *inter alia*, regarding the costs of inputs for electricity production, particularly, the costs of natural gas. In 2020, the IEC purchased approx. 4.9 BCM of natural gas from the Tamar and Leviathan partners and also imported and consumed another approx. 0.4 million tons of LNG, compared to 2019 in which it purchased approx. 4.23 BCM from the Tamar partners and also imported and consumed another approx.. 0.4 million tons of LNG. The rate of electricity produced by the IEC through natural and liquefied gas is estimated in 2019 and 2020 at approx. 53.1% and approx. 56.9%, respectively.[16] In such context it is noted that recently, the Minister of Energy decided to stop the engagement with the regasification vessel used by the IEC for reception and regasification of imported LNG until the end of 2022. Accordingly, on October 21, 2020, the IEC notified the owners of the regasification vessel that the engagement for the lease of the vessel will end on October 25, 2022.

- **Independent power producers** – The independent power producers ("**IPPs**") are divided into several types, according to the production technologies which they use: conventional IPP, cogeneration facilities, renewable energies IPPs, pumped energy (this technology does not produce power but rather stores the energy for use during peak hours or hours where it is not possible to produce power from renewable energies) and large enterprises that constructed power plants for themselves for which they received a self-production license. Section 93 of the Natural Gas Sector Law defines that natural gas sold to an independent power producer is a product subject to control under the Control of Prices of Commodities and Services Law, 5756-1996. In 2020, the natural gas consumption of the IPPs amounted to approx. 3.77 BCM, which represents approx. 32% of the overall consumption of natural gas in that year.

[16] Source: 2020 financial statement of IEC.

- **Large industry consumers** – This tier of consumers comprises several significant consumers, which are essential to the development of the Israeli gas sector. Consumers with significant power and reputation in the Israeli market, having extensive experience and knowledge pertaining to the operations of Israeli industry in general and the operations of the natural gas sector in Israel in particular. Most of the large industrial enterprises in the market executed agreements for the purchase of natural gas within the construction of private power plants at the enterprise's premises, for the supply of the enterprise's needs of electricity and heat (by generating steam from the residual heat of the power plants), constituting only part of the production capacity of the power plant, and the sale of the produced electricity to external consumers or to the IEC. Accordingly, the natural gas purchase agreements signed by most of the large industrial enterprises thus far also have the characteristics of agreements with private power plants. In 2020, natural gas consumption by the industry sector amounted to approx. 2.51 BCM, an increase of 13% compared with 2019. The increase chiefly derives from the higher demand of a number or large industrial consumers.

- **Medium and small consumers** – The distribution networks' consumers sector which includes mainly medium and small enterprises and businesses, is a relatively new sector in the natural gas sector which began executing agreements for purchase and infrastructure conversion performance only in recent years. These consumers typically consume low gas pressure, at a relatively small amount, non-continuous over a whole day (24 hours), some of which not yet connected to the onshore transmission systems, or the distribution, and therefore consuming Compressed Natural Gas (CNG) – a temporary and not optimal solution, since the cost of consumption can reach twice the cost of the natural gas which is transmitted through the distribution network. It is noted that according to the regulation in this respect, some of these consumers are building or planning to build small scale, natural gas-fired power plants, which are intended to provide electricity and heat to the enterprise on the premises of which such power plants are built.

- **Additional markets and consumers** – In addition to the electricity and industry sectors, several other sectors are expected to develop in the coming years and increase the demand for natural gas, including the transportation sector which is expected to significantly increase the scope of use of natural gas, in view of a forecast for entry into the market of electric vehicles and steps promoting use of CNG-fueled heavy vehicles and construction of CNG fueling stations, as well as enterprises using natural gas as a feedstock. In addition, the government is promoting measures designed to enable integration of natural gas in the housing sector for purposes of various household uses.

4.3 Regulatory environment

The production of natural gas from reservoirs in the territorial waters of the State of Israel and the sale thereof are subject to regulatory restrictions pertaining to the amount of gas produced, restrictions on exporting the gas outside of Israel, pertaining to the gas prices, etc. In addition, the production and sale of natural gas from the Tamar, Leviathan, Karish and Tanin reservoirs and/or another reservoir, are subject to further regulatory restrictions, as specified below:

- **Royalties to the State of Israel** – Under the Petroleum Law, a lease holder is liable for a royalty of 12.5% of the amount of natural gas or petroleum produced in the lease and the lease holder will pay the State the market value of the royalty at the wellhead. The method of calculation of the market value of the royalty at the wellhead for the Tamar reservoir is under discussion between the Petroleum Commissioner and the partners in the Tamar reservoir and has not yet been finalized.[17] Commencing from 2019, the partners in the Tamar project made annual advance payments on account of royalties at the rate of 11.3% of the Tamar project revenues, and in 2017 and 2018 at the rate of 11.65%. In the Leviathan reservoir, the partners in the reservoir are paying royalties to the State of Israel at the rate of approx. 11.26%. In H1/2020, the Natural Resources Administration at the Ministry of Energy published directives that include general instructions on the method of calculation of the royalty value at the wellhead with respect to offshore petroleum rights. The directives further determine that the Commissioner will prescribe for each lease owner, from time to time, specific instructions for each lease, which will specify the deductible expenses, for purposes of calculating the royalty, according to the specific characteristics of the lease. On September 6, 2020, the Ministry of Energy published specific instructions for the Tamar reservoir.

- **Taxation of Profits from Natural Resources Law** – The Resources Taxation Law prescribes a levy on petroleum and gas profits according to a mechanism which relates the rate of the levy and the ratio of the net accrued revenues from the petroleum and gas production project and the total accrued investments for the initial exploration and development of the reservoir ("**Investment Coverage Ratio**"). The minimal levy at a rate of 20% will be charged when the Investment Coverage Ratio will reach 1.5 and will increase gradually to a rate of 50% (depending, *inter alia*, on the Corporate Tax rate) when the Investment Coverage Ratio shall reach 2.3. The levy will be calculated and imposed on each reservoir separately. On November 10, 2021, the Knesset approved in the second and third reading a bill which prescribes, *inter alia*, rules on payment of disputed assessments.[18]

- **Antitrust and exemption from the provisions of the Economic Competition Law** – In August 2015, a government resolution was made regarding a framework for the regulation of the natural gas market in Israel including with respect to the rights of the Partnership in the natural gas reservoirs Tamar, Leviathan, Karish and Tanin which took effect on December 17, 2015 upon the grant of an exemption from several provisions of the Economic Competition Law, 5748-1988.

  The Gas Framework grants an exemption to NewMed Energy, Chevron and Ratio Oil Exploration (1992), Limited Partnership (jointly below, the "**Parties**"), from the restrictive arrangements pertaining to the Leviathan reservoir. Furthermore, The Gas Framework grants an exemption with respect to specific powers of the Commissioner (power to

[17] In May 2020, the Natural Resources Administration at the Ministry of Energy published the final version of the directives on the method of calculation of the value of the royalty at the wellhead pursuant to Section 32(b) of the Petroleum Law, 5712-1952.

[18] Taxation of Profits from Natural Resources Law (Amendment no. 3), 5782-2021. https://main.knesset.gov.il/Activity/Legislation/Laws/Pages/LawBill.aspx?t=lawsuggestionssearch&lawitemid=2155633

regulate acts of a monopoly through directives, power to order a holder of a monopoly to sell an asset, and power to order the separation of a monopoly), in connection with NewMed Energy and Chevron being holders of a monopoly by virtue of the declaration thereon by the Commissioner in 2012 (the "**Exemption**").[19] The grant of the Exemption as described above is subject, *inter alia*, to the fulfillment of the following conditions:

- The sale of the interests of NewMed Energy and Chevron in the Karish and Tanin reservoirs to a third party, not related to any of them, within 14 months from the date of grant of the Exemption or from the date of release of a new regulation draft by the Petroleum Commissioner pertaining to the qualifying conditions for an operator, whichever is later. On August 16, 2016, an agreement was executed for the sale of all of the interests in the Karish and Tanin leases between NewMed Energy and Energean.

  The sale of all of the interests of NewMed Energy in the Tamar reservoir to a third party not affiliated therewith or to any of the holders of interests in the Leviathan, Karish and Tanin reservoirs as well as limitation of the interests of Chevron in the Tamar reservoir to a maximum rate of 25% within 72 months. In January 2018, Chevron sold to Tamar Petroleum Ltd. 7.5% of its interests in the Tamar reservoir, and as a result, it went down to a 25% holding rate in the Tamar reservoir. On May 5, 2021, the Partnership engaged with a third party in an agreement for the sale of all of its holdings in Tamar Petroleum (22.6%) in consideration for a sum of ILS 100 million in cash.
  On December 9, 2021, the Partnership closed the sale of the Partnership's interests at the rate of 22% in the I/13 Dalit and I/12 Tamar leases to a group of investors headed by Mubadala Petroleum (Tamar Investment 1 RSC Limited and Tamar Investment 2 RSC Limited) in consideration for approx. $1.0 billion.

- The imposition of restrictions on new agreements to be executed for the supply of gas from the Tamar and Leviathan reservoirs, such as a prohibition on limitations on purchase from other suppliers, in certain cases granting the consumers the right to unilaterally set the period of engagement and granting a unilateral option to the consumers to change the scope of supply in the agreement.

- **Stable regulatory environment** – In the original framework, the Israeli government undertook to maintain "regulatory stability" in the context of natural gas exploration and production for a period of 10 years. In March 2016, HCJ ruled that the issue of the regulatory stability in the Gas Framework in the existing version was illegal. In May 2016, the government re-adopted its resolution on the Gas Framework while setting an alternative arrangement pertaining to a "regulatory stable environment" in order to ensure a regulatory environment which encourages investments in the natural gas exploration and production sector.

- **Price regulation** – In the period between the taking effect of the Gas Framework, and until the date of fulfilment of all of the conditions of the Exemption, the price control in the

[19] Declaration on holders of a monopoly under Section 26(a) of the Restrictive Trade Practices Law, 5748-1988: Delek Drilling Limited Partnership together with Avner Oil & Gas Exploration, Limited Partnership, Noble Energy Mediterranean Ltd., Isramco Negev 2, Limited Partnership, and Dor Gas Exploration, Limited Partnership – holders of a monopoly in the supply of natural gas to Israel starting from H2/2013 (November 13, 2012) Restrictive Trade Practices 500249.

natural gas sector by virtue of the Restrictive Trade Practices Law will be limited to the imposition of reporting requirements regarding profitability and the gas price, provided that during this period, the holders of the interests in Tamar and Leviathan shall offer potential consumers a price based on the weighted average price of the prices in the agreements that exist in the reservoirs, in several of the price and linkage alternatives published within Government Resolution 476 of August 16, 2015. Starting from Q3/2016, the Natural Gas Authority releases, each quarter, the weighted price of natural gas and the price of natural gas for independent power producers.

On June 1, 2020, the decision of the Competition Commissioner was released, pursuant to Section 14 of the Economic Competition Law, 5748-1988, regarding amendment of the conditions for granting certain exemptions from approval of restrictive arrangements for several arrangements between the Tamar partners and their customers, cancelling the requirement for pre-approval of any agreement for the supply of gas from the Tamar project, in lieu of which the agreements will be subjected to a self-assessment regime, i.e. the burden of examining the lawfulness thereof will be imposed on the Tamar partners and their customers, while the Competition Commissioner will be able to examine the agreements retroactively and even not in proximity to the date of the signing thereof, and to take enforcement measures insofar as it is found that arrangements were performed that harm competition.

4.4 Risk factors

The exploration and findings development operations of oil and natural gas involves significant monetary expenses in conditions of uncertainty resulting in a very high financial risk level. Following are risk and uncertainty factors with significant effect on the operations of the Buyer of the Karish and Tanin reservoirs and the proceeds expected therefrom:

- **Changes in the Electricity Production Tariff, price indices, alternative energy sources prices** – The prices paid by the consumers for the natural gas derive, *inter alia*, from the Electricity Production Tariff as updated by the Electricity Authority on an annual basis, from the Shekel/US Dollar exchange rate, the US consumer price index and the prices of fuels alternative to gas such as fuel oil, diesel oil and Brent. Furthermore, a significant change in alternative energy sources could lead to a change in the use model of the IEC such that priority shall be granted to power plants operated by gas alternatives. A decline in tariffs can also adversely affect the prices which will be obtained from the Karish and Tanin reservoirs and the economic merit in the development thereof. At the same time, according to Energean's reports, the selling price in the agreements include a "floor price".

- **Growth of the renewable energy sector** – Recent years have seen a rise in the share of renewable energies in the mix of fuels used to produce electricity in Israel. Renewable energy is defined as energy produced from heat and solar radiation, wind, bio-gas and bio-mass, or any other non-depletable source that is not fossil fuel. Approx. 5.7% of actual power production in the State of Israel in 2020 came from renewable sources, but this figure is expected to rise following the addition of the quotas initiated by the government with the aim of reaching the target of production from renewable sources of approx. 20%

of the total demand for energy in 2025, and 30% by 2030.[20] The rates of renewable energies have been gradually reduced by the Authority since 2008 due to the decrease in the construction and financing costs and the holding of competitive processes. These trends indicate that renewable energies may account for a larger share of future power production in Israel.

- **Geopolitical risk** - The security and economic situation in Israel as well as the political situation in the Middle East may affect the willingness of states and foreign bodies, including in the Middle East, to engage in business relations with Israeli bodies and/or international bodies acting in Israel. Therefore, any deterioration in the geopolitical situation in the Middle East and/or deterioration in the relations between Israel and its neighbors, for security and/or political and/or economic reasons, may undermine the ability of the companies in the Israeli gas and oil market to promote their business with such states and bodies and export gas to neighboring states.

- **Competition for gas supply** – Over the past decade, several significant gas reservoirs were discovered in Israeli waters in amounts which significantly exceed the estimates of the Ministry of Energy regarding the needs of the domestic market. Israel granted exploration licenses in its EEZ, following two competitive processes (in 2017 and 2019), which could lead to further discoveries. In 2017, material production began from the Egyptian Zohr reservoir, which supplies gas to the Egyptian market. In addition, significant reservoirs were discovered in in the economic waters of Cyprus, in respect of which no development decisions have been made yet. Also, further findings may be discovered in the future, both in Israel and in other countries in the Eastern Mediterranean Basin, whose development could lead to the entrance of other competitors on the supply of natural gas to the domestic market and to neighboring countries, and thus increase the scope of competition in the sector.

- **Restrictions on export** – Limiting the amount of exportable gas may have adverse effects in the form of surplus supply in the domestic market and reduced tariffs which may also adversely affect the prices obtained from the Karish and Tanin reservoirs and the economic merit in the development thereof. In this context, it is noted that, according to the Adiri Committee's draft recommendations of July 2018, the gas export quotas as determined in Government Resolution 442 shall remain unchanged. However, according to the Committee's recommendations, the formula for calculating the export quota shall be changed, such that it will be higher relative to the formula determined by Government Resolution 442, solely for gas reservoirs that have not yet been discovered. On October 25, 2020, the government decided to form a professional team that will periodically examine the recommendations of the committee for the examination of the Government's policy regarding the natural gas sector in Israel. On January 6, 2019, the Government approved the recommendations of the Adiri Committee in Government Resolution 4442.[21] On October 13, 2021, the Adiri II Committee recommended to keep the natural gas export restrictions

[20] "Electricity generation targets using solar power and natural gas" – the Ministry of Energy, July 22, 2020.
[21] Website of the Ministry of Energy, Spokesman's Notice of January 10, 2019
https://www.gov.il/he/departments/news/ng_060119

for existing reservoirs as determined in Government Resolution 4442, but to cancel the export restriction on new reservoirs that shall be discovered.

- **Dependence on the proper function of the national transmission system** – The ability to supply the gas to be produced from the reservoirs to potential consumers is dependent, *inter alia*, on the proper function of the national gas transmission system and the regional distribution networks.

- **Dependence on contractors and on professional services and equipment providers –** As of the date hereof, there are in Israel no contractors that are performing most of the actions required for the construction and operation of natural gas and oil reservoirs, and therefore there is a dependence of the companies working in the sector on foreign contractors for the performance of such work. Furthermore, the number of facilities that are capable of drilling and performing development activities offshore, in general, and in deep-water, in particular, is relatively small and there is a chance that no suitable facility will be found for performing the aforesaid actions on the dates to be scheduled therefor. Consequently, the aforesaid actions may entail high costs and/or considerable delays may be caused in the schedule determined for the performance of the work.

- **Operational risks and lack of sufficient insurance coverage** – Oil and gas exploration and production activities are exposed to a variety of technical and operational risks, such as loss of control over a drilling or a well and/or a malfunction in subsea facilities or facilities above sea level, which could damage the functioning of the production and transmission system, to the point of short or long-term shutdown. There is also a risk of liability for damage deriving from contamination due to the eruption and/or leakage of liquid and/or a gas leak. Despite the insurance existing in the market, not all of the possible risks are covered or are coverable.

- **Solely estimated costs and timetables and the option of lack of means** – Estimated costs for the performance of exploration and development activities and estimated timetables for the performance thereof are based solely on general estimates and could deviate significantly. The exploration plans could significantly change, *inter alia*, following failures and/or findings which will be obtained during the performance of such actions and lead to significant gaps in the timetables and the estimated costs of such activities. In certain cases, the holder of the lease may waive the performance of certain activities required according to the work plan of the reservoirs and lose the rights therein as a result.

- **Regulatory changes** – The operating segment requires many regulatory approvals, mainly by the entities authorized under the Petroleum Law and the Natural Gas Sector Law, as well as related approvals of the State's authorities (including the Ministry of Energy, the Ministry of Defense, the Ministry of Environmental Protection, the tax authorities, the Competition Authority and the various planning authorities). In recent years several proposals were made for amendments of laws and/or regulations and/or directives relevant to the operating segment and several resolutions, laws and directives were released, the implementation of which could have a negative effect on the companies operating in the field.

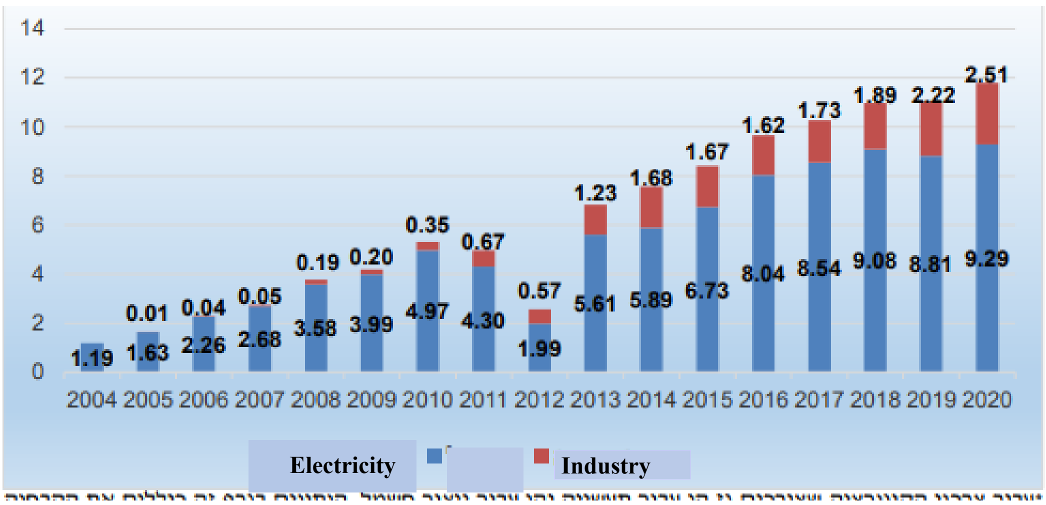
- **Applicable environmental regulation** – The companies that operate in the natural gas sector are subject to a range of laws, regulations and directives on the issue of environmental protection, which relate to various matters such as: leaking of oil, natural gas or of other pollutants into the marine environment, the release into the sea of polluting substances and waste of various types (wastewater, residues of drilling equipment, drilling mud, slurry, etc.), chemical substances used at the various work stages, emission of pollutants into the air, light and noise nuisances, construction of piping infrastructures on the seabed and related facilities. In addition, the companies are required, through the operators of the projects, to obtain approvals from entities authorized under the Petroleum Law, the Natural Gas Sector Law and other laws (such as environmental protection laws) for the purpose of their activity.

- **Additional risk factors** – There are other factors which contribute to the uncertainty prevailing in the operating segment including difficulties in obtaining financing, information security risks, dependence on material customers, dependence on weather and sea conditions, cancellation or expiration of rights and petroleum assets and more.

4.5 Demand

<u>Chart 1 – Natural gas consumption in 2004-2020</u>[22]

Breakdown of the Natural Gas Consumption According to the Electricity and Industry Sector* in 2004-2020 in BCM



*For the cogeneration consumers who consume gas both for industry and for the production of electricity, the data in this graph includes a differentiation of their consumption into the two different categories.

[22] Sources: The Ministry of Energy https://www.gov.il/BlobFolder/reports/ng_2020/he/ng_2020.pdf

The consumption of natural gas in the Israeli market in 2020 (including export of Israeli gas to neighboring countries) amounted to approx. 16.05 BCM, an increase of approx. 42.7% compared with the consumption in 2019. Approx. 51% of the amount was supplied from the Tamar reservoir, approx. 45% of the amount was supplied from the Leviathan reservoir, and the balance (approx. 4%) from the import of LNG via the offshore LNG buoy. From 2004 until the end of 2020, a total of just over 110 BCM of natural gas was supplied. According to the Natural Gas Authority, the upward trend in natural gas consumption will also continue in the coming years, both as a result of domestic demand and as a result of demand for export.

According to a report prepared by the professional team at the Ministry of Energy for a second periodic review of the government's policy with respect to the natural gas sector[23], the natural gas consumption in Israel (excluding export to neighboring countries) in 2021 is expected to amount to approx. 11.9 BCM, in 2025 the natural gas consumption will amount to approx. 15.7 BCM and in 2030 to approx. 16.9 BCM. The forecast assumes a normative increase in the demand for electricity in the next decades in accordance with achievement of the proposed target in the energy efficiency field and achievement of the government's targets in the electricity production from renewed energies field (approx. 2.13% per year), an average increase in industry (approx. 1.5% per year after conversion of industrial plants to natural gas in the coming decade) and transportation demand according to government incentive programs. The scenario also takes into account the establishment of a plant for natural gas-follow-on products, such as ammonia or methanol, as well penetration of 1.5 million electric cars by 2032 as a result of the prohibition on petrol and diesel car sales from 2030.

Below are the main factors expected to motivate growth in the demand for natural gas:

4.5.1 The electricity sector

In recent years, a trend is apparent of a significant reduction of use of petroleum and coal distillates in power production and transition to use of natural gas and renewable energies. This trend is led by the Ministry of Energy and government decisions determining goals for the reduction of use of polluting fuels, *inter alia*, by shutting down IEC power plants and conversion thereof to production with natural gas. Government decisions adopted in such regard are specified below:

- In August 2016, the Minister of Energy announced his decision to shut down four coal production units of IEC upon the connection of three gas reservoirs to the shore and the construction of new natural gas operated power plants within up to six years. Following that, in September 2016, emission permits were received by the IEC under the Clean Air Law, 5768-2008 with respect to its coal power plants sites, which included, *inter alia*, an obligation to continue installing emission reduction measures, as well as the shutdown of units 1-4 in the coal power plant at the "Rabin Lights" site, no later than June 1, 2022.

[23] Sources: The Ministry of Energy https://www.gov.il/BlobFolder/rfp/ng_210621/he/ng_report_2_draft.pdf[

- In November 2017, the Minister of Energy decided of principles of policy on the issue of minimal operation of coal production units, according to which natural gas electricity production shall be granted preference at any time to electricity production with coal, while operating the coal units at a minimal load which allows flexibility and reliability of the supply to the market.

- In March 2018, the Finance Committee of the Knesset and thereafter the Plenum of the Knesset approved the orders, in which it was provided, *inter alia*, that commencing on March 15, 2019 the excise tax on coal will be increased by approx. 125% in view of the government's policy to gross up external costs of fuels and encourage the expansion of use of natural gas. On February 20, 2019, the Minister of Finance signed an order postponing the expected rise in excise on coal, and it took effect on January 1, 2021. In addition, it was decided that from January 1, 2024, the excise tax on compressed natural gas (CNG) will increase gradually, subject to the existence of no less than 25 CNG fueling stations that shall receive all of the approvals required for operation. It was further determined that from May 1, 2018, the reimbursement of excise on diesel oil, which is used mainly for transportation purposes, will gradually be cancelled.

- In October 2018, the Minister of Energy presented a plan whose purpose is to lead to a reduction in the use of polluting energy, the principle of which is to decrease the use of polluting fuel products by 2030. According to the plan, targets have been set for the following sectors:

  a. The electricity sector – Electricity production using 80% natural gas and 20% renewable energies as of 2030, with a final shutdown of the coal-fired power plants in Hadera and in Ashkelon in 2028.

  b. The industry sector – Production of 95% of the energy and steam required by the industry by means of natural gas as of 2030.

  c. The transportation sector – A gradual transition to electric cars and natural gas trucks and the imposition of an absolute ban on the import of cars that operate on polluting fuels as of 2030.

- In November 2019, the Minister of Energy announced that it is possible to shorten the timetables for the conversion of the coal power plants in Hadera and in Ashkelon to natural gas to 2025. Consequently, in that year, the coal age in the State of Israel is expected to end. The aforesaid decision shortens the timetables that were previously determined, by 4 years.

- On June 8, 2020, a joint notice was released by the Ministry of Energy and the Ministry of Environmental Protection[24] on the Ministers' decision to instruct the IEC to expand the planned shutdown of the polluting coal-fired units 1-4 at the Rabin Lights site in Hadera, commencing from the second half of 2020 until the final shutdown thereof in 2022, thus bringing about another significant reduction of air pollutant emissions.

[24] Website of the Ministry of Energy, Spokesman's Notice of June 8, 2020: https://www.gov.il/he/departments/news/press_080620

- On June 24, 2020, the Minister of Energy[25] announced his decision to further reduce approx. 20% of the use of coal in IEC's power plants, as compared with 2019. Therefore, the use of coal in 2020 will not exceed 24.9% (compared with 30% in 2019).

- According to the current forecast of the Electricity Authority, as stated in the annual report of the Electricity Authority for 2019,[26] as released at the end of June 2020, the production of electricity from natural gas is expected to increase significantly, amounting to approx. 83% in 2025.

- On October 25, 2020, a government resolution was adopted on the subject of promotion of renewable energy in the electricity market, a resolution which was based *inter alia* on the policy principles set forth by the Minister of Energy in July 2020, according to which, electricity production from renewable energies in 2030 shall be 30% of the total electricity consumption, and electricity production from natural gas shall be 70% of the total electricity consumption. In addition, the interim goal was updated such that electricity production from renewable energies shall be 20% by the end of 2025. The implementation of such policy may affect the demand for natural gas in the domestic market.

- On February 8, 2021, it was reported that the Minister of Energy had instructed the IEC to reduce the use of coal such that it shall not exceed 22.5% of the total electricity production in 2021, as part of the policy to end the coal era in Israel by 2025.[27]

- On April 18, 2021, the Ministry of Energy released a Road Map[28] until 2050 for the low carbon energy sector, which continues the program to reduce the use of polluting energy which was presented in 2018. In accordance with the program, the following targets for the sectors were determined:

  A. Electricity sector – The production of electricity by using 70% natural gas and 30% renewable energies beginning in 2030, while ending the use of coal for electricity production in Israel by 2025.

  B. The transportation sector – A gradual shift to electric cars and natural gas trucks, so that by 2030 the number of electric cars sold will be 50% of the total cars sold in Israel. Furthermore, Israel will adopt the common regulation worldwide and beginning in 2030 it will impose a total prohibition on the import of cars which run on polluting fuels.

  In addition, it was determined that by 2030 greenhouse gas emissions in the energy sector will be reduced by approx. 23% compared with 2015, and by 2050, 80% of greenhouse gas emissions will be reduced compared with 2015.

- On June 10, 2021, the Electricity Authority (the "**Authority**") announced a call with respect to an update to the demand hour clusters. In this context, the Authority requested public

[25] Website of the Ministry of Energy, Spokesman's Notice of June 24, 2020: https://www.gov.il/he/departments/news/press_240620
[26] https://www.gov.il/he/departments/general/dochmeshek.
[27] https://www.calcalist.co.il/local/articles/0,7340,L-3892470,00.html
[28] https://www.gov.il/he/departments/publications/reports/energy_18042

comment on an update to the electricity demand hours which affect, *inter alia*, the weighted production component tariff. Insofar as such an update is decided on, it may have a material effect on the weighted production component forecast which cannot be predicted as of the date of the Paper[29].

4.5.2 Transition to use of natural gas in the industry

- Natural gas is a central component of the industry's energy consumption (approx. 37.5% of the total use of fuels in the Israeli industry in 2019).[30] The enterprises are connected to natural gas through transmission and distribution networks, with the transmission and distribution fees supervised by the Natural Gas Authority.

- According to an activity summary report of the Natural Gas Authority at the Ministry of Energy for 2020, until now, throughout Israel, approx. 554 km of distribution pipelines were laid out (of which, approx. 109 km in 2020) and approx. 800 km of transmission pipelines (of which, approx. 63 km in 2020). An expansion of the layout of the natural gas distribution network may enable the connection to the network, by 2030, of hundreds of potential industrial consumers whose consumption may amount to approx. 0.72 BCM per year, which represent approx. 80% of the light industrial consumption potential.

- According to the Natural Gas Authority's estimations, without additional policy steps, until 2025, approx. 150 consumers with a total consumption of approx. 0.45 BCM, which represents approx. one half of the overall connection potential of the light industry consumers, are expected to connect to the distribution network. Further potential consumption of approx. 0.27 BCM which derives from the connection of approx. 300 additional, smaller, plants, is expected to materialize following the implementation of additional policy steps (such as budgetary support in the layout of the distribution network, encouragement of consumers to use natural gas etc.).

- According to the Natural Gas Authority's estimations, in 2030, the total demand for natural gas in the industrial sector is expected to exceed 3 BCM, of which approx. 2.25 BCM are from consumption of natural gas in the industry for consumers that are connected to the transmission system, and approx. 0.84 BCM are from consumption of natural gas for consumers that are connected to the distribution network.

- On July 10, 2020, the Ministry of Energy released a legislative memorandum for the amendment of the Natural Gas Sector Law, whereby the Minister of Energy may grant a license for the construction of a particular distribution network to Israel Natural Gas Lines Ltd. ("**INGL**"), should he find that there is an urgent need therefor, and no private-sector body is able and willing to build the system. The purpose of the said legislative memorandum is to enable the acceleration of the connection of industry enterprises to the natural gas infrastructure.

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[29] https://www.gov.il/BlobFolder/rfp/kol_kore_mashab/he/Files_Kol_Kore_kol_kore_mashab_malle.pdf.

[30] Source: 2019 Israeli Energy Sector Review - the Ministry of Energy https://www.gov.il/BlobFolder/reports/energy_sector_2019/he/energy_sector_review_2019.pdf

4.5.3 Export

Recently, the relations with several neighboring countries, the business relations with which are strategic for the State of Israel in general, and for the gas companies in particular, have demonstrated a trend of improvement. The improvement in the relations has led to the signing of agreements for production of natural gas from Israel to its neighbors, as specified below:

- The Tamar partners signed agreements with NBL Eastern Mediterranean Marketing Limited ("**NBL**") for the purpose of export of natural gas to consumers in Jordan. Simultaneously, NBL signed an agreement with two companies from Jordan, Arab Potash Company and Jordan Bromine Company, whereby they will purchase natural gas from NBL which will be used by them at their plants which are located on the east bank of the Dead Sea in Jordan. The aforesaid agreements are for periods of approx. 15 years and the total quantity of natural gas in such agreements is approx. 3 BCM.

- On September 26, 2016, an agreement was signed between the Leviathan partners and the Jordanian electric power company (NEPCO) for the supply of up to approx. 45 BCM of natural gas for a period of approx. 15 years. According to a report of NewMed Energy dated December 31, 2019, flow of natural gas has begun from the Leviathan reservoir to the customers with which gas agreements were signed, and from January 1, 2020 also to NEPCO.

- On February 19, 2018, agreements were signed between NewMed Energy and Chevron, and Dolphinus, an Egyptian company, which were assigned on September 26, 2018 to the Tamar partners and the Leviathan partners. On September 26, 2019, amendments were signed to the said export agreements for the supply of natural gas from the Tamar reservoir and the Leviathan reservoir in quantities of approx. 25.3 BCM and approx. 60 BCM, respectively, for a period of approx. 15 years. The Take-or-Pay mechanism in the amended export agreements includes a reduction of the minimal annual consumption commitment to 50% for a calendar year in which the average Brent price is lower than 50 dollars. On January 15, 2020 the Leviathan partners reported the commencement of the flow of gas to Egypt, and gas flow from the Tamar reservoir to Egypt began in July 2020.

- On November 6, 2019, a transaction was closed for the acquisition of 39% of EMG, which owns a subsea pipeline for the transport of gas between Israel and Egypt, by EMED (a company held by NewMed Energy (25%), Chevron (25%) and the East Gas Company (50%)), in the context of which, the capacity and operation rights in connection with the EMG pipeline were transferred in their entirety to the buyer (EMED), for execution of the agreements with Dolphinus, as described above.

- On March 26, 2020, the Natural Gas Commission released an addendum to the decision dated September 7, 2014 regarding the financing of export projects through the Israeli transmission system, and division of the costs of construction of the integrated Ashdod-Ashkelon segment. The addendum to the decision determines, *inter alia*, that the offshore segment of the transmission system, to be constructed in such a manner as to enable the flow to Egypt of the full quantity of gas as determined in the Dolphinus agreements, shall be financed by the owner of the transmission license (43.5%) and the exporter (56.5%), according to the milestones that will be set under the transmission agreement.

- On February 15, 2021, the partners in the Tamar and Leviathan reservoirs reported the fulfillment of the closing conditions in the transmission agreement that was signed with INGL for the export of gas to Egypt in a manner that will allow flow on a regular basis and increased sale quantities to Egypt according to the supply conditions in the gas sale agreements of the various partnerships.

- On October 13, 2021, the Adiri 2 committee recommended leaving in place the natural gas export restrictions on existing reservoirs, as determined in Government Resolution 4442, but cancelling the export restriction on new reservoirs that shall be discovered.

- On February 16, 2022, the Ministry of Energy[31] approved commencement of the piping of the natural gas to Egypt, via the Kingdom of Jordan. The export via the new route, which was approved in view of the increasing demand for natural gas in Egypt, is expected to be 2.5-3 BCM in 2022, and may increase to 4 BCM in subsequent years. Actual piping of the natural gas began on March 1, 2022[32]and is expected to increase the volume of natural gas exported to neighboring countries.

- On February 17, 2022, the Tamar and Leviathan partners released responses to the Ministry of Energy's approval of the new gas route, whereby the partners in the two reservoirs are working on completing the set of agreements which will allow the piping of gas via the new route. On March 1, 2022, the Tamar and Leviathan partners reported completion of the process and commencement of the piping of the gas via Jordan to Egypt. In addition, we stated that the Ministry of Energy had approved for the partners in the two reservoirs an additional point for delivery of natural gas to Egypt, in Aqaba, Jordan.

4.5.4 Repercussions of the Covid crisis

- During Q1/2020, international markets recorded sharp fluctuations and extremely steep declines in oil and natural gas prices. According to market estimates, the fluctuations may be attributed to the Covid crisis, as well as other causes and factors that affect the demand for and supply of energy products. After correction of the markets for the crude oil production rate, trade in future crude oil contracts reverted to a price of $75 per barrel (as of December 31, 2021).

- According to a report by the Ministry of Energy on the effect of the Covid crisis on the consumption of energy in Israel (in this section: the "**Ministry of Energy Report**"),[33] the consumption of natural gas for the production of electricity in March – April 2020 was lower by approx. 10%, relative to the same period last year. The consumption of natural gas by the large-scale industry in March – April 2020 was lower by approx. 13% relative to the same months in 2019. The consumption of natural gas by small and medium consumers in March – April 2020 was higher by approx. 14% relative to the same months in 2019. The consumption of refined oil products which were examined by the Ministry of Energy Report (diesel, petrol, kerosene and LPG) in March 2020 was lower by approx. 39%,

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[31] "New route for the export of natural gas to Egypt – North Jordan!" – Ministry of Energy, February 16, 2022. https://www.gov.il/he/departments/news/ng_160222

[32] https://mayafiles.tase.co.il/rpdf/1433001-1434000/P1433795-00.pdf

"The Effects of Covid on Energy Consumption in Israel" – The Ministry of Energy, June 1, 2020 https://www.gov.il/BlobFolder/reports/corona_june_2020/he/corona_june_2020.pdf compared with the same period last year, however, the overall electricity consumption in 2020 was similar in scope to electricity consumption in 2019.

- According to the Partnership's report, natural gas sales (100%) in 2021 from the Leviathan project totaled approx. 10.7 BCM (compared with approx. 7.3 BCM in 2020, and compared with the forecast of March 2021 of 9.2 BCM for the entire year). Sales of the Tamar reservoir totaled approx. 8.6 BCM (compared with approx. 8.2 BCM in 2020 and compared with the forecast of March 2021 of 8.6 BCM for the entire year). If the Covid crisis and the slowdown in the global economy persist, the demand for energy products and the prices thereof are expected to continue to be adversely affected thereby.

- In a review of the developments in the natural gas sector in Israel in 2020, the Ministry of Energy examined the impact of Covid on the domestic market by comparing the data from March 2020 until the end of the year compared with the same period last year. It is found that the Israeli market continued to operate and consume natural gas under the restrictions which existed during the crisis, despite the Covid pandemic which erupted at the end of Q1/2020. From an analysis of the data, it transpires that in this comparison, the total consumption of the domestic market increased by approx. 7%, similar to the increase in the annual consumption. The electricity sector recorded an increase of approx. 8.5% in consumption, and the consumption in the industry sector in the same period increased from 1.85 BCM to 2.07 BCM, an increase of approx. 5.11%. In the export sector, fluctuations were recorded throughout 2020 were likely impacted by Covid, however, as aforesaid, compared with the consumption in the same period last year, there was an increase in consumption by export consumers. The fluctuations in the quantities of gas for export over the year were likely a result of changes in demand from the importing countries, mainly in Jordan, which is able to import LNG from other channels. Overall, the total natural gas production for the domestic market from March until the end of the year recorded a year-over-year increase of approx. 43% in the total supply.[34]

- In a review of the 2021 global energy crisis released by the Natural Gas Authority, it was estimated that the global energy market is currently trying to find a new equilibrium point in the short-medium term between demand and supply of fossil fuels (such as natural gas), in view of the transition period in which the world is striving to increase energy production through renewable energies, but still requires fossil fuels in order to supply the current demand for energy. The natural gas prices in Europe rose during 2021, and soared in recent months up to approx. $35 and higher per MMBTU, prices over ten times higher than last year.

  The global demand for energy in 2021 returned to pre-Covid levels, and as countries exited lockdowns, the demand for all energy types increased. The supply side is responding slowly relative to the demand side, since it is necessary to resume investments, rehire employees, and thus restart the business. Therefore, the sharp rise in demand, alongside the uncertainty surrounding the pace of recovery from the pandemic, has not been adequately addressed on the supply side, leading to an increase in prices.

[34] Ministry of Energy:
https://www.gov.il/BlobFolder/reports/ng_2020/he/ng_2020.pdf

As a result of the worldwide rise in coal prices, and subject to the continued production of electricity in Israel according to the current mix (coal constitutes approx. 26% of the total electricity production), the Natural Gas Authority expects an increase in the electricity tariff – the extent and timing of the effect are not yet clear. The worldwide rise in petroleum prices is expected to lead to a rise in the prices of oil products – benzene, LPG, fuel oil, etc. – the extent and timing of the effect are not yet clear. In addition, although the State of Israel is not dependent on natural gas import and self-supplies most of its own demand, natural gas prices in Israel will be indirectly affected due to the linkage components of the gas purchase contracts in Israel. The global energy crisis is expected to lead to an increase in the natural gas prices under the various contracts to a varying degree, and at varying timing, but overall the Natural Gas Authority expects a moderate increase only.

According to a forecast of an outside consultant which was prepared for the Partnership, the domestic demand for natural gas in 2021 is expected to total approx. 12.5 BCM and gradually increase to approx. 17.9 BCM in 2025, and to approx. 20.1 BCM in 2030. The increase in the domestic demand between 2020-2030 is expected to derive mainly from the addition of approx. 4.3 BCM as a result of cessation of the use of coal for electricity production, from the addition of approx. 5.3 BCM as a result of natural growth in the demand for electricity (population growth, improvement in the standard of living and in disposable income), and from the addition of approx. 2.5 BCM as a result of the use of electric vehicles. Conversely, the demand forecast includes a decline in domestic demand for natural gas due to renewable energies penetrating the domestic market, and in reference to the current target of the Ministry of Energy for electricity production from renewable energies to account for 30% of all power consumption in 2030, the outside consultant's forecast assumes partial meeting of this target in practice – at a rate of 26% of the entire power consumption in 2030, with the remaining 74% of power consumption in 2030 being generated using natural gas.

4.6 Market developments

4.6.1 The "Tamar and Leviathan" leases

- On December 31, 2019, the Leviathan partners reported the commencement of natural gas flow from the Leviathan reservoir to customers according to the agreements signed with them for the supply of natural gas from the reservoir, including the sale of natural gas to Jordan. Further thereto, it was reported that on January 1, 2020 and on January 15, 2020, the gas flow from the Leviathan reservoir began to Jordan and to Egypt, respectively.

- On October 2, 2020, Noble, which holds interests in the Tamar and Leviathan reservoirs and is the operator of such reservoirs, reported that the shareholders' meeting had officially approved the acquisition of the company by American company Chevron in consideration for approx. $5 billion.

- On August 30, 2020, some of the partners in the Tamar project (Tamar Petroleum Ltd., Isramco Negev 2 – Limited Partnership, Dor Gas Exploration Limited Partnership and Everest Infrastructures Limited Partnership, hereinafter jointly in this section: the "**Sellers**"), reported the signing of agreements for the supply of natural gas from the Tamar reservoir to Oil Refineries Ltd. (in this section: "**ORL**" and ICL Group Ltd. (in this section: "**ICL**"). In the Sellers' estimation, the aggregate revenues from the sale of natural gas to ORL is expected to amount to approx. U.S. $150 million, assuming that ORL uses natural gas under the supply agreement until the end of 2021. The aggregate revenues from the sale of natural gas to ICL is expected to amount to approx. 60% of the expected revenues under the ORL agreement. On October 4, 2020, it was reported that the agreements with ORL and ICL had been approved by all of the parties, including NewMed Energy.

- On September 13, 2020, Delek Group Ltd. (in this section: "**Delek Group**") reported that Delek Energy, a wholly owned subsidiary of Delek Group, had entered into an agreement with Essence Royalties, Limited Partnership, for the acquisition of all Delek Energy's holdings in Tomer Royalties (approx. 39.93% as of such date) for a total consideration of approx. ILS 46 million.

- On September 23, 2020, NewMed Energy reported that the partners in the Leviathan project had signed a natural gas supply agreement with the Ramat Hovav partnership for a total volume of 1.3 BCM for a period of 30 months, or until the date of commercial operation of the Karish and Tanin reservoir, whichever is earlier.

- On October 28, 2020, Delek Group reported the completion of the issue of bonds secured by a pledge of the rights thereof (25%) and of Delek Energy Systems Ltd. (75%) to overriding royalties from the Leviathan reservoir, in consideration for approx. $180 million, net of a safety cushion for interest payment and issue and underwriting expenses. The bonds bear a fixed annual dollar interest rate of 7.494% and have an international rating of +B (Fitch).

- On January 19, 2021, the Partnership and INGL reported that INGL had entered into an agreement with Noble Energy for the provision of transmission services on a firm basis for the purpose of piping natural gas from the Leviathan reservoir and from the Tamar reservoir to EMG's terminal in Ashkelon for export to Egypt. According to the agreement, Noble Energy undertakes to purchase approx. 5.5 BCM of the piping capacity of the transmission system per year, and at least 44 BCM throughout the term of the agreement. Conversely, INGL undertook to transmit no less than the aforesaid gas quantity on a firm basis, while the remaining required quantity will be piped on an interruptible basis. It was further clarified that, in the Partnership's estimation, the transmission system was planned in a manner enabling the piping of the full quantities of gas required under the agreement. In the Partnership's estimation, INGL's expected income under the agreement is expected to total approx. ILS 170 million per year. The transmission agreement will end on the earlier of: (1) the date on which the total quantity piped is 44 BCM; (2) 8 years after the date of commencement of the flow (between July 2022 and April 2023); or (3) upon expiration of the company's transmission license. The report further clarified that the Partnership does not expect any difficulty extending the agreement upon its expiry. On February 15, 2021, INGL reported the fulfillment of the closing conditions determined in the agreement.

- On January 31, 2021, NewMed Energy reported that the partners in the Leviathan project had signed a settlement agreement (the "**Leviathan Settlement Agreement**"), which regulates the disputes regarding the gas supply agreement which was signed by the Leviathan partners with the IEC on June 12, 2019 (the "**IEC-Leviathan Agreement**"). According to the Leviathan Settlement Agreement, which amends the IEC-Leviathan Agreement, the IEC undertook to nominate from the Leviathan partners a quantity of approx. 1.2 BCM of natural gas during the first half of 2021. In addition, the Leviathan partners will give the IEC a price discount in respect of nomination of gas quantities that exceed approx. 0.5 BCM that are nominated from January 1, 2021. During 2020, a quantity of approx. 2.4 BCM was supplied to the IEC from the Leviathan reservoir. In accordance with the Leviathan Settlement Agreement, during H1/2021, an additional quantity of 1.2 BCM will be supplied to the IEC. On May 31, 2021, the Partnership reported on the taking effect of the Leviathan Settlement Agreement.

- On February 23, 2021, NewMed Energy reported that the partners in the Tamar reservoir had signed an agreement intended to allow each one of them separate marketing of its proportionate share in the natural gas produced from the Tamar reservoir, without derogating from the possibility of joint marketing of the gas produced from the reservoir (the "**Separate Marketing Agreement**"). The agreement determined mechanisms for compensation in money or in gas in cases where one of the partners chooses to increase the daily gas output over and above its proportionate share in the daily output, on account of its partner which is not using its full proportionate share in the daily output. On May 26, 2021, the Partnership reported that on May 11, 2021, the Separate Marketing Agreement took effect.

- On January 24, 2022, the partners in the Tamar reservoir reported the signing of an amendment to the 2012 IEC-Tamar Agreement[35], whereby the gas price by which the IEC is bound in 2021 under the IEC-Tamar agreement of 2012 will be reduced by a rate several percent higher than the rate of the maximum reduction determined in the reduction mechanisms in this agreement for that year and for subsequent years. It was also determined that the parties to the agreement will reserve the right to a price adjustment

[35] https://maya.tase.co.il/reports/details/1427402/2/0.

(10% up or down) on January 1, 2025 (instead of July 1, 2024 in the 2012 IEC-Tamar Agreement)[36]. In addition, the term of the 2012 IEC-Tamar Agreement was extended by another 2.5 years, such that this agreement will end on December 31, 2030 (the "**Date of Conclusion of the Amended Agreement**"). The gas price in the 2012 IEC-Tamar Agreement after the reduction determined in 2021 will be linked to the U.S. Consumer Price Index (the "**U.S. CPI**"), as follows:

- An increase of up to 2.25% will be taken into account in full.

- An increase of between 2.25% and 3.75% will not be taken into account in the relevant year, and may accrue and be taken into account in subsequent years only insofar as the rate of the rise in the U.S. CPI therein is less than 2.25%, and in any event the linkage in such years shall not exceed 2.25%.

- An increase of over 3.75% will be taken into account in full (the portion exceeding 3.75%).

- 1% per annum will be deducted from the above weighted linkage rate.

The IEC also undertook to purchase an additional 16 BCM (over and above the quantity to which it committed in the 2012 IEC-Tamar Agreement) until the Date of Conclusion of the Amended Agreement (in accordance with its operational needs). Insofar as the IEC does not consume the total natural gas quantity to which it committed until such date, the agreement will automatically be extended until consumption of the full natural gas quantity. The price per unit of heat (MMBTU) for this additional quantity was determined in the agreement at approx. $4, without linkage and without rights to adjustments in the future.

▪ On December 9, 2021, the Partnership closed the sale of its interests at a rate of 22% in the I/13 Dalit and I/12 Tamar leases to a group of investors headed by Mubadala Petroleum (Tamar Investment 1 RSC Limited and Tamar Investment 2 RSC Limited), in consideration for approx. $1.0 billion. The Partnership thus completed fulfillment of all of the conditions determined for the granting of the Exemption (as defined in Section 4.3 above), as determined in the Gas Framework of December 17, 2015.

▪ On December 20, 2021, the Tamar partners reported the signing of an amendment to the gas supply agreement between Dalia and the Tamar partners, with the exception of Tamar Investment 1 RSC Limited and Tamar Investment 2 RSC Limited (the "**Remaining Tamar Partners**"). The amendment mainly concerns the extension of the term of the agreement by three years, such that it expire on July 8, 2035 (rather than July 8, 2032), and reduction of the minimum annual gas quantity charged ("Take or Pay") that is specified in the agreement. Furthermore, Dalia will undertake to buy an additional minimal daily quantity of gas that is required for its operations according to its needs, subject to the deductions specified in the agreement. The price for a daily gas quantity and the price linkage mechanism shall remain as provided by the original agreement. The gas price for the

[36] In the IEC-Tamar agreement of 2012, the Parties determined two dates on which each party may request adjustment of the purchase price, July 1, 2021 and December 31, 2024. According to the mechanism determined, the IEC may request a price adjustment of up to 25% on the first date and up to 10% on the second date.

additional daily gas quantity that Dalia will buy over and above the minimal quantity shall be lower than the gas price for the minimal quantity and primarily linked to the Electricity Production Tariff, as determined from time to time by the Electricity Authority. The entry of the amendment to the agreement into effect is subject to the satisfaction of several conditions precedent[37]. On February 28, 2022, the partners reported the satisfaction of the condition precedent of the Remaining Tamar Partners joining the amendment to the agreement[38].

4.6.2 "Karish and Tanin" leases

- **Adoption of an investment decision** – On March 27, 2018, Energean notified the Partnership of the adoption of an investment decision for the development of the Karish reservoir, and in March 2018, March 2019, March 2020 and March 2021 it paid the Partnership the first, second, third and fourth payments in the sum of $10.85 million, $15.34 million, $14.84 million and $14.34 million, respectively.

- **Listing of Energean on the Israeli stock exchange** – On October 29, 2018, trading of Energean's parent company, Energean Oil & Gas plc, was launched on the Tel Aviv Stock Exchange as a cross-listed company whose shares are additionally also premium-listed on the London Stock Exchange.

- **Commencement of manufacture of Energean's floating production facility** – On November 27, 2018, Energean announced commencement of manufacture, in China, of the floating platform (FPSO) that is due to be used by the Karish and Tanin reservoirs. The platform is intended to treat the natural gas to be produced at the Karish-Tanin project in Israel's EEZ. The process of production and treatment of gas will be carried out at the wellhead, at a distance of approx. 90 km from the shore.

- **Signing of an agreement for the construction and delivery of the eastern segment of the infrastructure for gas transmission from the leases** – On June 25, 2019, Energean announced that it signed an agreement with INGL, whereby it will build and transfer to INGL the eastern segment of the gas infrastructure, which includes an offshore segment at a distance of approx. 10 km from the shore and an onshore segment. In consideration therefor, INGL will pay Energean approx. ILS 369 million.

- **Signing of agreements for the sale of natural gas to the Alon Tavor power plant**– On November 21, 2019, Rapac Energy Ltd. reported that MRC Group, the winner of IEC's tender for the purchase of the Alon Tavor power plant, engaged in an agreement with Energean for the supply of natural gas in an annual amount of approx. 0.5 BCM for a period of 15 yeas (and in total up to 8 BCM). On December 17, 2020, Energean reported that it had engaged with Rapac Energy Ltd. in an additional agreement for supply of natural gas in an average annual amount of approx. 0.4 BCM for a period of 6 to 15 years, in addition to the existing signed agreements between Energean and Rapac Energy.

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[37] https://maya.tase.co.il/reports/details/1419083/2/0.
[38] https://maya.tase.co.il/reports/details/1433483/2/0.

- **The signing of an MOU between Energean and Greece's gas transmission corporation (DEPA) for the sale of natural gas** – Ahead of the expected signing of the East Med Pipeline agreement by the governments and Energy Ministers of Cyprus, Greece and Israel, on January 2, 2020, Energean signed an MOU with DEPA for the possible sale of up to 2 BCM of natural gas per year from the reservoirs held by the company in Israel, the gas from which will be produced through the FPSO rig.

- **The dispute between Energean and NewMed Energy in connection with the entitlement to receipt of royalties from the reservoirs** – Further to Energean's report of April 9, 2020, regarding an update of the scope of the resources in the "Karish North" well, in April 2020, Energean and the Partnership exchanged letters in connection with the Partnership's entitlement to receive royalties from the leases. Energean claims, *inter alia*, that its undertaking to pay royalties does not apply with respect to hydrocarbons from the "Karish North" well, and in addition that not all the hydrocarbon liquids produced from the Karish lease meet the definition of condensate under the agreement for the sale of the Partnership's interests in the leases. It is the Partnership's position, based on legal and professional advice received, that according to the agreement for the sale of the Partnership's interests in the leases, the royalty documents and the registration in the Petroleum Register, Energean's obligation to pay royalties applies with respect to natural gas and condensate produced from the Karish lease, including from the "Karish North" well, and that the hydrocarbon liquids to be produced from the leases constitute condensate, as defined in the agreement.

- **Sale of the overriding royalties of Delek Group and Delek Energy to the Noy Fund** – On May 25, 2020, Delek Group and Delek Energy, a subsidiary of Delek Group, engaged with the Noy Fund in an agreement for the sale of their rights to overriding royalties from the Karish and Tanin leases. In consideration, the Noy Fund paid the sum of ILS 318 million, which was divided between Delek Group and Delek Energy according to their proportionate share in the royalties that were sold (25% and 75%, respectively).

- **Signing of an agreement for the sale of natural gas with Ramat Hovav partnership** – On September 16, 2020, Energean reported its engagement in agreements for the supply of natural gas from the Karish reservoir with the Ramat Hovav partnership (Edeltech and Shikun & Binui). According to the agreements, Energean will sell the Ramat Hovav partnership natural gas from the date of commencement of natural gas flow from the Karish field, at an annual quantity of approx. 1.4 BCM. The agreements include provisions on a price floor and a Take-or-Pay mechanism and are expected to generate for Energean approx. $2.5 billion throughout the life of the contracts. According to the first agreement, which will be valid until expiration of 20 years from the date of the engagement therein, the main quantity sold in the context of the agreements is for the Ramat Hovav power station. Under another agreement, the rest of the gas will be supplied to other power stations held by the owners of the Ramat Hovav partnership – for a period of up to 15 years.

- **Agreement for the acquisition of all of the holdings in Energean Israel** – On December 30, 2020, Energean reported that it had signed an agreement for the acquisition of the remaining 30% of the issued and paid-up share capital of Energean Israel Ltd. ("**Energean**

Israel") from Kerogen Investments No. 38 Ltd. ("**Kerogen Fund**"). In consideration for the holdings of Kerogen Fund in Energean Israel, Energean will pay an amount ranging between $380 million and $405 million. On February 25, 2021, Energean reported the closing of the transaction, and commencing from such date, Energean holds 100% of the issued and paid-up share capital of Energean Israel.

- **Final investment decision (FID) in the "Karish North" reservoir** – On January 14, 2021, Energean reported on the adoption of a final investment decision (FID) in the 'Karish North' reservoir in the sum of approx. $150 million. Energean estimates that the IRR of the project will be approx. 40%, and that natural gas will be produced from this reservoir for the first time in H2/2023.

- **$700 million loan from the banks J.P. Morgan and Morgan Stanley** – On January 14, 2021, Energean reported that it had signed a loan agreement with the banks J.P. Morgan and Morgan Stanley in the sum of $700 million for a period of 18 months. The interest on the loan will be 5.75% and will rise by 0.25% every three months up to a maximum interest rate of 7%. The loan will be used, *inter alia*, for the financing of development of the 'Karish North' reservoir; for financing the transaction for the acquisition of the holdings of Kerogen Fund in Energean Israel; for additional investments in the Karish reservoir; and for the financing of another exploration campaign of the company in early 2022. Concurrently, Energean reached agreements with its existing lenders for the financing of the development of the Karish reservoir regarding the refinancing of a loan in the sum of $1.45 billion such that its maturity date will be postponed by 9 months from December 2021 to September 2022.

- On February 28, 2021, Energean reported that Energean Israel intends to issue four series of preferred secured bonds, for a total sum of approx. $2.5 billion ($625 million each) with a duration of 3, 5, 7 and 10 years (the "**Secured Bonds**"). Energean Israel intends to use such amount for the financing of an existing project, repayment of a loan in the sum of $700 million taken on January 14, 2021 and additional expenses of Energean and its subsidiaries. On March 24, 2021, Energean announced the completion of the issuance of the Secured Bonds at interest rates of 4.500%, 4.875%, 5.375% and 5.875%, respectively. The Secured Bonds were rated BB (international) by the rating agency S&P and will be traded on TASE UP (formerly TACT-Institutional).

- On June 28, 2021, Energean reported that the date of commencement of production of natural gas from the Karish North reservoir has also been postponed to H2/2023 (in lieu of the beginning of 2023). In addition, Energean reported that Energean Israel signed a drilling agreement with Stena Drilling Limited as part of the plan for drilling and development of its reservoirs in Israel for the years 2022-2023. The planned drilling will be performed in 2022 in the Karish, Karish North and Block 12 reservoirs (drilling may be carried out at two more sites).

- On November 3, 2021, Energean reported the receipt of a letter on immediate termination of a contract for sale of natural gas in the volume of approx. 0.8 BCM per year that was previously signed between the company and Dalia Energy Companies Ltd. ("**Dalia**"). Dalia and the company are discussing the legality of the termination of the contract, and legal action on the matter is possible. As of the date of the Paper, we are unable to evaluate the results of the discussion, and therefore termination of the contract was not taken into account in the valuation.

- On November 11, 2021, Energean announced its intention to issue, on November 18, 2021, several series of secured senior bonds in a total sum of $450 million, due to mature in 2027. The annual interest rate of these series is 6.50%, to be paid in semi-annual installments on April 30 and October 30 of each year. The bonds are expected to be traded on TISE (the International Stock Exchange). According to the report, Energean intends to use such sum to repay all of its liabilities related to the reservoirs in Egypt and Greece, to repay deferred debt, to pay fees and other expenses related to the offering and for general purposes of the company.

- On December 13, 2021, Energean reported that it had signed an agreement with Kanfa AS for the construction of a second Oil Train Module (OTM) for the Karish reservoir. The construction of the additional OTM will allow for increase of the hydrocarbon liquids output of the FPSO platform from 18 KBO per day to 32 KBO per day. The OTM is expected to be connected during Q3/2023.

- On January 18, 2022, Energean reported completion, as of December 31, 2021, of 100% of the work on construction of the production wells; approx. 98.4% of the work on construction of the FPSO; approx. 99.9% of Energean's work on the shore; and approx. 83.6% of the subsea work. Consequently, Energean estimates that approx. 92.5% of the development work for the Karish reservoir has been completed. Work on construction of the FPSO in Singapore, which is being carried out by TechnipFMC, is expected to be completed by the end of Q1/2022. Energean expects that the departure of the FPSO from Singapore to Israel, its connection to the drilling point and the running-in process are expected to take around four-five months. According to Energean, production of the natural gas from the Karish reservoir is expected to commence during the second half of 2022.

  Energean also released a chart describing the annual natural gas production rate which is expected from the reservoirs in accordance with all the agreements it has as of the release date. Energean reported that the maximum annual production rate was updated to approx. 7.2 BCM per year (in lieu of 7.4 BCM per year in previous reports), in view of mutual termination of an agreement in the scope of approx. 0.2 BCM a year.

- **A natural gas sale SPOT agreement signed with IEC** – On March 14, 2022, Energean reported that it had entered into a SPOT agreement with IEC for supply of natural gas from the Karish reservoir. Under the agreement, IEC has the right to purchase natural gas at a variable monthly price in quantities to be determined on a daily basis (without a commitment). The agreement shall apply for one year from the date of production of first gas from the Karish reservoir, with extension options subject to both parties' consent.

- **Update of the volume of resources attributable to the Karish, Karish North and Tanin reservoirs** – On March 17, 2022, Energean released a resource and reserve report as of December 31, 2021, prepared by the resource estimation firm DeGolyer and MacNaughton, whereby the Karish, Karish North and Tanin reservoirs (in this section: the "**Reservoirs**") have reserves of natural gas and hydrocarbon liquids (2P) of approx. 100.2 BCM and approx. 101.3 million barrels, respectively.[39] Energean has confirmed that first natural gas production from the Karish North reservoir is expected as of 2023, and has postponed the estimated date of commencement of production from the Tanin reservoir to 2028 (rather than 2027) and extended the projected term of operation of the Reservoirs until 2042 (rather than 2040). Furthermore, Energean released its forecasts with respect to the rate of production of the natural gas and hydrocarbon liquids from each one of the Reservoirs, as well as forecasts pertaining to the amounts of the capital investments, royalties, taxes and operating costs of the Reservoirs.

[39] https://www.energean.com/media/5159/024343-energean-israel-2021ye-cpr.pdf.

5. Valuation of Royalties

5.1 Methodology

According to IFRS 3, contingent consideration is defined as: "...*an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met.*"

As specified in Chapter 4 above, the consideration to which the Partnership is entitled includes a possibility of receiving future proceeds, in addition to the amounts to be received in cash ($40 million), which are contingent upon the occurrence of future events as specified below:

i. Consideration in the amount of $108.5 million which will be paid to the Sellers in ten equal annual payments plus interest commencing on the date on which the Buyer shall have made a final investment decision (FID) or the Buyer shall have invested in the development of the reservoir an aggregate sum exceeding $150 million (the "**Investment Decision**"), whichever is earlier. Therefore, this consideration component is similar in its nature to a financial debt of the Buyer to the Sellers, which is contingent upon the development of the leases, whether by an FID or the actual performance of the investment. On March 27, 2018, as aforesaid, Energean notified the Partnership of the adoption of an Investment Decision for the development of the Karish reservoir, and therefore the Debt Component is defined as deferred consideration.

   In view of the bond offering, during May-June 2021, letters were exchanged between Energean and the Partnership in connection with the Partnership's demand for payment of the balance of the consideration for the Debt Component in a single and immediate payment, in accordance with the terms and conditions of the agreement for the sale of the interests in Karish and Tanin. As of the date of the Paper, the Partnership's position has not yet been accepted by Energean, and we are unable to estimate the likelihood of Energean's granting this demand and/or the outcome of a legal proceeding, insofar as conducted. Consequently, no assessment was made herein of a Debt Component prepayment scenario.

ii. Royalties from revenues (net of existing royalties[40]) which will be paid to the Sellers at rates of 7.5% before the Levy and 8.25% after the Levy. Therefore, the Royalties are also contingent upon the development of the leases and the ability of the Buyer to produce revenues from natural gas and condensate from the reservoirs.

According to the characteristics of the consideration components specified above, the value of the Royalties in the transaction for the sale of Karish and Tanin leases is assessed through the Discounted Cash Flow method, while adjusting the cap rates to the risks involved in the completion of the development of the reservoirs and the cash flow.

[40] The Sold Interests were transferred to the Buyer together with the existing overriding royalties in the leases borne by each of the Sellers, with respect to their original share (26.4705%).

5.2 Working assumptions

5.2.1 General

The main working assumptions as specified below are based primarily on a resource and reserve report as of December 31, 2021, prepared by the consulting firm DeGolyer and MacNaughton, a competent resource appraiser("D&M CPR"), released by Energean on March 17, 2022, with adjustments as specified below, and on the analysis of market data and releases of public companies in the oil and gas sector. It is emphasized that the assumptions and information specified below, including with respect to forecasts and the main commercial conditions in the agreement for the sale of the reservoirs, as well as regarding the types of the hydrocarbon liquids which will be produced from the reservoirs and in respect of which royalties will be paid to the Partnership, constitute forward-looking information in the meaning thereof in the Securities Law, 5728-1968, which there is no certainty of the materialization thereof, in whole or in part, in the said manner or in any other manner.

5.2.2 Timetable

According to Energean's aforementioned reports, first gas production is expected in H2/2022. It was further reported that drilling in the Karish North reservoir will begin in the summer of 2022, and first gas from the reservoir is expected in 2023. Production from the Tanin lease will begin in 2028.

In the context of the valuation, it was assumed that the production of gas from the Karish, Karish North and Tanin reservoirs would commence in Q3/2022, Q1/2023 and Q1/2028, respectively. It was further assumed that the natural gas reserves in the Karish, Karish North and Tanin reservoirs would be depleted in 2036, 2042 and 2037, respectively.

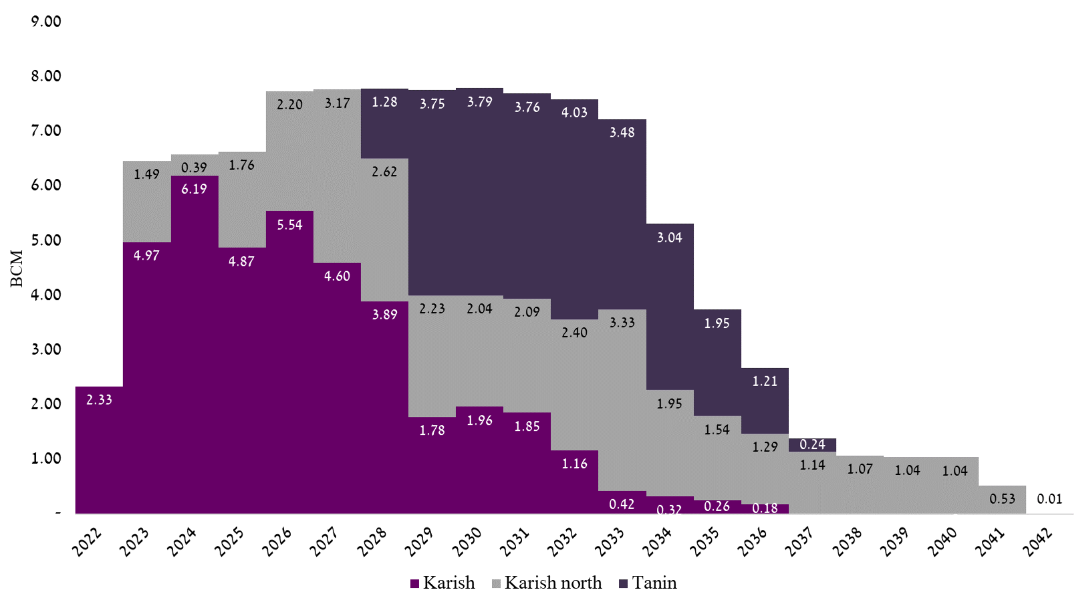
5.2.3 Quantity forecast and annual production rate

Below is a specification of the quantities of natural gas and hydrocarbon liquids (condensate and natural gas liquids) in the Karish and Tanin leases (100%) as published in the D&M CPR:

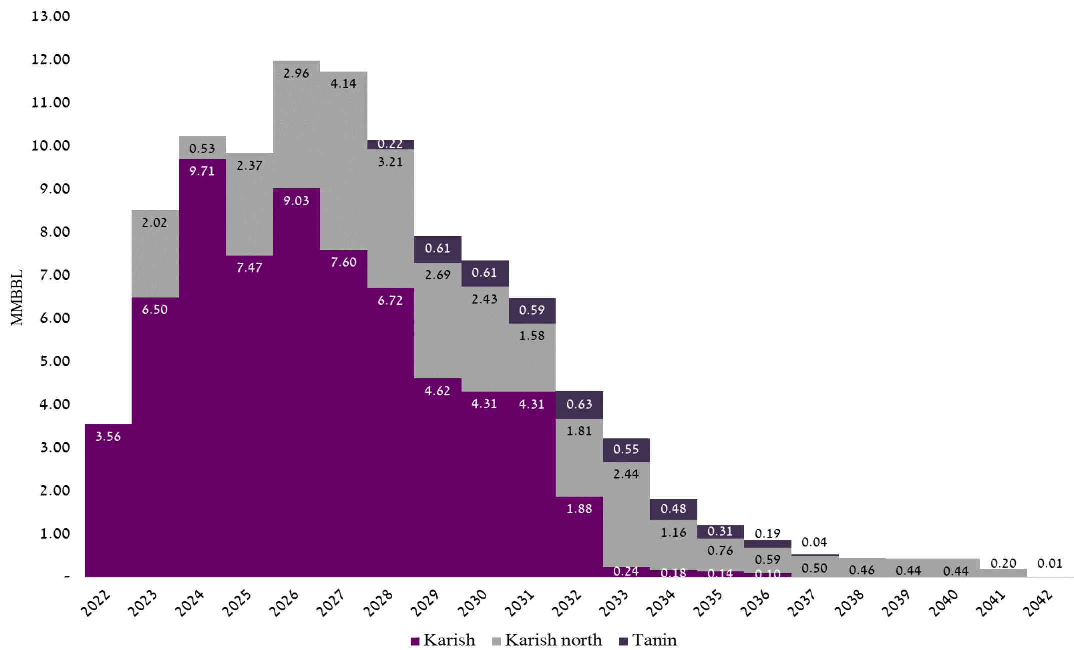
Reservoir	Reserves and Resources	
	Natural Gas (BCM)	Hydrocarbon Liquids (MMBBL)
	2P	2P
Karish Center	40.3	66.4
Karish North	33.3	30.7
Tanin	26.5	4.2
Total	**100.2**	**101.3**

According to the D&M CPR, Energean estimates that it is expected to sell up to 7.8 BCM per year throughout the years of the forecast, of which approx. 75% are within the Take-or-Pay mechanisms included in the agreements with its customers.

The chart below describes the production rate of natural gas from the reservoirs according to the D&M CPR:



The chart below describes the production rate of hydrocarbon liquids (condensate and natural gas liquids) from the reservoirs according to the D&M CPR:



The forecasted annual production rate of natural gas and condensate used in the valuation was based on the production rate specified in the D&M CPR multiplied by a factor of 92.5%, which in our estimation reflects the likely scenario considering the public information available in relation to the contracts that have been signed, the extent of the demand and the expected competition in the domestic market (for a detailed forecast of the annual production rate of natural gas and condensate see Annex A).

In addition, according to the D&M CPR, a conversion factor of 37.2 million MMBTY to 1 BCM was assumed.

5.2.4 Natural gas prices forecast

The natural gas prices forecast relied on the following assumptions:

- The base price in the contracts under which the valuation was carried was estimated through the formulas specified in the price mechanism between Energean and ICL and ORL and between Energean and OPC, as well as in consideration of the price of the gas in the contract with Ramat Hovav power station and the parameters specified below:

  i. **The Production Component Tariff**: as of the Valuation Date, the production component tariff is 28.40 Agorot (January 2022) but there may be changes in this tariff, subject to the decision of the Electricity Authority. Throughout the other forecast years, it was assumed that the production component tariff would change according to the IEC's expected expenses in respect of electricity production, which are affected, *inter alia*, by the prices of natural gas, coal, changes in exchange rate (ILS/$), conversion of the coal-fired power plants to use of natural gas, the sale of power plants to independent power producers and other production costs. According to our forecasts, the production component tariff is expected to range between approx. 23.60-28.40 Agorot throughout 2022-2037.

     In view of the provisions of Section 4.5.1 above regarding the announcement of a call with respect to an update to the demand hour clusters, as of the date of the Paper, we are unable to predict the effects of the proposed change on the weighted production component tariff, and therefore this update was not taken into account in the valuation.

  ii. **ICL and ORL** – floor price of U.S. $3.975 per MMBTU according to an agreement between the company and ICL and ORL.

  iii. **OPC** – floor price of U.S. $3.975 per MMBTU when the production component is larger or equal to 26.4 Agorot, and a floor price of U.S. $3.8 per MMBTU when the production component is lower than 26.4 according to an agreement between the company and OPC.

  iv. **Ramat Hovav** – fixed price of U.S. $3.95 per MMBTU.

- It was assumed that a gas amount of 1.0 BCM shall be regularly supplied to the Ramat Hovav power plant and that the remaining gas amount which will be sold will be equally distributed between independent power producers (such as the contract with OPC) and industrial producers (such as the contracts with ICL and ORL).

Note that for the base scenario and the low scenario, the D&M CPR assumed a fixed natural gas price of approx. U.S. $4.04 per MMBTU throughout all the years of the forecast.

5.2.5 Condensate prices forecast

The condensate prices forecast was estimated based on the average of the long-term petroleum prices forecast of the World Bank[41], the EIA[42] and the forward prices of Brent according to Bloomberg data.

It is noted that the base scenario in the D&M CPR assumed a condensate price of approx. U.S. $80 per barrel in 2022, approx. U.S. $75 per barrel in 2023, approx. U.S. $70 per barrel in 2024, and approx. U.S. $65 per barrel from 2025 and over all other years of the forecast (fixed), based on the assumption that Energean will be able to sell the condensate in its reservoirs at a 10% premium over price of Brent.

5.2.6 The royalties rate

The rate of the royalties to be paid to the State was set, according to the Petroleum Law, at 12.5% of the value of the gas at the wellhead.[43] The actual royalties' rate is lower as a result of deduction of expenses for the transmission systems and the treatment of the gas up to the gas delivery point on shore. According to the Partnership's estimates, it was assumed that the effective royalty rate which will be paid to the State for the gas and condensate is 11.5%. Furthermore, the rate of the existing royalties in the leases, borne by each of the Partnerships were similarly adjusted. We shall note that the actual rate of royalties could change and is not final.

5.2.7 Petroleum profits levy

The Petroleum Profits Levy is a progressive levy which is set according to a mechanism which connects the rate of the levy to the ratio of the net accrued revenues from the petroleum and gas production project and the total accrued investments for the exploration and initial development of the reservoir (the "**Investment Coverage Ratio**"). The minimal levy at a rate of 20% will be charged when the Investment Coverage Ratio will reach 1.5 and rise gradually to a rate of 50% (according to the corporate tax rate[44]) with the Investment Coverage Ratio reaching 2.3. The levy will be calculated and imposed for every reservoir separately.

Within the cash flow forecast for the Royalties, we deducted the levy from the net royalties (after offsetting the existing royalties) which will be received by the Partnership from each lease, based on the rate of the levy calculated in the financial model of each of the leases.

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[41] A World Bank Semi-Annual Report: Commodity Markets Outlook, October 2021.

[42] U.S Energy Information Administration: Analysis & Projections, February 2022.

[43] On February 9, 2020, the Ministry of Energy released for public comment directives on the method of calculation of the value of the royalty at the wellhead in connection with offshore petroleum rights. For further details see: https://www.gov.il/he/departments/publications/Call_for_bids/os_090220

[44] Corporate tax of 23% was assumed according to the statutory tax rate known as of the Valuation Date.

5.2.8 Royalties cap rate

- The cap rate used in the valuation prepared by us as of December 31, 2019 (the "**12/19 Valuation**") was estimated at approx. 11% based on the cap rate of the Leviathan reservoir and adjustments due to the risk differences between the reservoirs and the cash flows (for further details, see Section 5.2.9 of the 12/19 Valuation).

- H1/2020 saw steep price drops in the financial markets around the world, including in Israel, as well as steep changes in currency exchange rates, and extreme drops in oil and natural gas prices on the international markets, as a result of the spread of Covid and additional factors that affect the demand and supply of energy products worldwide. In view of these developments and in view of the continued outbreak of new variants of the Covid pandemic worldwide, we have added a 1% premium which, in our estimation, reflects the increase in the level of risk compared with the 12/19 Valuation.

- In view of the events described in Section 4.6 above, including the signing of an amendment to the 2012 IEC-Tamar Agreement, the letter demanding termination of a natural gas supply contract between Dalia and Energean and the delays in the completion of development of the Karish reservoir (the nature of which as risk factors increases as the expected date of gas production from the Karish reservoir approaches), we have added an additional 1.5% premium which, in our estimation, reflects the increase in the level of risk compared with the 12/19 Valuation, such that the total cap rate for the overriding royalties is estimated at approx. 13.5%. Upon commencement of the piping of the gas in practice from the Karish reservoir, and upon commencement of the commercial operation of the reservoir, a review is expected to be carried out of the relevant cap rate.

5.3 Results of the valuation

According to the assumptions specified in the Paper itself, the value of the Royalties as of December 31, 2021 is estimated at approx. $262.2 million (the value of the Karish Royalties (including Karish North) and the Tanin Royalties are estimated at approx. $227.1 million and approx. $35.1 million, respectively). **To clarify, the valuation does not address the disputes, if any, between Energean and the Partnership, and the implications thereof** (for a specification see Section 4.6.2 above).

5.4 Sensitivity analyses

Following is an analysis of the sensitivity of the royalties' value to changes in the cap rate and to changes in the natural gas prices, in millions of U.S. $:

		Change in the Natural Gas Price Vector (U.S. $ per MMBTU)						
		(1.50)	(1.00)	(0.50)	-	0.50	1.00	1.50
Change in Cap Rates (in Base Points)	+250 bp	207.8	216.2	225.0	238.9	243.3	248.4	260.1
	+150 bp	215.4	224.2	233.3	247.7	252.3	257.7	269.8
	+50 bp	223.6	232.7	242.2	257.2	262.0	267.7	280.2
	-	227.9	237.2	246.9	**262.2**	267.1	273.0	285.8
	-50 bp	232.4	241.8	251.7	267.4	272.4	278.4	291.5
	-150 bp	241.8	251.6	262.0	278.3	283.6	290.0	303.6
	-250 bp	252.0	262.2	273.2	290.1	295.8	302.6	316.7

Following is an analysis of the sensitivity of the royalties' value to changes in the cap rate and to changes in the annual production quantity, in millions of U.S. $:

		Change in the Annual Production Rate of Natural Gas (BCM)						
		(1.00)	(0.50)	(0.25)	-	0.25	0.50	1.00
Change in Cap Rates (in Base Points)	+250 bp	196.5	215.8	226.9	238.9	240.0	246.8	250.2
	+150 bp	204.9	224.4	235.6	247.7	248.5	255.3	258.5
	+50 bp	213.9	233.6	244.9	257.2	257.7	264.5	267.4
	-	218.7	238.5	249.8	**262.2**	262.5	269.3	272.1
	-50 bp	223.7	243.6	254.9	267.4	267.5	274.2	276.9
	-150 bp	234.4	254.4	265.7	278.3	278.1	287.4	287.1
	-250 bp	246.1	266.2	277.4	290.1	289.4	295.9	297.9

Following is an analysis of the sensitivity of the royalties' value to changes in the cap rate and to changes in the condensate prices, in millions of U.S. $:

		Change in the Condensate Price Vector (U.S. $ per bbl)						
		(30.00)	(20.00)	(10.00)	-	10.00	20.00	30.00
Change in Cap Rates (in Base Points)	+250 bp	214.0	220.6	227.1	238.9	242.6	245.3	255.8
	+150 bp	222.1	228.8	235.5	247.7	251.6	254.3	265.2
	+50 bp	230.7	237.7	244.6	257.2	261.2	264.1	275.3
	-	235.3	242.3	249.4	**262.2**	266.3	269.2	280.6
	-50 bp	240.0	247.2	254.4	267.4	271.6	274.5	286.1
	-150 bp	250.0	257.4	264.9	278.3	282.7	285.8	297.8
	-250 bp	260.8	268.5	276.2	290.1	294.8	297.9	310.4

Annex A – Cash Flow Forecast

Year	Unit	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Production											
Gas production - Karish*	bcm/y	2.16	5.98	6.09	6.13	7.16	7.19	6.02	3.71	3.70	3.65
Gas production - Tanin	bcm/y	-	-	-	-	-	-	1.18	3.47	3.50	3.48
Condensate production - Karish*	bbl/y m	3.29	7.88	9.47	9.10	11.08	10.86	9.18	6.76	6.24	5.45
Condensate production - Tanin	bbl/y m	-	-	-	-	-	-	0.20	0.57	0.57	0.55
Prices											
Natural gas price	US$	2.99	3.97	3.97	3.97	3.97	3.97	3.97	3.97	3.97	3.97
Condensate Price	US$	75.74	68.61	67.82	66.97	66.54	66.39	66.51	69.89	70.32	70.76
Revenues											
Karish - Revenues*											
Natural Gas Revenues	US$ MM	319.9	882.6	899.2	905.8	1,056.7	1,061.3	889.7	547.2	546.8	538.3
Condensate Revenues	US$ MM	249.5	540.6	642.0	609.6	737.5	720.8	610.6	472.2	438.7	385.5
Total Gross Revenues	US$ MM	569.3	1,423.2	1,541.2	1,515.3	1,794.2	1,782.1	1,500.3	1,019.4	985.5	923.8
Tanin - Revenues											
Natural Gas Revenues	US$ MM	-	-	-	-	-	-	175.0	512.5	517.6	513.2
Condensate Revenues	US$ MM	-	-	-	-	-	-	13.4	39.7	39.8	38.7
Total Gross Revenues	US$ MM	-	-	-	-	-	-	188.4	552.2	557.4	551.9
K&T - Total Gross Revenues	US$ MM	569.3	1,423.2	1,541.2	1,515.3	1,794.2	1,782.1	1,688.7	1,571.6	1,542.9	1,475.7
Delek Drilling - Transaction Revenues											
Karish ORRI, Net*	US$ MM	26.8	67.0	72.6	30.8	36.7	29.7	23.6	16.1	15.5	14.6
Tanin ORRI Net	US$ MM	-	-	-	-	-	-	8.9	26.0	26.2	12.5
Transaction ORRI, Net**	US$ MM	**26.8**	**67.0**	**72.6**	**30.8**	**36.7**	**29.7**	**32.5**	**42.1**	**41.8**	**27.1**
Instalments	US$ MM	13.8	13.3	12.8	12.3	11.8	11.3	-	-	-	-
Karish Discounted Transaction Revenues*	US$ MM	24.4	55.5	52.9	19.8	20.8	14.8	10.4	6.2	5.3	4.4
Tanin Discounted Transaction Revenues	US$ MM	-	-	-	-	-	-	3.9	10.1	8.9	3.8
Total Discounted Transaction Revenues	US$ MM	**24.4**	**55.5**	**52.9**	**19.8**	**20.8**	**14.8**	**14.3**	**16.3**	**14.2**	**8.1**

*Including Karish North

**Net of Existing ORRI net of Petroleum Tax

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Year	Unit	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Production												
Gas production - Karish*	bcm/y	3.30	3.47	2.10	2.10	2.10	2.10	1.66	1.66	1.36	1.05	0.97
Gas production - Tanin	bcm/y	3.73	3.22	2.81	1.80	1.80	1.53	-	-	-	-	-
Condensate production - Karish*	bbl/y m	3.41	2.48	2.48	2.48	2.48	1.24	1.24	0.84	0.64	0.46	0.03
Condensate production - Tanin	bbl/y m	0.59	0.51	0.51	0.44	0.28	0.02	-	-	-	-	-
Prices												
Natural gas price	US$	3.97	3.97	3.97	3.91	3.91	3.91	3.93	3.89	3.89	3.89	3.89
Condensate Price	US$	71.19	71.64	72.08	72.53	72.97	73.43	73.88	74.34	74.80	75.26	75.73
Revenues												
Karish - Revenues*												
Natural Gas Revenues	US$ MM	486.7	512.2	309.9	304.9	304.9	305.0	241.8	239.6	196.4	152.4	141.0
Condensate Revenues	US$ MM	242.7	177.5	178.6	179.7	180.8	90.9	91.4	62.4	47.9	34.9	2.6
Total Gross Revenues	US$ MM	729.4	689.7	488.6	484.6	485.7	395.9	333.3	302.0	244.4	187.3	143.6
Tanin - Revenues												
Natural Gas Revenues	US$ MM	550.6	474.9	414.9	262.1	262.1	221.7	-	-	-	-	-
Condensate Revenues	US$ MM	41.8	36.2	36.5	32.1	20.7	1.6	-	-	-	-	-
Total Gross Revenues	US$ MM	592.3	511.1	451.4	294.1	282.7	223.3	-	-	-	-	-
K&T - Total Gross Revenues	US$ MM	1,321.8	1,200.9	940.0	778.7	768.4	619.1	333.3	302.0	244.4	187.3	143.6
Delek Drilling - Transaction Revenues												
Karish ORRI, Net*	US$ MM	11.5	10.9	7.7	7.6	7.7	6.2	5.3	4.8	3.9	3.0	2.3
Tanin ORRI Net	US$ MM	10.8	8.6	7.1	4.6	4.5	3.5	-	-	-	-	-
Transaction ORRI, Net**	US$ MM	**22.3**	**19.5**	**14.8**	**12.3**	**12.1**	**9.8**	**5.3**	**4.8**	**3.9**	**3.0**	**2.3**
Instalments	US$ MM	-	-	-	-	-	-	-	-	-	-	0.1
Karish Discounted Transaction Revenues*	US$ MM	3.0	2.5	1.6	1.4	1.2	0.9	0.7	0.5	0.4	0.3	0.2
Tanin Discounted Transaction Revenues	US$ MM	2.9	2.0	1.5	0.8	0.7	0.5	-	-	-	-	-
Total Discounted Transaction Revenues	US$ MM	**5.9**	**4.6**	**3.0**	**2.2**	**1.9**	**1.4**	**0.7**	**0.5**	**0.4**	**0.3**	**0.2**

*Including Karish North

**Net of Existing ORRI net of Petroleum Tax

Definitions

NewMed Energy/the Partnership	NewMed Energy Limited Partnership.
Avner	Avner Oil Exploration - Limited Partnership.
Natural Gas	A gas mixture containing mainly Methane, used mainly for the production of electricity and as a source of energy for industry.
The Buyer/Energean	Energean E&P Holdings Ltd. through Energean Israel Limited (Formerly Ocean Energean Oil and Gas Ltd.).
The Partnerships/Sellers	NewMed Energy and Avner.
The Petroleum Law	The Petroleum Law, 5712-1952.
The Gas Framework or **the Framework**	The resolution of the Israeli Government to create a framework for increasing the amount of natural gas produced from the Tamar natural gas field and the quick development of the Leviathan, Karish and Tanin natural gas fields as well as other gas fields.
Chevron	Chevron Energy Mediterranean Ltd.
Condensate	Hydrocarbon liquid created during the production of natural gas, used as raw material for the production of fuels and constitutes a petroleum substitute.
Petroleum Asset	A preliminary permit, license or lease by virtue of the Petroleum Law in Israel or a right of similar meaning granted by the entity authorized therefor outside Israel.
BCM	Billion Cubic Meters.
DCF	Discounted Cash Flows.
FID	The adoption of a decision to invest in the development of the Karish and Tanin natural gas reservoirs.
LNG	Liquefied Natural Gas.
MMBTU	A Million BTU – an energy unit used as a basis for the determination of natural gas prices.