

A large, detailed photograph of an offshore oil rig at sea, illuminated by its own lights against a twilight sky. The rig's complex structure, including cranes and platforms, is visible. A large, dark, diagonal graphic element overlays the right side of the image.

2022

FINANCIAL STATEMENTS AS OF 31.03.2022

Table of Contents



Description of the general development of the corporation's business



Board of Directors report



Financial statements



Report on the effectiveness of internal control over financial reporting and disclosure



Valuation



Description of the general
development of the corporation's
business

**Update to Chapter A (Description of the Partnership's Business)
of the 2021 Periodic Report**

of NewMed Energy – Limited Partnership (the “Partnership”)¹

1. Section 4 of the Periodic Report – Profit Distribution

On May 22, 2022, the board of directors of NewMed Energy Management Ltd., the Partnership's general partner (the “**General Partner**”) approved, after receiving the recommendation of the Financial Statements Review Committee (FSRC) of the General Partner, a profit distribution in the sum total of 50 million U.S. dollars (“**Dollars**” or “\$”), with the record date for the distribution being May 30, 2022. The said profit distribution will be performed on June 16, 2022.

2. Section 6 of the Periodic Report – General Environment and the Effect of External Factors

On April 24, 2022, the Ministry of Energy released a report reviewing the developments in the natural gas market and summarizing 2021, which includes, *inter alia*, data regarding the increase in the volume of production, domestic consumption and export of natural gas in 2021, a review of the natural gas prices in the domestic and global market, a review with respect to the development of the transmission system and the distribution network and reference to the need to formulate a strategy in the field of hydrogen for the domestic market (the “**Review Report**”). According to the Review Report, in 2021 the Leviathan and Tamar natural gas reservoirs supplied approx. 10.67 BCM and approx. 8.62 BCM, respectively, and the offshore LNG buoy located off the coast of Hadera supplied approx. 0.2 BCM. In addition, the total supply quantity in 2021 was approx. 19.47 BCM, around 21% more than 2020. Alongside the increase in consumption, exceptional growth was evident in the export of natural gas to Egypt and to Jordan, which in 2021 totaled approx. 7.14 BCM, around 68% more than 2020. Below are data from the Review Report which present a breakdown of the consumption of natural gas produced in 2021²:

Years	2016	2017	2018	2019	2020	2021	Change 2020-2021
1. Total natural gas supply (in BCM)	9.66	10.35	11.13	11.28	16.11	19.47	21%
2. Total natural gas consumption in the domestic market (in BCM)	9.66	10.27	10.97	11.03	11.8	12.33	4%
2.a Natural gas consumption for electricity production (in BCM)	8.04	8.54	9.08	8.81	9.29	9.71	5%

¹ The update includes material news or changes that occurred in the Partnership's business from the date of release of the 2021 periodic report, which was released on March 24, 2022 (Ref. No. 2022-01-033988) (the “**Periodic Report**”), until shortly before the date of this report on any matter that is required to be described in the periodic report. The update refers to the section numbers in Chapter A (Description of the Partnership's Business) of the Periodic Report.

² For further details, see: https://www.gov.il/he/departments/publications/reports/ng_2021.

2.b Natural gas consumption in industry (in BCM)	1.62	1.73	1.89	2.22	2.51	2.62	4%
2.c Consumption in the distribution network (in MCM)	106	160	194	262	254	299	18%
3. Natural gas for export – BCM	0	0.07	0.13	0.22	4.25	7.14	68%
4. Layout of the distribution network (in km)	102	235	288	358	414	575	39%

3. **Section 7.2.5(d) of the Periodic Report – Plan for Development of the Leviathan Reservoir**

Further to the Partnership's immediate report of July 13, 2021 (Ref. No. 2021-01-116085), regarding a decision to drill the Leviathan-8 development and production well in the area of the I/14 Leviathan South lease, it is noted that the drilling of the said well is moving ahead as planned, and in accordance with the timetables and budget, and is expected to be completed in the coming weeks. According to the development plan for the reservoir, the well will be connected to the existing subsea production system of the Leviathan reservoir during Q1/2023, after completion actions are carried out therein.

4. **Section 7.3.11 of the Periodic Report – Plan for Development of the Aphrodite Reservoir**

As of the report approval date, the partners in the Aphrodite reservoir are working vis-à-vis the Cypriot government to update the development and production plan for the reservoir such that development of the reservoir will be combined with existing facilities and/or development plans of nearby assets. In this context, the partners adopted a decision regarding engagement with a drillship for purposes of drilling the Aphrodite A-3 well in the area of Block 12, which will later on serve as a production well. In this context, they are working to update the date of its implementation.

5. **Section 7.6 of the Periodic Report – The Yam Tethys Project**

In May 2022, the partners in the Yam Tethys project approved an addition to the plug and abandon budget, such that the said budget is in the sum total of approx. \$232 million (100%).

6. **Sections 7.4 and 7.24.9 of the Periodic Report – the 405/New Ofek license (the "New Ofek License")**

On May 22, 2022, the Partnership adopted a decision whereby it will notify the other holders of rights in the New Ofek License, that it will no longer agree to bear any additional expenses in connection with the work on the Ofek-2 well, except for expenses regarding the plug and abandon of the well, and that it does not intend to support any proposal to extend the license period, if any is proposed, towards the license expiration date, of June 20, 2022. For further details, see Note 3B4 to the financial statements attached below.

7. **Section 7.7.3 of the Periodic Report – Dispute with Energean regarding Payment of the Balance of the Consideration under the Agreement**

On March 24, 2022, Energean Oil & Gas plc (“Energean”) notified the Partnership that according thereto, it is operating under conditions of *force majeure*, as defined in the agreement for the sale of the interests, and consequently the annual payment, which was scheduled for March 2022, will be postponed. As of the report approval date, the Partnership is working to institute legal action against Energean.

8. **Section 7.10.3 of the Periodic Report – Engagements for the Supply of Natural Gas from the Leviathan Project**

During Q1/2022 and up to the report approval date, the Partnership signed several additional agreements for the sale of non-material volumes of natural gas with various customers in the Israeli market from the Leviathan project.

9. **Section 7.10.4 (c) of the Periodic Report – Agreement for the Supply of Condensate from the Leviathan Reservoir**

Further to the Leviathan partners’ exploring, together with Energy Infrastructures Ltd. (“PEI”), an option for the piping of condensate from the Leviathan reservoir, it is noted that on April 26, 2022, an MOU was signed between Chevron Mediterranean Limited (“Chevron”) and PEI which regulates, subject to the signing of a binding agreement, an alternative mechanism for the piping of condensate via PEI’s existing systems. As of the report approval date, the parties are acting for the signing of a binding agreement as aforesaid.

10. **Section 7.11.2(e)(5) of the Periodic Report – Engagement with INGL in Transmission Agreements in Connection with Export to Egypt**

In May 2022, Chevron informed the Partnership that Israel Natural Gas Lines Ltd. (“INGL”) had notified it that notwithstanding the extension of up to 6 months of the timeframe for the transmission of gas in the Ashdod-Ashkelon offshore transmission system section, the anticipated date of commencement of transmission remains unchanged, i.e., April 2023.

11. **Section 7.19.2 of the Periodic Report – Leviathan Bond Bonds**

On May 22, 2022, the board of directors of the General Partner approved a plan for the purchase of the bonds that were issued by Leviathan Bond Ltd., a wholly-owned subsidiary of the Partnership, at an accumulated amount of up to \$100 million, for a period of two years. For further details, see Section C of Part One of the Board of Directors’ Report attached below.

12. **Section 7.20.8 of the Periodic Report – The Tax Year 2020**

On April 12, 2022, the Partnership released an immediate report to which was attached a temporary tax certificate for an entitled holder and for a seller of participation units for the holding of a participation unit for the tax year 2020 (Ref. No. 2022-01-047374), the details appearing in which are incorporated herein by way of reference.

13. **Section 7.22 of the Periodic Report – Restrictions on and Control of the Partnership’s Activity**

- a. Further to Section 7.22.5 of the Periodic Report, on February 28, 2022, the Knesset was presented, for the first reading, with the Natural Gas Sector Bill (Amendment no. 11), 5782-2022, in the context of which it is proposed, *inter alia*, to amend the provisions regarding a declaration of a “state of emergency” in the natural gas sector, and to allow secondary trade in gas to an electricity provider³.
- b. On April 12, 2022, the Ministry of Energy announced a call for the public’s comments on the examination of possible applications for the use of hydrogen as an energy source in industry, whether pure hydrogen or by using natural gas mixed with hydrogen at various rates⁴.
- c. On March 14, 2022, the Natural Gas Commission (the “**Commission**”) released a draft decision for public comment, in which it was proposed that from May 1, 2022, the transmission tariff would be reduced, as follows: the capacity tariff would be reduced by 17.2% and would be ILS 0.6244 per MMBTU, the piping tariff would be reduced by 17.6% and would be ILS 0.1073 per MMBTU, and the tariff for use of the transmission system for piping to consumers connected to the distribution network would be reduced by 17.2% and would be ILS 0.7646 per MMBTU (in this section: the “**Draft Decision**”). According to the Draft Decision, the main parameters leading to reduction of the tariff are the rise in demand in the domestic market and in export. To the best of the Partnership’s knowledge, no binding decision has yet been released on the issue⁵.
- d. On March 14, 2022, the Commission released a draft decision on the determination of a systemwide tariff, in which context a proposal was released for the determination of a systemwide tariff intended for the financing of vital projects for the improvement and development of the natural gas sector to be borne by the transmission consumers which pay transmission fees. In addition, the systemwide tariff would be independent of and unrelated to the determination of other tariffs, would be managed by INGL, and the Commission would discuss and update it once a year⁶.

On the same date, the Commission released the draft decision for the determination of a systemwide tariff for 2022, the proposed systemwide tariff in the context of which is ILS 0.0554 per MMBTU, and it is expected to be used for the following purposes: (1) Payment of compensation to a land owner pursuant to Section 28A of the Natural Gas Sector Law, 5762-2002; (2) Examination of the impact of the developing hydrogen market on the natural gas sector’s infrastructures; (3) Statutory planning for storage in the “Rosh Zohar” reservoir; and (4) Statutory planning for the construction of a redundancy line to Arad.

³ For further details, see:

<https://main.knesset.gov.il/Activity/Legislation/Laws/Pages/LawBill.aspx?t=lawsuggestionssearch&lawitemid=2190402>.

⁴ For further details, see: https://www.gov.il/he/departments/publications/Call_for_bids/ng_120422.

⁵ For further details, see: https://www.gov.il/he/departments/news/ng_150322.

⁶ For further details, see: https://www.gov.il/he/departments/publications/Call_for_bids/shimua_50322_1.

- e. In April 2022, the Petroleum Commissioner notified Chevron that from June 1, 2022 until September 15, 2023, the Leviathan partners are required to guarantee the supply of natural gas to the domestic market in a quantity exceeding the daily quantity that the Leviathan partners undertook to supply to the domestic market according to the gas supply agreements in which they engaged. In the Partnership's estimation, this notice is not expected to have an effect on the Partnership's results of operations for 2022.

14. **Section 7.25 of the Periodic Report – Legal Proceedings**

- a. Further to Section 7.25.1 of the Periodic Report regarding an appeal that was filed with the Supreme Court from the judgment of the Tel Aviv District Court which denied the class certification motion that was filed by a consumer of the Israel Electric Corporation Ltd. (the “**IEC**”) against the Tamar partners in connection with the price at which the Tamar partners are selling natural gas to the IEC, it is noted that on May 4, 2022, the Attorney General filed her response to the appeal, in which she claimed that the appeal should be denied because a class action is not the efficient and fair method for deciding the dispute, first and foremost in view of the comprehensive regulation of the issue of the price of gas in the ‘Gas Framework’. A hearing on the appeal is scheduled for January 9, 2023.
- b. Further to Section 7.25.3 of the Periodic Report regarding a class certification motion alleging that the merger transaction between the Partnership and Avner Oil Exploration – Limited Partnership (“**Avner**”) was approved in an unfair proceeding, and the consideration that was paid to the Avner minority unit holders, as was determined in the merger agreement, is unfair, it is noted that after several extensions that were requested by the respondents, their closing statements will be filed by June 19, 2022.
- c. Further to Section 7.25.4 of the Periodic Report regarding a class certification motion which was filed with the Tel Aviv District Court (Economic Department) by a shareholder of Tamar Petroleum Ltd. (“**Tamar Petroleum**”) and by the association Public Representatives, against the Partnership, Tamar Petroleum, officers thereof and against Leader Issues (1993) Ltd., in connection with the offering of shares of Tamar Petroleum from July 2017, it is noted that a pretrial hearing is scheduled for December 20, 2022 in the case.
- d. Further to Section 7.25.5 of the Periodic Report regarding a class certification motion (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 (in this section: the “**Respondents**”) 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 with a possible amendment to the agreement for the supply of gas from the Tamar project to the IEC, as agreed by Isramco Negev 2 - Limited Partnership, Tamar Petroleum, Dor Gas Exploration - Limited Partnership and Everest Infrastructures - Limited Partnership, without involvement on the part of the Respondents, it is noted that on April 24, 2022, in a pretrial hearing, the court ordered as follows: (1) the legal opinion that was attached to the Certification Motion will be withdrawn, and the Petitioner will bear the Respondents’ costs in the motion on this matter; (2) until

May 24, 2022, the Petitioner will be given an opportunity to file a motion for amendment of the Certification Motion; (3) until such date, the parties will be given the possibility of filing with the court a list of questions to be directed to the regulator relevant to the Certification Motion; and (4) on May 25, 2022 or shortly thereafter, the court will allow the Respondents to respond to the motion for amendment of the Certification Motion, insofar as such a motion is filed, or alternatively will deliver the pleadings, together with the questions filed by the parties, to the regulator for response.

- e. Further to Section 7.25.8 of the Periodic Report regarding a class certification motion that was filed by a holder of participation units of the Partnership, with the Economic Department of the Tel Aviv District Court, against the Partnership, the General Partner, Delek Group Ltd., Yitzhak Sharon (Tshuva), the directors of the General Partner, including the former chairman of the board, and the CEO of the General Partner (collectively in this section: the “**Respondents**”), claiming that the Respondents refrained from disclosing in the Partnership’s reports the existence of a clause in agreements for the sale of natural gas from the Leviathan and Tamar reservoirs to Blue Ocean Energy (formerly Dolphinus Holdings Limited), it is noted that trial hearings in the proceeding have been scheduled for September 2022.
- f. Further to Section 7.25.9 of the Periodic Report regarding an administrative inquiry conducted by the Israel Securities Authority (ISA) vis-à-vis the Partnership in connection with the possibility of reducing the annual ‘Take or Pay’ quantity in the agreement for export to Egypt, it is noted that on April 12, 2022, the Partnership received the ISA’s notice regarding the closing of the said administrative inquiry case, according to the decision of the Chair of the ISA not to institute an administrative enforcement proceeding against the Partnership on the matter.
- g. Further to Section 7.25.10 of the Periodic Report regarding a petition that was filed by the Partnership and Chevron, which hold the Alon D license, with the Supreme Court sitting as the High Court of Justice, it is noted that a hearing on the petition has been scheduled for July 11, 2022.
- h. Further to Section 7.25.13 of the Periodic Report regarding a petition filed by the Partnership, together with the other Tamar partners and Leviathan partners, against the Natural Gas Commission and the Ministry of Energy, it is noted that a hearing on the petition has been scheduled for November 16, 2022.

15. **Section 7.26.4 of the Periodic Report – The Restructuring Transaction**

On April 4, 2022, the decision of the Supreme Court was received, according to which in accordance with agreements between the parties, the motion for a stay of execution was dismissed. For further details, see the Partnership’s immediate report of April 4, 2022 (Ref. No.: 2022-01-035619), the details appearing in which are incorporated herein by way of reference.

16. **Section 21(b)(10) and Section 26 of Chapter D of the Periodic Report – The General Partner’s Directors**

On March 24, 2022, a special general meeting of the Partnership’s participation unit holders was held, which approved the appointment of Mr. Efraim Sadka as an external director on the board of directors of the General Partner for an additional 3-year term of office commencing on the date of conclusion of his current term of office, i.e., April 1, 2022. Furthermore, his terms of office were approved. For further details, see the Partnership’s immediate report of March 24, 2022 (Ref. No.: 2022-01-034714), the details appearing in which are incorporated herein by reference.

17. **Below is a table that includes natural gas production data in Q1/2022 in the Leviathan project:**^{7, 8}

		Q1
Total output (attributable to the holders of the equity interests of the Partnership) during the period (in MMCF)		43,527.37
Average price per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF)		5.67
Average royalties (any payment derived from the output of the producing asset including from the gross income from the petroleum asset) paid per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF)	The State	0.61
	Third parties	0.15
	Interested parties	0.07
Average production costs per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF) ^{9, 10}		0.76
Average net proceeds per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF)		4.08

Date: May 22, 2022

NewMed Energy – Limited Partnership
via NewMed Energy Management Ltd., General Partner
Signed by: Gabi Last, Chairman of the Board
and Yossi Abu, CEO

⁷ The data presented in the table with respect to the share attributed to the holders of the equity interests of the Partnership in the average price per output unit, in the royalties paid, in the production costs and in the income, net, was rounded off to two digits after the decimal point.

⁸ Since the sum of the costs entailed by production of the condensate during Q1/2022 exceeded the sum of the revenues received in respect thereof, and since the condensate is a byproduct of natural gas production, separate figures were not presented in the table in connection with the production of the condensate, and all of the costs and expenses in connection with production of the condensate were attributed to the production of the natural gas.

⁹ The figures include current production costs only, and do not include the reservoir’s exploration and development costs and tax payments that will be made in the future by the Partnership.

¹⁰ It is noted that the average production costs per output unit include costs for the transmission of natural gas through INGL’s transmission system to EMG’s terminal in Ashkelon for the purpose of supplying the gas to Egypt in the sum of approx. \$25.1 million in Q1/2022 (100%).



Board of Directors 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.

May 22, 2022

NewMed Energy – Limited Partnership

Report of the Board of Directors of the General Partner for the three-month period ended March 31, 2022

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 three-month period ended March 31, 2022 (the “**Report Period**”).

Part One – Explanations of the Board of Directors on the State of the Partnership’s Business

1. Main changes that occurred in the Report Period

For a comprehensive description of the main changes in the Partnership’s business in the Report Period, see the update to Chapter A (Description of the Partnership’s Business) of the periodic report for 2021 (the “**Periodic Report**”), and the condensed interim financial statements as of March 31, 2022 (“**Condensed Interim Financial Statements**”), which are attached below.

2. Results of operations

A. General

As of the date of approval of the Condensed Interim Financial Statements, 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 field of exploration, development, production, and marketing of natural gas, condensate and oil in other countries, and is also exploring 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.

The profit from the Partnership’s continuing operations before tax in the Report Period was approx. \$116 million compared with approx. \$93 million in the same period last year. The increase in profit mainly derived from an increase in net revenues from the sale of natural gas from the Leviathan reservoir in the sum of approx. \$26 million and from a decrease in the net financial expenses of approx. \$20 million, which was conversely offset in part by a one-time depreciation of the New Ofek project in the sum of approx. \$11 million.

The Partnership's net profit in the Report Period, which includes the recording of expenses for income on taxes in the sum of approx. \$31 million, totaled approx. \$84 million compared with approx. \$115 million in the same period last year, which included profit from discontinued operations (the Tamar project) in the sum of approx. \$22 million.

B. Analysis of statements of comprehensive income

Below are main figures with regards to the Partnership's statements of comprehensive income (dollars in thousands):

	1-3/22	1-3/21	2021
Revenues			
From natural gas and condensate sales	246,799	216,455	882,537
Net of royalties	36,043	32,164	128,758
Revenues, net	210,756	184,291	753,779
Expenses and costs:			
Cost of natural gas and condensate production	33,643	26,910	118,382
Depreciation, depletion and amortization expenses	37,750	21,034	113,083
Other direct expenses	995	766	4,206
G&A expenses	3,128	3,022	17,183
Total expenses and costs	75,516	51,732	252,854
The Partnership's share in the losses of a company accounted for at equity	(1,138)	(1,215)	(4,497)
Operating income	134,102	131,344	496,428
Financial expenses	(38,327)	(51,073)	(211,306)
Financial income	19,909	12,920	31,468
Financial expenses, net	(18,418)	(38,153)	(179,838)
Profit before taxes on income	115,684	93,191	316,590
Taxes on income	(31,638)	-	(207,837)
Income from continuing operations	84,046	93,191	108,753
Income from discontinued operations	-	21,548	151,736
Income from the sale of natural gas and oil assets	-	-	144,583
Total income from discontinued operations	-	21,548	296,319
Net profit	84,046	114,739	405,072
Other comprehensive income from discontinued operations:			
Amounts which will not subsequently be reclassified to profit or loss:			
Profit from investment in equity instruments designated for measurement at fair value through other comprehensive income	-	9,086	13,597
Comprehensive income from discontinued operations	-	30,634	309,916
Total comprehensive income	84,046	123,825	418,669

Net revenues in the Report Period totaled approx. \$211 million, compared with approx. \$184 million in the same period last year, up around 15%. The increase mainly derives from the increase in the price of the gas supplied for export, which is linked, in part, to the Brent barrel price, as well as from the increase in the natural gas quantities sold to Egypt from the Leviathan reservoir and whose average price is higher relative to the price thereof in the domestic market.

Below is a table specifying the gas quantities (100%) sold from the Leviathan

reservoir in the Report Period according to the customers' geographic location:

2022 - (BCM)*				
	<u>Israel</u>	<u>Jordan</u>	<u>Egypt</u>	<u>Total</u>
Q1	0.9	0.7	1.1	2.7

2021 - (BCM)*				
	<u>Israel</u>	<u>Jordan</u>	<u>Egypt</u>	<u>Total</u>
Q1	1.2	0.7	0.8	2.7

* The figures are rounded off to one-tenth of a BCM

Cost of gas and condensate production mainly includes expenses of management and operation of the Leviathan project, which include, *inter alia*, expenses of shipping and transport, salaries, consulting, maintenance, insurance and the cost of transmission of natural gas to Egypt. The cost of gas and condensate production in the Report Period totaled approx. \$34 million, compared with approx. \$27 million in the same period last year, up around 26%.

The increase in the Report Period mainly derives from an increase in the transportation and shipping expenses and the costs of transmission of gas to Egypt.

Depreciation, depletion and amortization expenses in the Report Period totaled approx. \$38 million, compared with approx. \$21 million in the same period last year, up around 81%. The increase mainly derives from an update to the liability for asset abandonment expenses in respect of the Yam Tethys project and from depreciation in the New Ofek project to the Statement of Comprehensive Income. For further details, see Note 3B4 to the financial statements attached below.

Other direct expenses in the Report Period totaled approx. \$1 million similarly to the same period 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 the production stage.

G&A expenses in the Report Period totaled approx. \$3 million, similarly to the same period last year, and include, *inter alia*, expenses for professional services, payroll expenses and management fees for the General Partner. In addition, G&A expenses include expenses in the sum of approx. \$0.9 million (in the same period last year: approx. \$0.5 million), recorded against a capital reserve for transactions between a corporation and a control holder thereof, 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 Partnership's share in the losses of a company accounted for at equity in the Report Period totaled a loss of approx. \$1 million, similarly to the same period 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**").

Financial expenses in the Report Period totaled approx. \$38 million, compared with approx. \$51 million in the same period last year. Most of the financial expenses derived from interest in respect of bonds issued by Leviathan Bond Ltd., a wholly-owned subsidiary of the Partnership (“**Leviathan Bond**” and the “**Leviathan Bond Bonds**”, respectively) in the sum of approx. \$37 million. In the same period last year, the financial expenses, in the sum of approx. \$50 million, mainly derived from interest in respect of bonds. The decrease compared with the same period last year derived from repayment, in December 2021, of the bonds issued by Delek & Avner (Tamar Bond) Ltd., a wholly-owned subsidiary of the Partnership, and the Series A bonds.

Financial income in the Report Period totaled approx. \$20 million, compared with approx. \$13 million in the same period last year. The increase in financial income mainly derives from revaluation of royalties and a debt receivable in respect of the Karish and Tanin leases in the sum of approx. \$18 million, compared with a revaluation of approx. \$11 million in the same period last year. For further details, see Note 7A to the financial statements attached below.

Taxes on income in accordance with 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**”). From 2022, a change occurred in the tax regime that applies to the Partnership, and it is taxed as a company. Following the said Amendment to the Income Tax Regulations, the Partnership recorded, in the Report Period, expenses for taxes on income (both current and an updated liability for deferred taxes) in the sum of approx. \$32 million. It is noted that in 2021, with the release of the Amendment to the Income Tax Regulations, the Partnership recognized a liability for deferred taxes for the first time.

Income from discontinued operations, in the same period last year, totaled approx. \$22 million and derived from the Partnership’s holdings in the Tamar project, which were sold in December 2021 (the “**Tamar Transaction**”).

3. Financial position, liquidity and financing sources

A. Financial position

The main changes in the items of the statement of financial position as of March 31, 2022, compared with the statement of financial position as of December 31, 2021, are specified below:

The condensed statement of financial position as of March 31, 2022 totaled approx. \$3,735 million, compared with approx. \$3,850 million as of December 31, 2021.

Current assets of the Partnership as of March 31, 2022 totaled approx. \$481 million compared with approx. \$581 million as of December 31, 2021. The change mainly derived from the following factors:

(1) Cash and cash equivalents as of March 31, 2022 total approx. \$69 million, compared with approx. \$220 million as of December 31, 2021. The decrease mainly derived from payments for 2021 which included payment of capital gains tax for the participation unit holders in connection with the Tamar

Transaction in the sum of approx. \$151 million, a balancing and tax payment to the participation unit holders in the sum of approx. \$86 million, and payment of tax advances in the sum of approx. \$19 million and investments and payments in respect of the various projects in the Report Period. Conversely, the Partnership had revenues from the sale of natural gas from the Leviathan project, supplementary revenues from the Tamar Transaction and a tax refund in respect of previous years.

- (2) **Short-term investments** as of March 31, 2022 total approx. \$145 million, compared with approx. \$121 million as of December 31, 2021, and mainly include a deposit which serves as a safety cushion for the Leviathan Bond Bonds in the sum of approx. \$125 million (approx. \$100 million last year) and investments in ETFs in the sum of approx. \$20 million. The increase in the item mainly derived from the increase in the balances of the deposit which serves as a cushion for the Leviathan project.
- (3) **Trade receivables item** as of March 31, 2022 totals approx. \$174 million, compared with approx. \$153 million as of December 31, 2021. The increase mainly derived from an increase in the trade receivables balance of the Leviathan project.
- (4) **Other receivables item** as of March 31, 2022 totals approx. \$93 million, compared with approx. \$87 million as of December 31, 2021. The increase mainly derived from an increase in a loan and royalties from the sale of Karish and Tanin assets. For further details, see Note 7A to the financial statements attached below.

Non-current assets as of March 31, 2022 total approx. \$3,255 million, compared with approx. \$3,269 million on December 31, 2021, as specified below:

- (1) **Investments in oil and gas assets** as of March 31, 2022 total approx. \$2,540 million, compared with approx. \$2,570 million as of December 31, 2021. The movement in the Report Period mainly derived from depreciation, depletion and amortization expenses in the Leviathan project in the sum of approx. \$19 million, a decrease in the cost of retirement of Leviathan assets in the sum of approx. \$11 million, and depreciation of the New Ofek project in the sum of approx. \$11 million to the Statement of Comprehensive Income. For further details, see Note 3B4 to the financial statements attached below. Conversely, the Partnership recorded investments in the Leviathan project in the sum of approx. \$8 million.
- (2) **Investment in the company accounted for at equity** as of March 31, 2022 totaled approx. \$62 million compared with approx. \$63 million as of December 31, 2021, and is due to the investment in shares of EMED. The decrease derived from the recording of a loss due to an investment in a company accounted for at equity in the Report Period that derived mainly from depreciation of the excess purchase cost.
- (3) **Long-term bank deposits** as of March 31, 2022 total approx. \$101 million, similarly to December 31, 2021, and mainly serve as a safety cushion for

the Leviathan Bond Bonds.

- (4) **Other long-term assets** as of March 31, 2022 totaled approx. \$553 million, compared with approx. \$535 million as of December 31, 2021. The rise mainly derived from an increase 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 March 31, 2022 total approx. \$184 million, compared with approx. \$385 million as of December 31, 2021, as specified below:

- (1) **Provision for tax and balancing payments** as of December 31, 2021 totaled approx. \$86 million and included tax and balancing payments which were paid in January 2022.
- (2) **Current taxes payable** as of March 31, 2022 totaled approx. \$15 million, and included a provision for current income tax payments in respect of the Partnership's profits in the period which derives from the change in the tax regime that applies to the Partnership as aforesaid.
- (3) **Trade and other payables** as of March 31, 2022 totaled approx. \$141 million, compared with approx. \$271 million as of December 31, 2021. The decrease mainly derived from a provision as of December 31, 2021 in the sum of approx. \$154 million for tax on a capital gain from the Tamar Transaction which was paid in January 2022. Conversely, the report date included a provision for interest expenses payable in respect of Leviathan Bond Bonds in the sum of approx. \$35 million.
- (4) **Other short-term liabilities** as of March 31, 2022 totaled approx. \$28 million, similarly to December 31, 2021, and they derive from the oil and gas asset retirement obligation in the Yam Tethys project.

Non-current liabilities as of March 31, 2022 total approx. \$2,528 million, compared with approx. \$2,527 million as of December 31, 2021, as specified below:

- (1) **Bonds** as of March 31, 2022 total approx. \$2,226 million compared with approx. \$2,225 million as of December 31, 2021, and include the Leviathan Bond Bonds (net of issue expenses) (for details see Part Four below).
- (2) **Deferred tax liability** as of March 31, 2022 totals approx. \$224 million, compared with approx. \$208 million as of December 31, 2021. The increase in the item mainly derived from an increase in differences between accounting depreciation and amortization versus depreciation and amortization for tax purposes in respect of oil and gas assets (including in respect of oil and gas asset retirement).
- (3) **Other long-term liabilities** as of March 31, 2022 total approx. \$78 million, compared with approx. \$94 million as of December 31, 2021. The decrease mainly derived from an update of the asset retirement obligation for the Leviathan and Yam Tethys projects due to the rise in the market interest

used to discount the obligations.

The capital of the limited partnership as of March 31, 2022 totals approx. \$1,023 million, compared with approx. \$939 million as of December 31, 2021. The change in capital mainly derives from net profit that was recorded in the Report Period in the sum of approx. \$84 million, as well as from an increase in a capital reserve for benefits from the control holder in the sum of approx. \$1 million, which was offset by profits distributed in the sum total of approx. \$0.3 million.

B. Cash flow

- (1) The cash flows generated by the Partnership from operating activities totaled, in the Report Period, approx. \$135 million, compared with approx. \$207 million in the same period last year. The decrease mainly derived from an increase in the trade receivables item and from a smaller increase in the other payables item compared with the same period last year.
- (2) The cash flows used for investment activities totaled, in the Report Period, approx. \$45 million, compared with approx. \$99 million in the same period last year. In the Report Period, the Partnership invested approx. \$13 million, mainly in the Leviathan project, approx. \$25 million in short-term investments, and approx. \$18 million in long-term assets, mainly in connection with expansion of infrastructures for transmission to Egypt. Conversely, in the Report Period, the balance of the consideration in respect of the Tamar Transaction was received in the sum of approx. \$11 million.
- (3) The cash flows used for financing activities totaled, in the Report Period, approx. \$242 million, compared with approx. \$40 million in the same period last year. The cash flows from the financing activities in the Report Period were used mainly for tax and balancing payments (including payment of capital gains tax in connection with the Tamar Transaction). Conversely, an income tax refund was received in respect of tax payments in previous years in the sum of approx. \$15 million.

The cash and cash equivalents balance as of March 31, 2022 totaled approx. \$69 million, compared with approx. \$220 million as of December 31, 2021.

C. Financing

On May 22, 2022, the board of directors of the General Partner authorized the adoption of a plan for the purchase of the Leviathan Bond Bonds, which are listed on the TACT-Institutional system, according to which the Partnership and/or Leviathan Bond will be able, from time to time, according to the discretion of the Partnership's management and in accordance with the details of the purchase plan, to make purchases of the bonds in an aggregate amount of up to \$100 million by way of an OTC purchase, a purchase on the TACT-Institutional system or by other methods (the "**Purchase Plan**"). The Purchase Plan will take effect on May 24, 2022, and end after two years, namely on May 23, 2024

It is noted that the financing sources for the making of the purchases according

to the Purchase Plan will be the independent sources of the Partnership and of Leviathan Bond, and that in the Partnership's estimation, profit resulting from the purchase of the bonds may create a tax liability.

It is clarified that the above decision regarding adoption of the Purchase Plan does not obligate the Partnership and/or Leviathan Bond to purchase the bonds, in whole or in part, and that the Partnership's management will be entitled to decide not to purchase bonds at all and/or to purchase bonds in a lower amount than approved.

For further details, see Part Four below.

D. Profit distributions, tax payments and balancing payments:

- (1) 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 entitled holders and balancing payments to non-individual entitled holders.
- (2) 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. \$0.3 million), to 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.
- (3) On May 22, 2022, the General Partner's board of directors approved, after receiving the recommendation of the General Partner's Financial Statements Review Committee, a profit distribution in the sum total of \$50 million (\$0.0426 per participation unit), with the record date for the distribution being May 30, 2022. The said profit distribution will be performed on June 16, 2022.

E. 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. 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 the extent of the impact of the Covid Crisis on the global and domestic economy will be, and what its effect will be on demand and the prices of natural gas and the other energy products. It is noted that although the Covid Crisis continues, an increase has been recorded in the demand for natural gas.

F. 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.

G. 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, 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

4. 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/Method of Treatment
ILS/Dollar exchange rate	Representative rate as of March 31, 2022
Dollar interest	According to the LIBOR curve

- a. Analysis of 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 (\$ in thousands):

Sensitive instrument	Profit/(loss) from the changes		Fair value	Profit/(loss) from the changes	
	2%	1%		-1%	-2%
Royalties receivable from the Karish and Tanin leases	(15,154)	(5,232)	279,800	5,426	16,899
Loan to Energean as part of the sale of the Karish and Tanin leases	(2,200)	(748)	64,800	764	2,339

- b. Analysis of sensitivity of the value of contingent proceeds in connection with royalties receivable from the Karish and Tanin leases to changes in the price of natural gas and condensate (\$ in thousands):

Following the provisions of Section E of Part One regarding the spread of Covid and the possible impact thereof on the Partnership’s business, below are extended sensitivity tests in respect of a change in the natural gas and condensate prices when the other variables remain fixed, and the effect thereof on revaluation of the royalties receivable from the Karish and Tanin leases:

Sensitive instrument	Profit/(loss) from the changes in the natural gas prices				Fair value	Profit/(loss) from the changes in the natural gas prices			
	30%	20%	10%	5%		-5%	-10%	-20%	-30%
Royalties receivable from the Karish and Tanin leases	14,203	12,837	2,148	(3,435)	279,800	(4,763)	(11,588)	(16,961)	(28,535)

Sensitive instrument	Profit/(loss) from the changes in the condensate prices				Fair value	Profit/(loss) from the changes in the condensate prices			
	30%	20%	10%	5%		-5%	-10%	-20%	-30%
Royalties receivable from the Karish and Tanin leases	10,761	10,317	893	(3,436)	279,800	(4,385)	(9,685)	(13,227)	(23,496)

- c. Tests of sensitivity to changes in the Dollar/ILS exchange rate (\$ in thousands):

Sensitive instrument	Profit/(loss) from the changes		Fair value	Profit/(loss) from the changes	
	10%	5%		-5%	-10%
	3,494	3,335	3,176	3,017	2,858
Cash and cash equivalents	(1,861)	(930)	18,608	930	1,861
Bank deposits	(24)	(12)	241	12	24
Trade and other payables	30	15	(302)	(15)	(30)
Total	(1,855)	(927)	18,547	927	1,855

During the reported period there was no change in the areas of the Partnership's exposure or in the market risks, as were reported in the Board of Directors' Report for 2021, except as follows:

5. Report on linkage bases in Dollars in thousands, as of March 31, 2022:

	Financial Balances		Non-financial balances	Total
	In dollars or dollar-linked	In ILS, unlinked		
<u>Assets</u>				
Cash and cash equivalents	50,246	18,608	-	68,854
Short-term investments	144,675	241	-	144,916
Trade receivables	173,693	-	-	173,693
Other receivables	82,674	-	10,501	93,175
Investments in oil and gas assets	-	-	2,539,679	2,539,679
Investment in company accounted for at equity	-	-	61,658	61,658
Long-term deposits	100,693	-	-	100,693
Other long-term assets	285,744	-	266,992	552,736
Total assets	837,725	18,849	2,878,830	3,735,404
<u>Liabilities</u>				
Current taxes payable	-	-	15,478	15,478
Trade and other payables	35,406	302	104,975	140,683
Other short-term liabilities	-	-	27,959	27,959
Bonds	2,226,181	-	-	2,226,181
Deferred tax liability	-	-	223,997	223,997
Other long-term liabilities	-	-	77,920	77,920
Total liabilities	2,261,587	302	450,329	2,712,218
Total net assets	(1,423,862)	18,547	2,428,501	1,023,186

6. Report on linkage bases in Dollars in thousands, as of December 31, 2021:

	Financial Balances		Non-financial balances	Total
	In dollars or dollar-linked	In ILS, unlinked		
<u>Assets</u>				
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
<u>Liabilities</u>				
Provision for tax and balancing payments	-	-	86,178	86,178
Trade and other payables	5,038	431	265,257	270,726
Other short-term liabilities	-	-	27,649	27,649
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 assets	(1,263,391)	5,903	2,196,026	938,538

Part Three – Disclosure on the Corporation’s Financial Reporting

1. Subsequent events

For material events after the date of the condensed statement of financial position, see Note 9 to the financial statements as of March 31, 2022, which are attached below.

2. Critical accounting estimates

No material change occurred in the Report Period compared with the report for 2021.

Part Four – Details regarding 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 March 31, 2022	500,000	600,000	600,000	550,000
Linked par value as of March 31, 2022	500,000	600,000	600,000	550,000
Value in the Partnership's books as of March 31, 2022	505,498	604,242	602,295	549,552
TASE value as of March 31, 2022¹	508,890	612,540	627,060	568,040
Fixed annual interest rate	5.750%	6.125%	6.500%	6.750%
Principal payment date	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 index²	None			
Conversion right	None			
Right to prepayment or mandatory conversion³	Right to prepayment			
Guarantee for payment of the liability	See Note 10B to the financial statements as of December 31, 2021.			
Name of the trustee	HSBC Bank USA, National Association			
Name of person in charge at the trust company	Asma Alghofailey			
Trustee's address and e-mail	HSBC Bank USA, National Association, as TRUSTEE 452 5th Avenue, 8E6 New York, NY 10018 asma.x.alghofailey@us.hsbc.com			
Rating as of the issue date⁴	Fitch Rating: BB stable Moody's: Ba3 Stable			

¹ The bonds are traded in Israel on the "TACT-institutional" system on TASE

² The bonds' principal and interest are depicted in dollars.

³ 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.

⁴ 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.

	S&P: BB- Stable Standard & Poor's Maalot: ilA+ stable
Rating as of the report date⁵	Fitch Rating: BB stable Moody's: Ba3 Stable S&P: BB- Stable Standard & Poor's Maalot: ilA+ stable
Has the company fulfilled, by March 31, 2022 and during the report year, all of the conditions and obligations under the indenture	Yes
Is the bond series material⁶	Yes
Have any conditions establishing cause for acceleration of the bonds been fulfilled	No
Pledges to secure the bonds	See Note 10B to the financial statements as of December 31, 2021

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
CEO

Gabi Last
Chairman of the Board

NewMed Energy Management Ltd.
On behalf of: NewMed Energy – Limited Partnership

⁵ For updated rating reports, see the Partnership's immediate reports of July 29, 2021, August 1, 2021, August 10, 2021 and February 8, 2022 (Ref. no.: 2021-01-125100, 2021-01-125451, 2021-01-130161 and 2022-01-016279, respectively), the information appearing in which is included herein by way of reference.

⁶ 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 as of December 31, 2021 and to Part Four 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)

	31.3.2022	31.12.2021
	Unaudited	Audited
Assets:		
Current Assets:		
Short term Bank deposits	4	5
Related parties	-	*
Interest receivable	35,406	-
	<u>35,410</u>	<u>5</u>
Noncurrent Assets:		
Loans to shareholders	2,248,194	2,248,082
Long term bank deposits	100,190	100,160
	<u>2,348,384</u>	<u>2,348,242</u>
	<u>2,383,794</u>	<u>2,348,247</u>
Liabilities and Equity:		
Current Liabilities:		
Related parties	194	165
Interest payable	35,406	-
	<u>35,600</u>	<u>165</u>
Noncurrent Liabilities:		
Bonds	2,250,000	2,250,000
Loans from shareholders	100,000	100,000
	<u>2,350,000</u>	<u>2,350,000</u>
Equity (Deficit)	<u>(1,806)</u>	<u>(1,918)</u>
	<u>2,383,794</u>	<u>2,348,247</u>

* Less than \$1,000

Statements of Comprehensive Income (Expressed in US\$ Thousands)

	For the Period Ended 31.3.2022	For the Period Ended 31.3.2021	For the Period Ended 31.12.2021
	Unaudited	Unaudited	Audited
Financial expenses	35,456	35,430	141,872
Financial income	<u>(35,568)</u>	<u>(36,101)</u>	<u>(142,343)</u>
Total comprehensive expenses (income)	<u>(112)</u>	<u>(671)</u>	<u>(471)</u>

SPONSOR FINANCIAL DATA REPORT⁷

		PERIOD ENDED 31.3.2022
<u>ITEM</u>	<u>QUANTITY/ACTUAL AMOUNT</u> <u>(IN USDS ,000)</u>	
A.	Total Offtake (BCM)	⁸ 2.7
B.	Leviathan Revenues (100%)	⁹ 544,550
C.	Loss Proceeds, if any, paid to Revenue Account	-
D.	Sponsor Deposits, if any, into Revenue Account	-
E.	Gross Revenues (before Royalties)	223,133
F.	Overriding Royalties	
	(a) Statutory Royalties	(26,464)
	(b) Third Party Royalties	(10,496)
G.	Net Revenues	186,173
H.	<u>Costs and Expenses:</u>	
	(a) Fees Under the Financing Documents (Interest Income)	24
	(b) Taxes	-
	(c) Operation and Maintenance Expenses	(30,715)
	(d) Capital Expenditures	(30,805)
	(e) Insurance (income)	-
I.	Total Costs and Expenses (sum of Items H(a), (b), (c), (d) and (e))	(61,496)
J.	Total Cash Flows Available for Debt Service (Item G <i>minus</i> Item H)	124,677
K.	Total Cash Flow from operation (Item G minus Items H(c) and H(e))	155,458
L.	Total Debt Service	-
M.	Total Distribution to the Sponsor	100,000

⁷ 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 Leviathan project relative to the amounts required for the debt service in such period.

⁸ Gas sales from January 1st 2022 until March 31st 2022 for 100% of the Leviathan partners on an accrual basis.

⁹ Gas sales from January 1st 2022 until March 31st 2022 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 7A to the financial statements attached below 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:	March 31, 2022
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. \$279.8 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:	<p>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.</p> <p>The work was performed by a team headed by CPA Nir Harush, Partner at Giza Singer Even and CEO of GSE Financial Advisory. 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.</p> <p>The Valuator has no personal interest in and/or dependence on the Partnership and/or NewMed Energy Management Ltd., the general partner of the Partnership (the “General Partner”), other than the fact that</p>

	<p>it received a fee for the valuation. Furthermore, the Valuator has confirmed that its fee is not contingent on the results of the valuation.</p> <p>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.</p>
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:	<p>The key assumptions underlying the valuation are as follows:</p> <ol style="list-style-type: none"> 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: 13.0%; 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

	<p>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;</p> <p>8. Condensate price: The condensate price forecast was estimated based on a long-term oil price forecast average of the World Bank¹⁰ and the EIA¹¹ 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;</p> <p>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.</p> <p>10. Petroleum profit levy: According to the Petroleum Profit Taxation Law, 5771-2011;</p> <p>11. Corporate tax rate: 23%.</p>
--	--

¹⁰ A World Bank quarterly report: Commodity Markets Outlook, April 2022.

¹¹ U.S Energy Information Administration: Analysis & Projections, April 2022.



Financial statements



May 22, 2022

To

**The Board of Directors of the General Partner of NewMed Energy 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 report as specified below:

A review report of May 22, 2022 on the Partnership’s condensed financial information as of March 31, 2022 and for the three-month period then ended.

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

NewMed Energy – Limited Partnership
Condensed Interim Financial Statements as of March 31, 2022
in U.S. Dollars in Thousands
Unaudited

This report is a translation of NewMed Energy - Limited Partnership's Hebrew-language Condensed Interim Financial Statements as of March 31, 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.

NewMed Energy – Limited Partnership
Condensed Interim Financial Statements as of March 31, 2022
in U.S. Dollars in Thousands
Unaudited

Contents

<u>Issue</u>	<u>Page</u>
Auditor’s review report	1
Financial statements:	
Condensed Interim Statements of Financial Position	2
Condensed Interim Statements of Comprehensive Income	3
Condensed Interim Statements of Changes in the Partnership’s Equity	4-5
Condensed Interim Statements of Cash Flows	6-7
Notes to the Condensed Interim Financial Statements	8 – 21

Auditors' review report to the partners of NewMed Energy – Limited Partnership

Introduction

We have reviewed the accompanying financial information of NewMed Energy – Limited Partnership (the “**Partnership**”) which includes the Condensed Statement of Financial Position as of March 31, 2022 and the Condensed Statements of Comprehensive Income, Changes in the Partnership’s Equity and Cash Flows for the three-month period then ended. The board of directors and management of the Partnership’s General Partner are responsible for the preparation and presentation of financial information for such interim period in accordance with IAS 34 “Interim Financial Reporting”, and they are responsible for the preparation of financial information for such interim period under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on financial information for such interim period based on our review.

Scope of Review

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

Conclusion

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

In addition to the statements in the previous paragraph, based on our review, nothing has come to our attention which causes us to believe that the accompanying financial information does not meet, in all material respects, the disclosure provisions under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Tel Aviv, May 22, 2022

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

NewMed Energy – Limited Partnership

Condensed Interim Statements of Financial Position (Dollars in thousands)

	31.3.2022	31.3.2021	31.12.2021
	Unaudited		Audited
Assets:			
Current assets:			
Cash and cash equivalents	68,854	138,079	220,188
Short-term investments	144,916	244,708	120,657
Trade receivables	173,693	164,969	152,534
Trade and other receivables	93,175	34,098	87,387
	480,638	581,854	580,766
Assets held for sale (Note 4)	-	869,181	-
	480,638	1,451,035	580,766
Non-current assets:			
Investments in oil and gas assets	2,539,679	2,583,681	2,570,453
Investment in a company accounted for at equity	61,658	66,073	62,796
Long-term deposits	100,693	100,586	100,667
Other long-term assets	552,736	534,771	535,454
	3,254,766	3,285,111	3,269,370
	3,735,404	4,736,146	3,850,136
Liabilities and equity:			
Current liabilities:			
Bonds	-	1,029,829	-
Provision for tax and balancing payments	-	-	86,178
Current taxes payable	15,478	-	-
Trade and other payables	140,683	156,897	270,726
Trade and other payables	27,959	59,941	27,649
	184,120	1,246,667	384,553
Liabilities relating to assets held for sale (Note 4)	-	32,248	-
	184,120	1,278,915	384,553
Non-current liabilities:			
Bonds	2,226,181	2,220,709	2,224,813
Deferred taxes	223,997	-	207,837
Other long-term liabilities	77,920	114,533	94,395
	2,528,098	2,335,242	2,527,045
Equity:			
Partners' equity	154,791	154,791	154,791
Capital reserves	(29,760)	(39,061)	(30,680)
Retained earnings	898,155	1,006,259	814,427
	1,023,186	1,121,989	938,538
	3,735,404	4,736,146	3,850,136

The attached notes constitute an integral part of the condensed interim financial statements.

May 22, 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

NewMed Energy – Limited Partnership

Condensed Interim Statements of Comprehensive Income (Dollars in thousands)

	For the three-month period		For the year ended
	ended on		on
	31.3.2022	31.3.2021	31.12.2021
	<u>Unaudited</u>		<u>Audited</u>
Revenues:			
From natural gas and condensate sales	246,799	216,455	882,537
Net of royalties	36,043	32,164	128,758
Revenues, net	210,756	184,291	753,779
Expenses and costs:			
Cost of production of natural gas and condensate	33,643	26,910	118,382
Depreciation, depletion and amortization expenses	37,750	21,034	113,083
Other direct expenses	995	766	4,206
G&A	3,128	3,022	17,183
Total expenses and costs	75,516	51,732	252,854
The Partnership's share in the losses of a company accounted for at equity	(1,138)	(1,215)	(4,497)
Operating profit	134,102	131,344	496,428
Financial expenses	(38,327)	(51,073)	(211,306)
Financial income	19,909	12,920	31,468
Financial income (expenses), net	(18,418)	(38,153)	(179,838)
Profit before income taxes	115,684	93,191	316,590
Taxes on income (see Note 1D)	(31,638)	-	(207,837)
Profit from continuing operations	84,046	93,191	108,753
Profit from discontinued operations	-	21,548	151,736
Profit from the sale of natural gas and oil assets	-	-	144,583
Total profit from discontinued operations	-	21,548	296,319
Net income	84,046	114,739	405,072
Other comprehensive income from discontinued operations			
Amounts which shall not subsequently be reclassified to profit or loss:			
Profit from investment in equity instruments designated for measurement at fair value through other comprehensive income	-	9,086	13,597
Comprehensive income from discontinued operations	-	30,634	309,916
Total comprehensive income	84,046	123,825	418,669
Basic and diluted profit per participation unit (in Dollars):			
From continuing operations	0.072	0.080	0.093
From discontinued operations	-	0.018	0.252
Profit per participation unit	0.072	0.098	0.345
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 condensed interim financial statements.

NewMed Energy – Limited Partnership**Condensed Interim 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 equity instruments	Retained earnings	Total
	Unaudited					
For the three-month period ended on March 31, 2022:						
Balance as of January 1, 2022 (audited)	154,791	1,631	24,670	(56,981)	814,427	938,538
Comprehensive income	-	-	-	-	84,046	84,046
Profits distributed	-	-	-	-	(318)	(318)
Capital reserve for benefits from a control holder	-	-	920	-	-	920
Balance as of March 31, 2022	154,791	1,631	25,590	(56,981)	898,155	1,023,186

	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 equity instruments	Retained earnings	Total
	Unaudited					
For the three-month period ended on March 31, 2021:						
Balance as January 1, 2021 (audited)	154,791	1,631	20,331	(70,578)	891,520	997,695
Net profit	-	-	-	-	114,739	114,739
Other comprehensive income	-	-	-	9,086	-	9,086
Total comprehensive income	-	-	-	9,086	114,739	123,825
Capital reserve for benefits from a control holder	-	-	469	-	-	-
Balance as of March 31, 2021	154,791	1,631	20,800	(61,492)	1,006,259	1,121,989

NewMed Energy – Limited Partnership**Condensed Interim Statements of Changes in the Partnership's Equity (Dollars in thousands) (Cont.)**

	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 equity instruments	Retained earnings	Total
	Audited					
For the year ended 31, 12, 2021:						
Balance as of January 1, 2021	154,791	1,631	20,331	(70,578)	891,520	997,695
Net profit	-	-	-	-	405,072	405,072
Other comprehensive income	-	-	-	13,597	-	13,597
Total comprehensive income	-	-	-	13,597	405,072	418,669
Profits distributed	-	-	-	-	(200,323)	(200,323)
Declared tax payments and balancing payments	-	-	-	-	(85,084)	(85,084)
Advance tax payments on account of the tax owed by the participation unit holders	-	-	-	-	(227,912)	(227,912)
Tax revenues for previous years	-	-	-	-	31,154	31,154
Capital reserve for benefits from a control holder	-	-	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 condensed interim financial statements.

NewMed Energy – Limited Partnership

Condensed Interim Statements of Cash Flows (Dollars in thousands)

	For the three-month period ended on		For the year ended on
	31.3.2022	31.3.2021	31.12.2021
	Unaudited		Audited
Cash flows – operating activities			
Profit for the period	84,046	114,739	405,072
Adjustments for:			
Depreciation, depletion and amortization	39,606	30,486	133,105
Taxes on income	31,638	-	207,837
Update of asset retirement obligations	1,867	512	(46,446)
Revaluation of short-term and long-term investments and deposits	395	(57)	(52)
Revaluation of liability for payment based on participation units	-	(11)	(11)
Benefit from a control holder included in expenses against a capital reserve	920	469	4,339
Revaluation of other long-term assets	(18,874)	(11,932)	(43,089)
Partnership's share in losses of company accounted for at equity	1,138	1,215	4,497
Profit from the sale of natural gas and oil assets (Annex C)	-	-	(144,583)
Changes in assets and liabilities items:			
Increase in trade receivables	(21,159)	(4,598)	(8,086)
Decrease (increase) in trade and other receivables balances (including the operator of the joint ventures)	3,345	14,453	(15,296)
Increase in other long-term assets	(3,916)	(1,725)	(6,837)
Increase (decrease) in trade and other payables (including the operator of the joint ventures)	20,776	59,870	(44,630)
Increase (decrease) in liability for oil and gas profit levy	(4,749)	4,966	8,529
Decrease in other long-term liabilities	-	(1,177)	(708)
	50,987	92,471	48,569
Net cash deriving from operating activities	135,033	207,210	453,641
Cash flows - investment activity:			
Investment in oil and gas assets	(13,396)	(13,639)	(30,387)
Profit from the sale of natural gas and oil assets (Annex C)	10,531	-	954,880
Investment in other long-term assets	(17,890)	(24,085)	(34,436)
Investment in a company accounted for at equity	-	-	(5)
Proceeds from the exercise of a financial asset	-	-	30,629
Repayment of loans granted	-	14,343	14,343
Decrease (increase) in short-term investments, net	(24,679)	(75,341)	48,623
Decrease (increase) in other receivables - operator of the joint ventures	806	(255)	(1,611)
Net cash deriving from (used for) investment activity	(44,628)	(98,977)	982,036
Cash flows - financing activity:			
Profit, tax and balancing payments distributed for the period up to and including 2021	(86,635)	(36,262)	(236,585)
Payments on account of the tax due by the holders of participation units for the period up to and including 2021	(170,232)	(3,871)	(16,796)
Returns received from income tax for previous years	15,128	-	3,217
Early redemption of bonds issued	-	-	(19,901)
Repayment of bonds	-	-	(1,015,403)
Net cash used for financing activity	(241,739)	(40,133)	(1,285,468)
Increase (decrease) in cash and cash equivalents	(151,334)	68,100	150,209
Balance of cash and cash equivalents as of beginning of period	220,188	69,979	69,979
Balance of cash and cash equivalents as of end of period	68,854	138,079	220,188
Annex A – Non-cash flow financing and investment activity:			
Investments in oil and gas assets against liabilities	15,440	3,857	37,506
Declared profits for distribution, balancing payments and tax	-	-	85,084
Annex B – Additional information on cash flows:			
Interest paid	980	-	193,537
Interest received	1,176	3,654	4,242
Proceeds not yet received from the sale of oil and gas assets (see Annex C and Note 4)	-	-	10,531

NewMed Energy – Limited Partnership**Condensed Interim Statements of Cash Flows (Dollars in thousands) (Cont.)**

	For the three-month period ended on		For the year ended on
	31.3.2022	31.3.2021	31.12.2021
	Unaudited		Audited
Annex C – sale of rights in the Tamar and Dalit Leases (see also Note 4)			
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 condensed interim financial statements.

NewMed Energy – Limited Partnership

Notes to the Condensed Interim Financial Statements for March 31, 2022 (Dollars in thousands)

Note 1 – General:

- A. NewMed Energy – Limited Partnership (the “**Partnership**”)¹ was founded according to a limited partnership agreement of July 1, 1993 between NewMed Energy Management Ltd. as general partner (the “**General Partner**”)² of the first part, and NewMed Energy Trusts Ltd. as a limited partner (the “**Trustee**”)³ 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 operates in the energy field and 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. The provisions of the Gas Framework required the Partnership to sell its entire holdings in the Tamar and Dalit leases (the “**Tamar Project**”) by December 17, 2021. Accordingly, 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 Limited⁴. On December 9, 2021, the transaction was closed, the Partnership received a consideration of approx. \$955 million, and on March 31, 2022, the balance of the consideration was received in the amount of \$10.5 million. The results of Tamar Project were classified in the financial statements for the same period last year and for the year ended on December 31, 2021 as discontinued operations (see also Note 4).

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.

² 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.

³ 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.

⁴ 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.

NewMed Energy – Limited Partnership

Notes to the Condensed Interim Financial Statements for March 31, 2022 (Dollars in thousands)

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). As a result of the aforesaid amendment, the Partnership recognized, starting from September 30, 2021, deferred taxes on income, and recorded, from March 31, 2022, expenses for current tax on income in the comprehensive income statement.
- E.** The Partnership’s Condensed Interim Financial Statements should be read together with the financial statements as of December 31, 2021 (the “**Annual Financial Statements**”). Accordingly, notes regarding insignificant updates with respect to information already reported in the notes to the Annual Financial Statements were not included in these Financial Statements.
- F.** The Condensed Interim Financial Statements comply with the provisions of IAS 34.
- G.** The Condensed Interim Financial Statements fulfill the disclosure provisions pursuant to Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.
- H.** 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. Below is the Partnership’s share in the income and quantities of natural gas sold to the domestic market and regional market in the report period from continuing operations (in millions of dollars).

	For the three-month period ended on		For the year ended on
	31.3.2022	31.3.2021	31.12.2021
	Unaudited		Audited
Revenues:			
Domestic market	64.0	92.4	319.5
Regional market	182.8	124.1	563.0
	246.8	216.5	882.5
Quantities (BCM)			
Domestic market	0.40	0.57	2.06
Regional market	0.83	0.66	2.80
	1.23	1.23	4.86

Note 1 – General (Cont.):

- I. 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 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 the Partnership's 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.

- J. 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.

NewMed Energy – Limited Partnership

Notes to the Condensed Interim Financial Statements for March 31, 2022 (Dollars in thousands)

Note 2 - Significant Accounting Policies:

The Condensed Interim Financial Statements were prepared according to the same accounting policy and calculation methods that were used in the Annual Financial Statements.

Note 3 – Investments in Oil and Gas Assets:

A. Composition

	31.3.2022	31.3.2021	31.12.2021
	Unaudited		Audited
Oil and gas assets:			
Ratio Yam (Leviathan project)	2,416,869	2,456,847	2,439,133
	2,416,869	2,456,847	2,439,133
Appraisal and exploration assets:			
Block 12 Cyprus	122,297	119,727	121,852
New Ofek	-	6,594	8,955
New Yahel	513	513	513
	122,810	126,834	131,320
Total	2,539,679	2,583,681	2,570,453

B. Developments in investments in oil and gas assets:

1. Leviathan Project

Further to Note 7C2B6 to the Annual Financial Statements regarding the decision to drill the development and production well “Leviathan-8” in the area of lease I/14 Leviathan South, it is stated that the performance of such drilling is progressing as planned, and in accordance with the timetables and budget, and is expected to be completed in the coming weeks. According to the development plan, the well will be connected to the existing subsea production system of the Leviathan reservoir during Q1/2023, after completion activities are carried out therein.

2. Yam Tethys Project

Further to Note 7C4C to the Annual Financial Statements regarding the abandonment of the wells and subsea equipment in the Yam Tethys project, in May 2022, the partners in the Yam Tethys project approved an addition to the plug and abandon budget, such that the aforesaid budget is approx. \$232 million (100%, the Partnership’s share \$113 million). As of the date of approval of the Financial Statements, the Yam Tethys partners invested approx. \$172 million (100%, the Partnership’s share approx. \$83 million).

3. Block 12 in Cyprus

Further to Note 7C3 to the Annual Financial Statements, as of the date of approval of the financial statements, the partners in the Aphrodite reservoir are working vis-à-vis the Cypriot government to update the development and production plan for the reservoir such that development of the reservoir will be combined with existing facilities and/or development plans of nearby assets.

Note 3 – Investments in Oil and Gas Assets: (Cont.)

In this context, the partners adopted a decision regarding engagement with a drillship for purposes of drilling of the Aphrodite A-3 well in the area of Block 12, which will later on serve as a production well. In this context, they are working to update the date of its implementation.

4. New Ofek

Further to Note 7C6 to the Annual Financial Statements regarding the performance of production tests in license 405/"New Ofek" (the "**License**"), on May 22, 2022, the Partnership adopted a decision whereby it will notify the other holders of rights in the License, that it will no longer agree to bear any additional expenses in connection with the work on the Ofek-2 well, except for expenses regarding the plug and abandon of the well, and that it does not intend to support any proposal to extend the License period, if any is proposed, towards the License expiration date, of June 20, 2022. Accordingly, the Partnership recorded a depreciation in respect of its investment in the License in the amount of approx. \$11.2 million.

NewMed Energy – Limited Partnership**Notes to the Condensed Interim Financial Statements for March 31, 2022 (Dollars in thousands)****Note 4 – Tamar Project Discontinued Operations:****A. Below are figures on the results of the actions relating to discontinued operations:**

	For the three-month period ended on	
	31.3.2021	2021 ⁵
	Unaudited	Audited
Revenues:		
From natural gas and condensate sales	62,650	289,868
Net of royalties	(11,870)	(57,095)
	50,780	232,773
Costs and expenses:		
Cost of natural gas and condensate production	(9,826)	(29,735)
Depreciation, depletion and amortization expenses	(7,274)	(7,274)
Other direct expenses	(40)	(220)
Total costs and expenses	(17,140)	(37,229)
Operating income before oil and gas profit levy	33,640	195,544
Oil and gas profit levy	(12,099)	(43,788)
Operating income	21,541	151,756
Financial expenses	(104)	(380)
Financial income	111	360
Net financial income (expenses)	7	(20)
Profit from discontinued operations	21,548	151,736
Income from sale of petroleum assets and gas	-	144,583
Total profit from discontinued operations	21,548	296,319
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	9,086	13,597
Total comprehensive income from discontinued operations	30,634	309,916

⁵ Until close to the closing date of the transaction, as stated in Section 7C1B of the Annual Financial Statements.

NewMed Energy – Limited Partnership

Notes to the Condensed Interim Financial Statements for March 31, 2022 (Dollars in thousands)

Note 4 – Tamar Project Discontinued Operations: (Cont.)

B. Below are figures on the net cash flows relating to discontinued operations and which derived from (were used for) operations:

	For the three- month period ended on	For the three-month period ended on	For the year ended on
	31.3.2022	31.3.2021	31.12.2021
	Unaudited	Unaudited	Audited
Current	2,729	56,571	175,181
Investment	10,531	(5,437)	841,904
Financing	-	-	-

Note 5 – Engagements for the Supply of Natural Gas:

- A.** Further to Note 12E to the Annual Financial Statements regarding examination by the Leviathan partners, together with Energy Infrastructures Ltd. (“**PEI**”), of the possibility of piping condensate from the Leviathan reservoir, it is noted that on April 26, 2022, a memorandum of understanding was signed between Chevron and PEI, that regulates, subject to the signing of a binding agreement, an alternative mechanism for the piping of condensate through the existing PEI systems. As of the date of approval of the report, the parties are working to sign such binding agreement.
- B.** Further to Note 12N to the Annual Financial Statements regarding the engagement with Israel Natural Gas Lines Ltd. (“**INGL**”) for the construction of the Ashdod-Ashkelon transmission system segment, in May 2022 Chevron informed the Partnership that INGL informed Chevron that although the time window in which the gas flow in the Ashdod-Ashkelon offshore transmission system segment was extended by a period of up to 6 months, the forecast for commencement of flow remains unchanged, i.e., April 2023.
- C.** In April 2022, the Petroleum Commissioner informed Chevron that from June 1, 2022 until September 15, 2023, the Leviathan partners are required to ensure the supply of natural gas to the domestic market in an amount exceeding the daily amount that the Leviathan partners undertook to supply the domestic market according to the gas supply agreements in which they engaged. In the Partnership’s estimation, such announcement is not expected to materially affect the results of the Partnership’s operations for 2022.

Note 6 – Contingent Liabilities:

- A.** Further to Note 12L2 to the Annual Financial Statements, regarding an appeal filed with the Supreme Court from the Tel Aviv District Court’s judgement, which denied the motion for class certification filed by a consumer of the Israel Electric Corporation (the “**IEC**”) against the Tamar partners, concerning the price at which the Tamar partners sell natural gas to the IEC, it is stated that on May 4, 2022, the Attorney General filed her reply to the appeal, in which she claimed that the appeal should be denied since a class action is not the efficient and fair way to decide the dispute, first and foremost due to the comprehensive arrangement of the issue of gas price in the “Gas Framework”. A hearing in the appeal is scheduled for January 9, 2023.

Note 6 – Contingent Liabilities: (Cont.)

- B.** Further to Note 12L3 to the Annual Financial Statements regarding a motion for class certification claiming that the merger transaction between the Partnership and Avner Oil Exploration – Limited Partnership (“**Avner**”) was approved in an unfair proceeding and the consideration paid to the holders of the minority units in Avner, as determined in the merger agreement, was unfair, it is noted that, after a number of extensions requested by the respondents, their closing statements will be filed by June 19, 2022.
- C.** Further to Note 12L4 to the Annual Financial Statements regarding a motion for class certification which was filed with the Tel Aviv District Court (the Economic Department) by a shareholder in Tamar Petroleum Ltd. (“**Tamar Petroleum**”) and by the Association of Public Representatives, against the Partnership, Tamar Petroleum, their officers and against Leader Underwriters (1993) Ltd., in connection with the issuance of Tamar Petroleum shares from July 2017, it is noted that a pre-trial hearing is scheduled for December 20, 2022.
- D.** Further to Note 12L5 to the Annual Financial Statements, regarding a motion for class certification (in this section: the “**Certification Motion**”) which was filed with the Tel Aviv District Court by a consumer of the IEC (in this section: the “**Petitioner**”) against the Partnership and Chevron (in this section: the “**Respondents**”) and against the other holders of the Tamar Project and the Leviathan Project (as litigants against whom no relief is sought), in connection with the competitive process for the supply of natural gas conducted by the IEC and with a possible amendment to the agreement for gas supply from the Tamar Project to the IEC, as agreed by Isramco Negev 2 – Limited Partnership, Tamar Petroleum, Dor Gas Exploration – Limited Partnership and Everest Infrastructure – Limited Partnership, without the involvement of the Respondents, it is noted that, on April 24, 2022, as part of a pre-trial hearing, the court ordered as follows: (1) The legal opinion attached to the Certification Motion will be withdrawn, and the Petitioner will bear the expenses of the Respondents in the motion in this matter; (2) By May 24, 2022, the Petitioner will be given an opportunity to file a motion for the amendment of the Certification Motion; (3) Until such date, the parties will be given the opportunity to file with the court a list of questions to be addressed to the relevant regulator of the Certification Motion; and (4) On May 25, 2022, or shortly thereafter, the court will allow the Respondents to respond to the motion for amendment of the Certification Motion, insofar as such motion is filed, or alternatively forward the court the pleadings, together with the questions submitted by the parties, for reference by the regulator.
- E.** Further to Note 12L8 to the Annual Financial Statements, regarding a motion for class certification filed by a holder of participation units of the Partnership with the Economic Department of the Tel Aviv District Court against the Partnership, the General Partner, Delek Group Ltd., Yitzhak Sharon (Tshuva), the directors of the General Partner, including the former Chairman of the board, and the CEO of the General Partner (jointly in this section: the “**Respondents**”), claiming that the Respondents refrained from disclosing, in the Partnership’s reports, the existence of a stipulation in the agreements for the sale of natural gas from the Leviathan and Tamar reservoirs to Blue Ocean Energy (formerly Dolphinus Holdings Limited), it is noted that trial hearings in the proceeding are scheduled for September 2022.

Note 6 – Contingent Liabilities: (Cont.)

- F.** Further to Note 12L9 to the Annual Financial Statements, regarding an administrative inquiry conducted by the ISA vis-à-vis the Partnership in connection with the possibility of reducing the annual Take or Pay quantity in the export agreement to Egypt, it is noted that on April 12, 2022 the Partnership received the notification of the ISA regarding the closure of such administrative inquiry case, according to the decision of the chairman of the ISA not to open an administrative enforcement proceeding against the Partnership on the matter.
- G.** Further to Note 12L18 to the Annual Financial Statements, regarding the stay of execution of the judgment in connection with the arrangement under Sections 350 and 351 of the Companies Law, it is noted that on April 4, 2022, the Supreme Court decision was rendered according to which, in accordance with the agreements between the parties, the motion for stay of execution was withdrawn.
- H.** Further to Note 12L10 to the Annual Financial Statements, regarding a petition filed by the Partnership and Chevron, who hold the Alon D license, with the Supreme Court sitting as the High Court of Justice, it is noted that the hearing of the petition is scheduled for July 11, 2022.
- I.** Further to Note 12L15 to the Annual Financial Statements regarding a motion for class certification which was filed 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”, against Chevron, it is noted that on May 16, 2022, a pretrial was conducted, at the end of which the court ordered Chevron to file, within 30 days, a response to the motion for a discovery order.
- J.** Further to Note 12M6 to the Annual Financial Statements regarding a petition filed by the Partnership together with the other Tamar partners and Leviathan partners against the Natural Gas Council and Ministry of Energy, it is noted that the hearing of the appeal is scheduled for November 16, 2022.

NewMed Energy – Limited Partnership

Notes to the Condensed Interim Financial Statements for March 31, 2022 (Dollars in thousands)

Note 7 – Additional Information:

- A.** Further to Note 8B to the Annual Financial Statements regarding the agreement for the sale of rights in the I/17 Karish and I/16 Tanin leases (jointly: the “**Leases**”), in May 2022, Energean Oil & Gas plc (“**Energean**”) reported that the forecast for commencement of natural gas production from the Karish reservoir is in Q3/2022.

The Partnership engaged with an external independent appraiser in order to assess the fair value of the remaining royalties and annual installments from the loan given to Energean. Below are main parameters out of the valuations that were used to measure the royalties and the loan: cap rate for the receivables is estimated at 6.5%; the cap rate estimated for the royalties component is estimated at 13%; the sum total of the contingent resources of natural gas and hydrocarbon liquids (condensate and natural gas liquid) that were used for the valuation to measure the royalties were estimated at approx. 100.2 BCM and approx. 101.3 MMBBL, respectively. 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; 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 financial income item in the report period includes a sum of approx. \$18 million deriving from revaluation of the value of the royalties from the Leases of approx. \$17.6 million and from an update of the receivables in connection with the loan to Energean in the sum of approx. \$0.4 million.

On March 24, 2022, Energean informed the Partnership that it deems itself as acting under *force majeure* as defined in the agreement for the sale of the rights, and as a result thereof, the annual installment which was set for March 2022, will be deferred.

As of the date of approval of the financial statements, the Partnership is working to institute legal proceedings against Energean.

- B.** Further to Note 20B7 to the Annual Financial Statements in connection with the tax report for 2020, on April 12, 2022, the Partnership published a temporary tax certificate for an entitled holder and seller of a participation unit for the holding of participation units of the Partnership for 2020.
- C.** On May 22, 2022, the board of directors of the General Partner approved, after adopting the recommendation of the Financial Statements Review Committee of the General Partner of the Partnership, the distribution of profit in the sum of \$50 million (\$0.042600 per participation unit of the Partnership), with the record date for distribution being May 30, 2022. Such distribution of profit shall be performed on June 16, 2022.
- D.** On May 22, 2002, the board of directors of the General Partner approved a plan to purchase the bonds issued by Leviathan Bond Ltd., a wholly owned subsidiary of the Partnership, in a cumulative amount of up to \$100 million for a period of two years.

Note 8 – Financial Instruments:

Fair value of financial instruments:

- A.** 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 to the financial statements as of December 31, 2021:

NewMed Energy – Limited Partnership

Notes to the Condensed Interim Financial Statements for March 31, 2022 (Dollars in thousands)

Note 8 – Financial Instruments: (Cont.)

Fair value of financial instruments: (Cont.)

A. (Cont.)

	As of March 31, 2022	
	Fair value	Book value
	Unaudited	
Bonds:		
Leviathan Bond	2,316,530	2,261,588
Total	<u>2,316,530</u>	<u>2,261,588</u>

	As of March 31, 2021	
	Fair value	Book value
	Unaudited	
Bonds:		
Series A	401,643	399,752
Tamar Bond	676,240	644,044
Leviathan Bond	2,473,378	2,256,115
Total	<u>3,551,261</u>	<u>3,299,911</u>

	As of December 31, 2021	
	Fair value	Book value
	Audited	
Bonds:		
Leviathan Bond	2,392,604	2,224,813
Total	<u>2,392,604</u>	<u>2,224,813</u>

- B.** Below are figures on the fair value hierarchy of the financial instruments that are measured in fair value that were recognized in the condensed interim statements of financial position:

	31.3.2022			
	Level 1	Level 2	Level 3	Total
	Unaudited			
Financial assets at fair value through profit or loss:				
- ETFs	19,511	-	-	19,511
- Royalties receivable from the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	-	279,800	279,800
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	64,800	-	64,800
Total Financial assets at fair value through profit or loss:	<u>19,511</u>	<u>64,800</u>	<u>279,800</u>	<u>364,111</u>

NewMed Energy – Limited Partnership**Notes to the Condensed Interim Financial Statements for March 31, 2022 (Dollars in thousands)****Note 8 – Financial Instruments: (Cont.)****Fair value of financial instruments: (Cont.)****B. (Cont.)**

	31.3.2021			
	Level 1	Level 2	Level 3	Total
	Unaudited			
Financial assets at fair value through profit or loss:				
- Royalties receivable from the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	-	247,900	247,900
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	63,000	-	63,000
Total Financial assets at fair value through profit or loss:	-	63,000	247,900	310,900
Financial assets at fair value through other comprehensive income:				
- Investments in equity instruments designated for measurement at fair value through other comprehensive income	26,119	-	-	26,119
Total financial assets	26,119	63,000	247,900	337,019

	31.12.2021			
	Level 1	Level 2	Level 3	Total
	Audited			
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 to the Annual Financial Statements)	-	-	262,183	262,183
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	64,400	-	64,400
Total Financial assets at fair value through profit or loss:	19,945	64,400	262,183	346,528

NewMed Energy – Limited Partnership**Notes to the Condensed Interim Financial Statements for March 31, 2022 (Dollars in thousands)****Note 8 – Financial Instruments: (Cont.)****Fair value of financial instruments: (Cont.)****C. Adjustment due to fair value measurements classified as level 3 in the financial instruments fair value hierarchy:**

	For the three-month period ended March 31, 2022	
	Future production- based	
	royalties	Total
	Unaudited	
Balance as of December 31, 2021 (audited)	262,183	262,183
Remeasurement recognized in profit or loss	17,617	17,617
Balance as of March 31, 2022	<u>279,800</u>	<u>279,800</u>

	For the three-month period ended March 31, 2021	
	Future production- based	
	royalties	Total
	Unaudited	
Balance as of December 31, 2020 (audited)	242,200	242,200
Remeasurement recognized in profit or loss	5,700	5,700
Balance as of March 31, 2021	<u>247,900</u>	<u>247,900</u>

	For the year ended December 31, 2021	
	Future production- based	
	royalties	Total
	Audited	
Balance as of January 1	242,200	242,200
Remeasurement recognized in profit or loss	19,983	19,983
Balance as of December 31	<u>262,183</u>	<u>262,183</u>

NewMed Energy – Limited Partnership

Notes to the Condensed Interim Financial Statements for March 31, 2022 (Dollars in thousands)

Note 9 – Subsequent Events:

1. See Note 3B2 for details regarding approval of a supplementary budget for plug and abandon in the Yam Tethys project.
2. See Note 3B4 for details regarding the Partnership's decision in connection with License New Ofek/405.
3. See Note 7B for details regarding the publication of a temporary tax certificate for an entitled holder and seller of a participation unit of the Partnership, for the tax year 2020.
4. See Note 7C for details regarding the approval by the board of directors of the General Partner of the Partnership, of the distribution of profits in the sum of approx. \$50 million.
5. See Note 7D for details regarding the approval of the board of directors of the General Partner of the Partnership, of a plan for the purchase of bonds of Leviathan Bond.



Report on the effectiveness of internal control over financial reporting and disclosure

This report is a translation of Delek Drilling - Limited Partnership's Hebrew-language Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure pursuant to Regulation 38C(a) of the Securities Regulations (Immediate and Periodic Reports), 5730-1970. 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.

Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure pursuant to Regulation 38C(a) of the Securities Regulations (Immediate and Periodic Reports), 5730-1970:

The management of the general partner in NewMed Energy – Limited Partnership (the “GP” and the “Partnership”, respectively), under the supervision of the GP, 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 GP;
2. Yossi Abu, CEO of the GP;
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 GP, and 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 GP, 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 requirements.

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.

In the annual report on the effectiveness of internal control over financial reporting and disclosure, which was attached to the periodic report for the period ended December 31, 2021 (the “**Most Recent Annual Report on Internal Control**”), the board and management of the GP evaluated the internal control in the Partnership. Based on such evaluation, the board and management of the GP concluded that the internal control, as of March 31, 2022, was effective.

Until the date of the report, no occurrence or issue were brought to the knowledge of the board or management of the GP, which may change the evaluation of the effectiveness of the internal control, as presented in the Most Recent Annual Report on Internal Control.

As of the date of the report, based on the evaluation of the effectiveness of internal control in the Most Recent Annual Report on Internal Control, and based on information which was brought to the knowledge of the management and board of the GP as aforesaid, the internal control is effective.

Statement of CEO pursuant to Regulation 38C(d)(1):

Statement of Managers

Statement of CEO

I, Yossi Abu, represent that:

- (1) I have reviewed the quarterly report of NewMed Energy – Limited Partnership (the “**Partnership**”) for Q1/2022 (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 GP 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 GP of the Partnership:
 - (a) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, which are designed to ensure that material information in reference to the Partnership is brought to my knowledge by others in the Partnership, particularly during the preparation of the Reports; and –
 - (b) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, 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) No occurrence or issue have been brought to my attention that occurred during the period between the date of the most recent report (the periodic report as of December 31, 2021) and the date hereof, which can change the conclusion of the board and management of the Partnership's GP with regard to the effectiveness of internal control over the Partnership's financial reporting and disclosure.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

May 22, 2022

Yossi Abu, CEO

Statement of the most senior financial officer pursuant to Regulation 38C(d)(2):

Statement of Managers

Statement of the most senior financial officer

I, Tzachi Habusha, represent that:

- (1) I have reviewed the interim financial statements and the other financial information included in the interim reports of NewMed Energy – Limited Partnership (the “**Partnership**”) for Q1/2022 (the “**Reports**” or the “**Interim Reports**”);
- (2) To my knowledge, the interim financial statements and the other financial information included in the Interim 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 interim financial statements and the other financial information included in the Interim 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 GP 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 interim financial statements and the other financial information included in the Interim Reports, which may reasonably adversely affect the Partnership’s ability to gather, process, summarize or report financial information in a manner which casts 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 GP of the Partnership:
- (a) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, which are designed to ensure that material information in reference to the Partnership 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, under my supervision, the setting and maintaining of controls and procedures, 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) No occurrence or issue have been brought to my attention, that occurred during of the period between the date of the most recent report (the periodic report as of December 31, 2021) and the date hereof, pertaining to the interim financial statements and any other financial information included in the Interim Reports, which could, in my opinion, change the conclusion of the board and management of the Partnership's GP with regard to the effectiveness of internal control over the Partnership's financial reporting and disclosure.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

May 22, 2022

Tzachi Habusha, CPA
CFO



Valuation

NewMed Energy - Limited Partnership

Valuation of Royalties From the Sale of the I/16 “Tanin” and I/17 “Karish” Leases

May 2022

This document is a translation of the original Hebrew-language document of Giza Singer Even Ltd. of May 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

Introduction and Disclaimer	3
Executive Summary	6
Description of Transaction for the Sale of the Interests in the Karish and Tanin Leases	8
Description of the Business Environment	11
Valuation of Royalties	35
Annex A – Cash Flow Forecast	42
Definitions	44

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 March 31, 2022 (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 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

¹ On May 17, 2017, NewMed Energy merged with the partnership Avner Oil Exploration – Limited Partnership (“**Avner**”) 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”.



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

The main sources of information used in the preparation of the Opinion are specified below:

- 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.



GIZA SINGER EVEN

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 at Giza Zinger Even and CEO at GSE Financial Advisory, who 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
May 22, 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 (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 on March 29, 2018 and has since been regularly paid each year on that date.

³ As defined in the reports of NewMed Energy and Avner to the TASE on December 25, 2016.



GIZA SINGER EVEN

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,⁴ the parent company of Energean Israel Limited⁵:

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 March 31, 2022 is estimated at approx. \$279.8 million (the value of the Karish Royalties (including Karish North) and the Tanin Royalties are estimated at approx. \$242.3 million and approx. \$37.5 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	227.8	235.9	242.5	255.4	258.2	270.1	272.8
	+150 bp	235.9	244.3	251.2	264.6	267.7	279.9	282.9
	+50 bp	244.6	253.4	260.6	274.5	277.8	290.5	293.8
	-	249.2	258.1	265.5	279.8	283.1	296.1	299.5
	-50 bp	253.9	263.1	270.6	285.2	288.7	301.9	305.5
	-150 bp	263.9	273.5	281.4	296.7	300.4	314.2	318.1
	-250 bp	274.7	284.8	293.1	309.0	313.0	327.5	331.8

⁴ <https://www.energean.com/media/5159/024343-energean-israel-2021ye-cpr.pdf>.

⁵ 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 ⁶ (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.

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

⁶ 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 7.24.7 of NewMed Energy's periodic report for 2021.

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..⁷ 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;
 - 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

⁷ Energean Israel Ltd. serves as the operational arm of Energean E&P Holdings Ltd. in Israel.



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 earlier⁸;

- 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 royalties⁹ 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.

⁸ 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.

⁹ 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,¹⁰ shorter construction time, smaller areas of land¹¹ and many operational advantages. In addition to the relatively low price, power plants operated by 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

¹⁰ 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.

¹¹ 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.

in cost saving¹². According to the estimates of the Natural Gas Authority¹³, the transition to natural gas in the years 2014-2021 saved the Israeli market an estimated total of approx. ILS 115.62 billion¹⁴. Most of such saving derives from the electricity sector (approx. ILS 81.0 billion), total consumption by which in 2021 amounted to approx. 9.71 BCM, which represents 79% of the demand for natural gas. The rest of the amount saved due to the transition to use of natural gas is attributed to the industrial sector (approx. ILS 35.0 billion), total consumption by which in 2021 amounted to approx. 2.62 BCM which represents an increase of 4% versus 2020. ILS 64.8 billion out of the total market savings are attributed to 2021 due to the exceptionally high fuel prices worldwide in this year, versus the stable natural gas prices in Israel.

- **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 products¹⁵. 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

¹² 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%.

¹³ https://www.gov.il/BlobFolder/reports/ng_2021/he/ng_2021.pdf

¹⁴ The calculation of the cost saving is made based on the assumption that without the entry of natural gas, it would have been necessary to both build new coal-fired power plants D and E, and supplement production with diesel and fuel oil. The savings derive only from fuel price differences and do not take into account capital investments for the construction of power plants and conversions to natural gas.

¹⁵ Other than the electricity and industrial sectors in which consumers do not pay excise tax for the gas.

to 50% (depending, *inter alia*, on the corporate tax rate) of the revenues of 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 2021, the IEC purchased approx. 3.0 BCM of natural gas from the Tamar and Leviathan partners and also imported and consumed another approx. 0.2 million tons of LNG, compared to 2020 in which it purchased approx. 3.4 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 2020 and 2021 at approx. 56.9% and approx. 55.5%, respectively.¹⁶ In such context it is noted that according to the decision of the Minister of Energy that by the end of 2022, the engagement with the regasification vessel used by the IEC for reception and regasification of imported LNG will end. 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 2021, the natural gas consumption of the IPPs amounted to approx. 4.08 BCM, which represents approx. 33% of the overall consumption of natural gas in that year in the entire market.
- **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

¹⁶ Source: 2021 financial statement of IEC.

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 2021, natural gas consumption by the industrial sector amounted to approx. 2.62 BCM, an increase of 4% compared with 2020. The increase chiefly derives from the higher demand of a number of 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 industrial 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 are making 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 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:

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>

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



- 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, upon completion of the sale of the Partnership's holdings in the Tamar reservoir in December 2021, the price control in the natural gas sector by virtue of the Restrictive Trade Practices Law was 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 released, each quarter, the weighted price of natural gas and the price of natural gas for independent power producers. Starting from the completion of the sale of the

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.



Partnership's holdings in Tamar, as aforesaid, the Gas Authority ceased to release the natural gas prices as aforesaid, and the partners in the gas reservoirs are no longer required to offer such prices to their customers.

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. 8.1% of actual power production in the State of Israel in 2021 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.

²⁰ "Status Report – Renewable Energy Targets in Israel" – the Electricity Authority, March 2022: https://www.gov.il/BlobFolder/news/doch_yeadim_new_energy/he/Files_Doveret_press_doch_yaad_mithad_shot_03_2022_n.pdf



- **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 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 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

²¹ Website of the Ministry of Energy, Spokesman's Notice of January 10, 2019
https://www.gov.il/he/departments/news/ng_060119



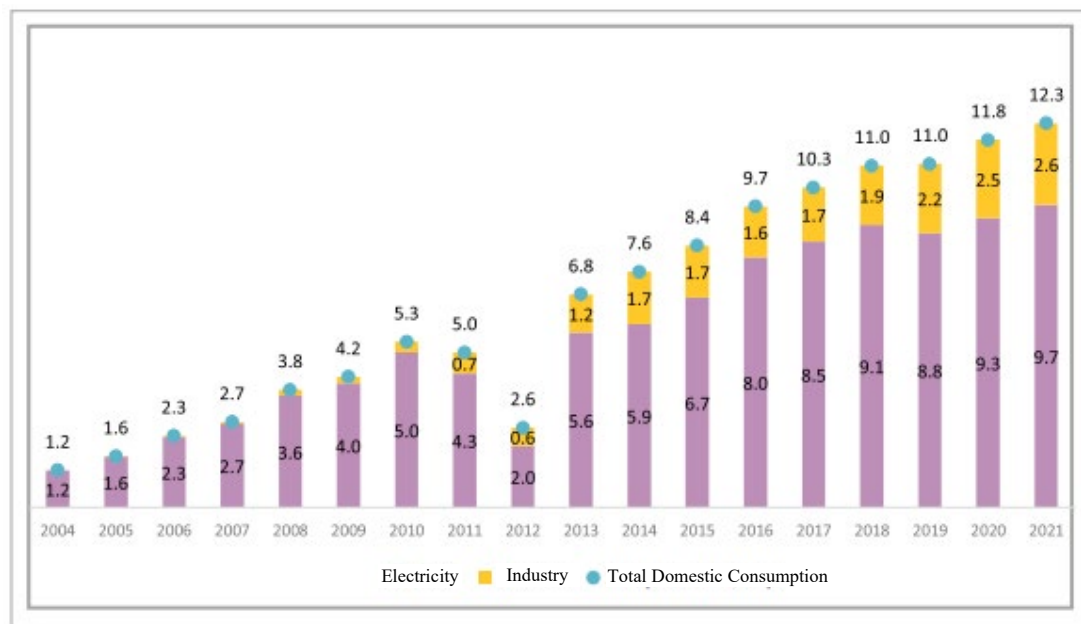
therefore there is a dependence of the companies working in the sector on foreign contractors for the performance of such work. Furthermore, the number of facilities that are capable of drilling and performing development activities offshore, in general, and in deep-water, in particular, is relatively 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

Chart 1 – Natural gas consumption in the domestic market in 2004-2020 in BCM per year²²



The consumption of natural gas in the Israeli market in 2021 (including export of Israeli gas to neighboring countries) amounted to approx. 19.47 BCM, an increase of approx. 21.3% compared with the consumption in 2020. Approx. 50.1% of the amount was supplied from the Leviathan reservoir, approx. 44% of the amount was supplied from the Tamar reservoir, and the balance (approx. 6%) from the import of LNG via the offshore LNG buoy. From 2004 until the end of 2021, a total quantity of approx. 130 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 sector²³, the natural gas consumption in Israel (excluding export to neighboring countries) in 2025 is expected to 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

²² Sources: The Ministry of Energy
https://www.gov.il/BlobFolder/reports/ng_2021/he/ng_2021.pdf

²³ Sources: The Ministry of Energy
https://www.gov.il/BlobFolder/rfp/ng_210621/he/ng_report_2_draft.pdf

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.
- 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 industrial 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 Protection²⁴ 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.
 - On June 24, 2020, the Minister of Energy²⁵ 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).
 - 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 2025.²⁶
 - On April 18, 2021, the Ministry of Energy released a Road Map²⁷ until 2050 for the low carbon energy sector, which continues the program to reduce the use of polluting energy

²⁴ Website of the Ministry of Energy, Spokesman's Notice of June 8, 2020:

https://www.gov.il/he/departments/news/press_080620

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.calcalist.co.il/local/articles/0,7340,L-3892470,00.html>

²⁷ https://www.gov.il/he/departments/publications/reports/energy_180421

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 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 Paper²⁸.
- According to the current forecast of the Electricity Authority,²⁹ the production of electricity from natural gas is expected to increase significantly, amounting to approx. 76% in 2025.

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 a summary review of the developments in the natural gas market by the Natural Gas Authority at the Ministry of Energy for 2021, approx. 575 km of distribution pipelines have been laid out to date throughout Israel (approx. 160 km of which in 2021, an increase of approx. 38% relative to 2020) and approx. 830 km of transmission pipelines (approx. 30 km of which in 2021). An expansion 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, representing 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

²⁸ https://www.gov.il/BlobFolder/rfp/kol_kore_mashab/he/Files_Kol_Kore_kol_kore_mashab_malle.pdf

²⁹ <https://www.gov.il/he/departments/general/dochmeshek>

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



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.

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 export 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 Energy³¹ 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, 2022³² and is expected to increase the volume of natural gas exported to neighboring countries in a manner that shall secure supply of the annual contract quantity required under the export agreements in 2022.
- 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.

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>

- Natural gas export in 2021 amounted to approx. 7.14 BCM (an increase of about 68% from 2020). Approx. 86% of the exported gas was produced from the Leviathan reservoir, and the rest from the Tamar reservoir. In 2021 the Ministry of Energy promoted the construction of another onshore pipeline to Egypt, in addition to the existing offshore pipeline (EMG). The new onshore pipeline to Egypt, which is currently in design, is expected to transmit between 3 and 6 BCM per year, and is intended to be built between Ramat Hovav and Nitzana.

4.5.4 Repercussions of the Covid crisis

- 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 industrial 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.³³
- 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.
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

³³ Ministry of Energy:
https://www.gov.il/BlobFolder/reports/ng_2020/he/ng_2020.pdf



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 2022 is expected to total approx. 13.3 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 transportation. 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 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 Agreement³⁴, 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 (10% up or down) on January 1, 2025 (instead of July 1, 2024 in the 2012 IEC-Tamar Agreement)³⁵. 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%.

³⁴ <https://maya.tase.co.il/reports/details/1427402/2/0>.

³⁵ 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.



- 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 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 precedent³⁶. On February 28, 2022, the partners reported the satisfaction of the condition precedent of the Remaining Tamar Partners joining the amendment to the agreement³⁷.

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.

³⁶ <https://maya.tase.co.il/reports/details/1419083/2/0>.

³⁷ <https://maya.tase.co.il/reports/details/1433483/2/0>.



- **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 years (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.
- **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 floor price 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 March 24, 2021, Energean announced the completion of the issue of 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 at interest rates of 4.500%, 4.875%, 5.375% and 5.875%, respectively (in this section: the “**Secured Bonds**”). The Secured Bonds were rated BB (international) by the rating agency S&P and are traded on TASE UP (formerly TACT-Institutional).
- On June 28, 2021, 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 on April 30, 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. Starting from January 7, 2022, the above-mentioned bonds are 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.
- **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 (the “**SPOT Agreement**”). Under the SPOT 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 SPOT 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.³⁸ 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.
- On April 12, 2022, Energean released a chart describing the expected annual rate of production of natural gas from the reservoirs pursuant to all of the agreements held thereby as of the release date. Energean reported that the maximum annual production rate is expected to be approx. 7.2 BCM, with a feasible maximum annual production rate of approx. 8.0 BCM, subject to the quantities of natural gas to be purchased by the IEC pursuant to the SPOT Agreement.
- On May 3, 2022, Energean released that the FPSO has departed and is sailing from Singapore towards Israel. Energean expects that the departure of the FPSO, its connection to the drilling point and the running-in process are expected to take around four-five months. According to Energean, production of natural gas from the Karish reservoir is expected to commence as planned during Q3/2022.
- **Signing of an agreement for the sale of natural gas with Hagit East Power Plant partnership** – On May 3, 2022, Energean reported its engagement in agreements for the supply of natural gas from the Karish reservoir with the Hagit East Power Plant partnership (Edeltech and Shikun & Binui Energy). According to the agreements, Energean will sell the Hagit East Power Plant partnership natural gas from the date of commencement of first gas production from the Karish field, at an annual quantity of approx. 0.8 BCM. The agreements include provisions on a floor price, Take-or-Pay mechanism and linkages (with no linkage to the Brent price), and are expected to generate for Energean approx. \$2.0 billion throughout the life of the contracts. The total natural gas sold under the agreement is expected to amount to approx. 12 BCM over a period of about 15 years. The agreement is subject to the closing of the acquisition of the plant by Edeltech and Shikun & Binui Energy.

³⁸<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 royalties³⁹) 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.

³⁹ 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 Q3/2022. 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 H2/2023. Production from the Tanin lease is expected to 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.

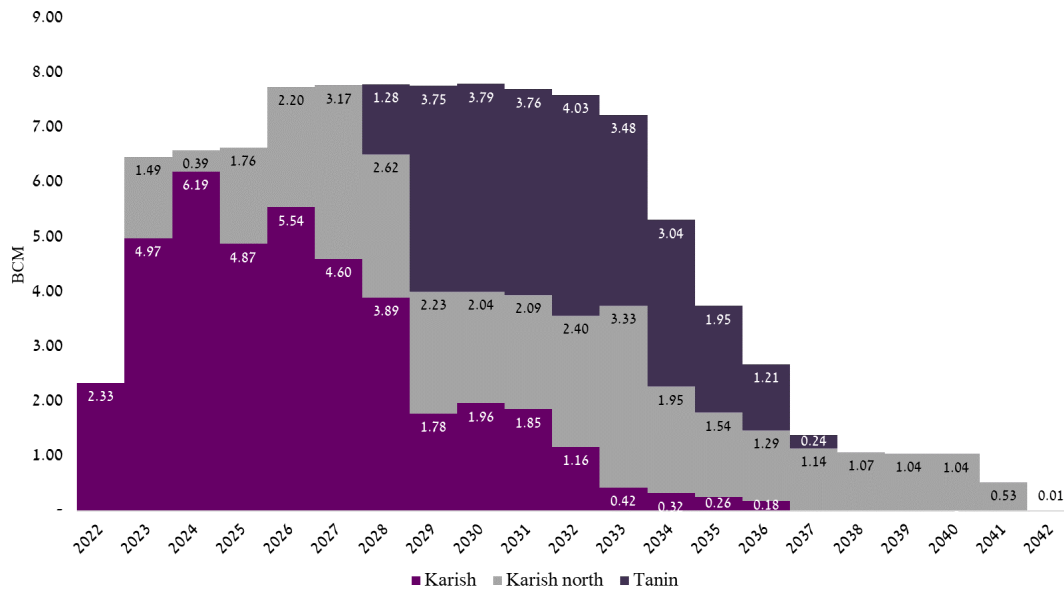
5.2.3 Quantity forecast and annual production rate

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:

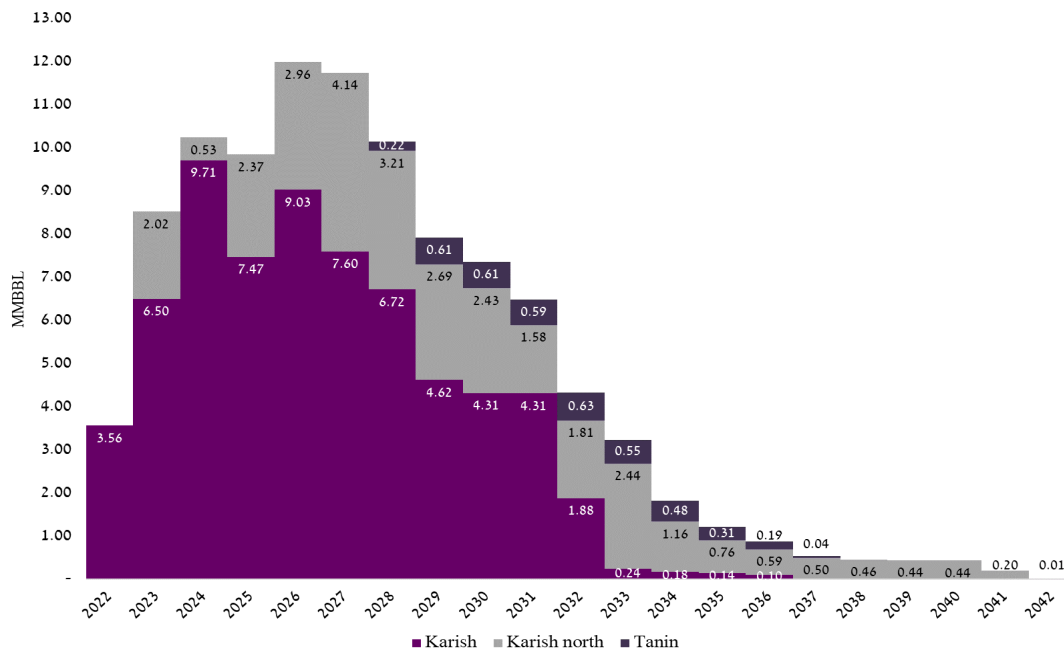
Reservoir	Reserves and Resources	
	Natural Gas (BCM)	Hydrocarbon Liquids (MMBBL)
	2P	2P
Karish Center	40.3	66.4
Karish North	33.3	30.7
Tanin	26.5	4.2
Total	100.2	101.3

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 27.64 Agorot (February 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. 26.16-30.21 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 Bank⁴⁰, the EIA⁴¹ 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).

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.⁴² 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 rate⁴³) 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.

5.2.8 Royalties cap rate

The cap rate used in the valuation prepared by us as of December 31, 2021 (the "**12/21 Valuation**") was estimated at approx. 13.5% based on the cap rate of the Leviathan reservoir (with adjustments for the risk differences between the reservoirs and the cash flows) and premiums due to the Covid outbreak, as well as other risks deriving from developments in the

⁴⁰ A World Bank Semi-Annual Report: Commodity Markets Outlook, April 2022.

⁴¹ U.S Energy Information Administration: Analysis & Projections, April 2022.

⁴² 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

⁴³ Corporate tax of 23% was assumed according to the statutory tax rate known as of the Valuation Date.



GIZA SINGER EVEN

market and the development of the reservoirs (for further details, see Section 5.2.8 of the 12/21 Valuation).

In view of the signs indicating the decrease of risks and uncertainty deriving from the Covid pandemic, we decreased the premium deriving from Covid risks by 0.5%, which, in our estimation, reflect the decrease in the level of risk compared with the 12/21 Valuation, such that the total cap rate for the overriding royalties is estimated at approx. 13.0% (before tax).

5.3 Results of the valuation

According to the assumptions specified in the Paper itself, the value of the Royalties as of March 31, 2022 is estimated at approx. \$279.8 million (the value of the Karish Royalties (including Karish North) and the Tanin Royalties are estimated at approx. \$242.3 million and approx. \$37.5 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	227.8	235.9	242.5	255.4	258.2	270.1	272.8
	+150 bp	235.9	244.3	251.2	264.6	267.7	279.9	282.9
	+50 bp	244.6	253.4	260.6	274.5	277.8	290.5	293.8
	-	249.2	258.1	265.5	279.8	283.1	296.1	299.5
	-50 bp	253.9	263.1	270.6	285.2	288.7	301.9	305.5
	-150 bp	263.9	273.5	281.4	296.7	300.4	314.2	318.1
	-250 bp	274.7	284.8	293.1	309.0	313.0	327.5	331.8

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	217.3	238.1	247.0	255.4	254.2	258.5	264.3
	+150 bp	226.1	247.3	256.2	264.6	263.2	267.4	273.2
	+50 bp	235.6	257.2	266.0	274.5	272.8	277.0	282.7
	-	240.7	262.4	271.3	279.8	277.9	282.1	287.7
	-50 bp	246.0	267.8	276.7	285.2	283.1	287.3	292.8
	-150 bp	257.2	279.3	288.2	296.7	294.2	298.3	303.7
	-250 bp	269.5	291.9	300.6	309.0	306.2	310.1	315.3

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	233.6	239.0	244.3	255.4	258.0	268.7	269.4
	+150 bp	242.2	247.7	253.2	264.6	267.4	278.4	279.2
	+50 bp	251.4	257.0	262.8	274.5	277.5	288.8	289.8
	-	256.2	261.9	267.8	279.8	282.8	294.3	295.3
	-50 bp	261.2	267.0	273.0	285.2	288.3	300.0	301.1
	-150 bp	271.8	277.8	284.0	296.7	300.0	312.1	313.2
	-250 bp	283.3	289.4	295.9	309.0	312.6	325.1	326.4



GIZA SINGER EVEN

Annex A – Cash Flow Forecast

Year	Unit	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<u>Production</u>											
Gas production - Karish*	bcm/y	1.30	5.20	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	1.98	6.92	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
<u>Prices</u>											
Natural gas price	US\$	2.97	4.12	4.18	4.02	3.99	4.12	4.14	4.14	4.09	4.07
Condensate Price	US\$	101.38	91.61	81.80	79.35	76.56	74.61	73.66	72.73	71.81	70.89
<u>Revenues</u>											
Karish - Revenues*											
Natural Gas Revenues	US\$ MM	191.4	797.2	947.3	918.0	1,062.5	1,100.1	927.8	570.6	562.4	551.3
Condensate Revenues	US\$ MM	201.1	634.2	774.4	722.2	848.5	810.0	676.3	491.4	448.0	386.2
Total Gross Revenues	US\$ MM	392.5	1,431.4	1,721.7	1,640.3	1,911.0	1,910.1	1,604.1	1,062.0	1,010.4	937.6
Tanin - Revenues											
Natural Gas Revenues	US\$ MM	-	-	-	-	-	-	182.5	534.4	532.4	525.6
Condensate Revenues	US\$ MM	-	-	-	-	-	-	14.9	41.3	40.6	38.8
Total Gross Revenues	US\$ MM	-	-	-	-	-	-	197.3	575.7	573.0	564.3
K&T - Total Gross Revenues	US\$ MM	392.5	1,431.4	1,721.7	1,640.3	1,911.0	1,910.1	1,801.4	1,637.7	1,583.4	1,501.9
<u>Delek Drilling - Transaction Revenues</u>											
Karish ORRI, Net*	US\$ MM	18.5	67.4	81.1	33.0	37.8	31.0	25.3	16.7	15.9	14.8
Tanin ORRI Net	US\$ MM	-	-	-	-	-	-	9.3	27.1	23.5	11.5
Transaction ORRI, Net**	US\$ MM	18.5	67.4	81.1	33.0	37.8	31.0	34.6	43.8	39.4	26.3
Instalments	US\$ MM	-	25.7	13.3	12.8	12.3	11.8	-	-	-	-
Karish Discounted Transaction Revenues*	US\$ MM	17.4	57.9	61.6	22.3	22.6	16.3	11.8	6.9	5.8	4.8
Tanin Discounted Transaction Revenues	US\$ MM	-	-	-	-	-	-	4.3	11.2	8.6	3.7
Total Discounted Transaction Revenues	US\$ MM	17.4	57.9	61.6	22.3	22.6	16.3	16.1	18.1	14.4	8.5

*Including Karish North

**Net of Existing ORRI net of Petroleum Tax



GIZA SINGER EVEN

Year	Unit	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
<u>Production</u>												
Gas production - Karish*	bcm/y	3.30	3.47	3.47	2.10	2.10	2.10	2.10	1.66	1.36	1.05	0.80
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	3.41	3.41	2.48	2.48	1.24	1.24	0.84	0.64	0.46	0.44
Condensate production - Tanin	bbl/y m	0.59	0.51	0.51	0.44	0.28	0.02	-	-	-	-	-
<u>Prices</u>												
Natural gas price	US\$	4.03	4.02	4.02	3.97	3.91	3.91	3.92	3.89	3.89	3.89	3.89
Condensate Price	US\$	69.99	69.11	68.23	67.36	66.51	65.67	64.83	64.01	63.20	62.40	61.60
<u>Revenues</u>												
Karish - Revenues*												
Natural Gas Revenues	US\$ MM	493.7	518.4	518.4	309.8	304.9	305.0	305.9	239.6	196.4	152.4	115.7
Condensate Revenues	US\$ MM	238.6	235.6	232.6	166.9	164.8	81.3	80.2	53.7	40.5	28.9	27.0
Total Gross Revenues	US\$ MM	732.3	754.0	751.0	476.8	469.7	386.3	386.2	293.3	236.9	181.3	142.6
Tanin - Revenues												
Natural Gas Revenues	US\$ MM	558.5	480.6	420.1	266.3	262.1	221.7	-	-	-	-	-
Condensate Revenues	US\$ MM	41.0	35.0	34.5	29.8	18.8	1.4	-	-	-	-	-
Total Gross Revenues	US\$ MM	599.6	515.6	454.6	296.1	280.9	223.1	-	-	-	-	-
K&T - Total Gross Revenues	US\$ MM	1,331.9	1,269.6	1,205.7	772.9	750.6	609.4	386.2	293.3	236.9	181.3	142.6
<u>Delek Drilling - Transaction Revenues</u>												
Karish ORRI, Net*	US\$ MM	11.5	11.9	11.8	7.5	7.4	6.1	6.1	4.6	3.7	2.9	2.2
Tanin ORRI Net	US\$ MM	12.4	8.7	7.2	4.7	4.4	3.5	-	-	-	-	-
Transaction ORRI, Net**	US\$ MM	23.9	20.5	19.0	12.2	11.8	9.6	6.1	4.6	3.7	2.9	2.2
Instalments	US\$ MM	-	-	-	-	-	-	-	-	-	-	0.1
Karish Discounted Transaction Revenues*	US\$ MM	3.3	3.0	2.7	1.5	1.3	0.9	0.8	0.6	0.4	0.3	0.2
Tanin Discounted Transaction Revenues	US\$ MM	3.6	2.2	1.6	0.9	0.8	0.5	-	-	-	-	-
Total Discounted Transaction Revenues	US\$ MM	6.9	5.2	4.3	2.4	2.1	1.5	0.8	0.6	0.4	0.3	0.2

*Including Karish North

**Net of Existing ORRI net of Petroleum Tax

Definitions

Definition	Explanation
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.