NEWMEDENERGY

2022 FINANCIAL STATEMENTS AS OF 30.06.2022

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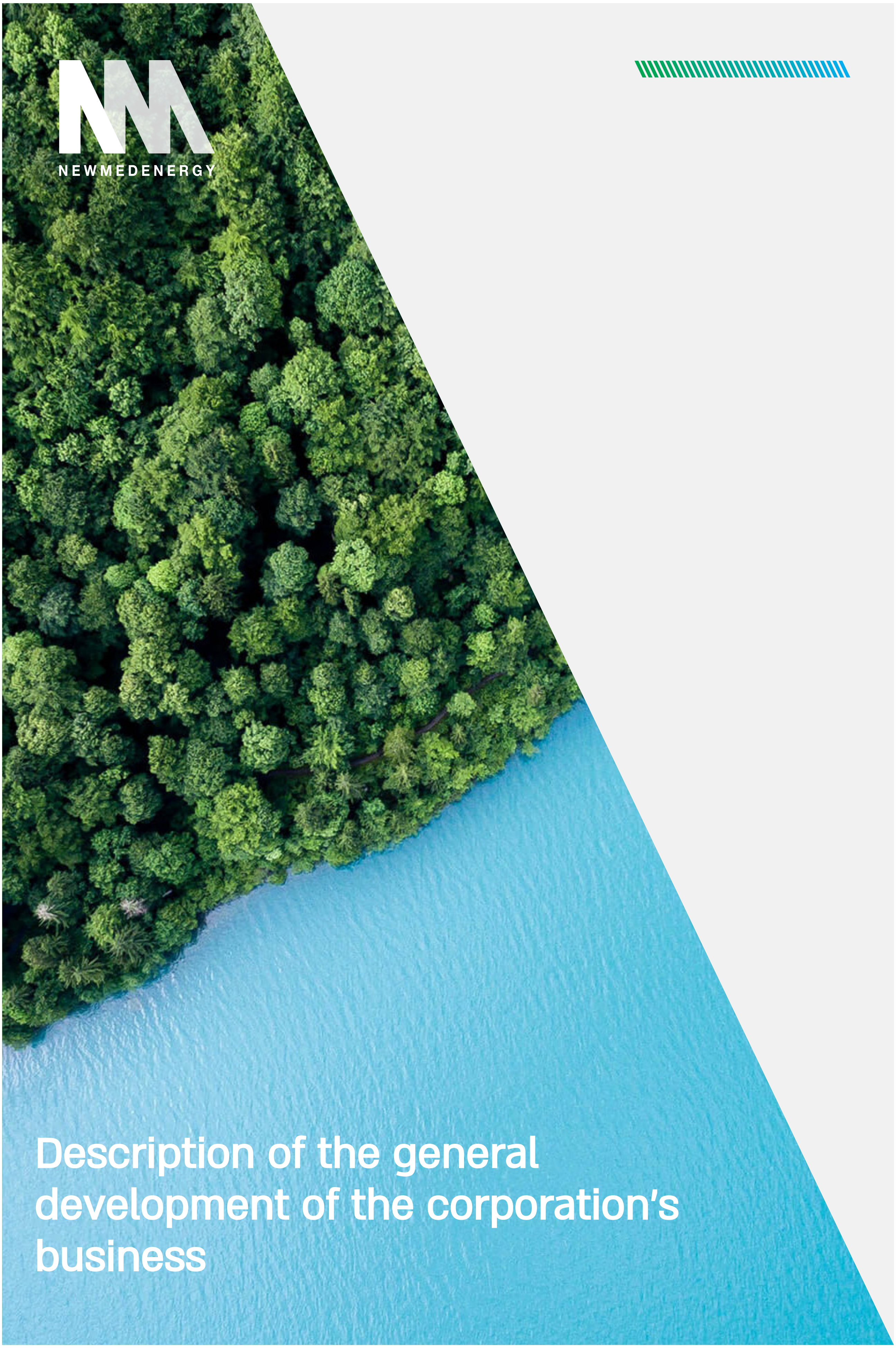

Description of the general development of the corporation's business

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 – Distribution of Profit**

On August 17, 2022, the board of directors of NewMed Energy Management Ltd., the General Partner of the Partnership (the "**General Partner**"), after receiving the recommendation of the Financial Statements Review Committee of the General Partner, approved a distribution of profit in the sum of 50 million U.S. dollars ("**$**"), with the record date for the distribution being August 25, 2022. Such distribution of profit will be carried out on September 22, 2022.

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

a. On June 15, 2022, a memorandum of understanding was signed between Israel, Egypt and the European Union on collaboration in trade, transport and export of natural gas to the EU countries (the "**MOU**").[2] According to the MOU, the parties will act for regular supply of natural gas to the EU countries from Egypt, Israel and other locations, through liquefaction of natural gas in liquefaction facilities in Egypt, subject to preservation of the energy security in the domestic market of each of the countries that signed the MOU, and without Israel or Egypt impeding export of natural gas to other countries. In addition, according to the MOU, the EU will encourage European countries to participate in competitive processes and invest in natural gas exploration and production projects in Israel and Egypt.

b. On June 20, 2022, the Knesset's Research and Information Center published an economic review on the effect of the global energy crisis on the Israeli energy market and on the Israeli Citizens' Fund (the "**Review**"),[3] whose main parts are as follows:

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[1] The update includes material news or changes that occurred in the Partnership's business in Q2 2022 until shortly before the date of this report on any matter that is required to be described in the periodic report, other than updates included in the Q1 2022 report, as released on May 23, 2022 (Ref. No.: 2022-01-062278) (the "**Q1 Report**"). The update refers to the section numbers in Chapter A (Description of the Partnership's Business) of the 2021 periodic report, as released on March 24, 2022 (Ref. No.: 2022-01-033988) (the "**Periodic Report**"), unless stated otherwise.

[2] https://www.gov.il/he/departments/news/ng_150622.

[3] https://fs.knesset.gov.il/globaldocs/MMM/14077da5-3edb-ec11-814d-005056aa4246/2_14077da5-3edb-ec11-814d-005056aa4246_11_19541.pdf

1) Effect on the Israeli electricity market – the global increase in coal prices as a result of the global increase in demand and shortage in supply of various fuels, among others, as a result of the military conflict between Russia and Ukraine affects the Israeli electricity market which partially relies on coal to produce gas. Accordingly, the Electricity Authority advertised that the cost of coal-based electricity production has risen by approx. 83% in February-June 2022. According to the Review, the economic costs of continued operation of the coal plants in view of the energy crisis, which are estimated at approx. ILS 1 billion for 2022, are high compared to natural-gas based electricity production and are also expected to increase the electricity price for consumers.

2) Effect on the revenues of the Israeli Citizens' Fund – the price of the natural gas sold to IPPs is expected to increase as a result of the increase in the electricity prices such that the revenues of the levy fund will be impacted. In addition, the global increase in oil prices affects the price of exported natural gas, as the same is partially linked to the global oil barrel price, and the export of natural gas from Israel through Egypt to Europe, according to the MOU, and is also expected to lead to an increase in the gas quantities that are sold.

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

Further to Section 3 of the Q1 Report 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 ended in June 2022, in accordance with the timetables and under the planned budget. According to the work plan, the well will be completed and connected to the existing subsea production system of the Leviathan project during Q1/2023.

4. **<u>Sections 7.3.6 and 7.3.11 of the Periodic Report - Plan for Development of the Aphrodite Reservoir</u>**

Further to Section 4 of Q1 report regarding the engagement of the partners in the Aphrodite reservoir 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, it is noted that partners in the Aphrodite reservoir intend to bring to the approval of the Cypriot government ,by the end of the year, an update to 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.

5. **Sections 7.4, 7.5 and 7.24.9 of the Periodic Report – the 405/New Ofek license and 406/New Yahel license (the "New Ofek License" and "New Yahel License", respectively)**

Further to Section 6 of the Q1 Report and the immediate report of the Partnership dated May 23, 2022 (Ref. No.: 2022-01-062254) regarding the Partnership's decision to notify the other holders of rights in the New Ofek License, *inter alia*, 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, it is noted that on June 20, 2022, the New Ofek License and the New Yahel License expired, and the Partnership did not join the application submitted by the operator in these licenses as aforesaid to the Petroleum Commissioner at the Ministry of Energy to extend the same. For further details, see the Partnership's immediate report dated June 21, 2022 (Ref. No.: 2022-01-076501), the details appearing in which are incorporated herein by way of reference, and Note [] to the financial statements attached below.

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

Further to Section 7 of the Q1 Report and the immediate report of the Partnership dated May 31, 2022 (Ref. No.: 2022-01-067939) regarding a dispute with Energean Israel Limited ("**Energean**") in relation to payment of the balance of the consideration pursuant to the agreement on sale of the interests in Karish and Tanin leases and the filing of a claim thereon by the Partnership against Energean, it is noted that Energean is required to file an answer by September 15 2022.

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

During Q2/2022 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.

8. **Section 7.11.2 of the Periodic Report – Export**

a. Further to Section 7.11.2(b) of the Periodic Report, regarding the Partnership's activity for the promotion of possibilities of use of preexisting and/or new pipelines to regional markets, it is noted that as of the date of approval of the report, the Partnership is examining, together with Chevron Mediterranean Limited ("**Chevron**") other possibilities for increasing the export amounts of natural gas through the Jordan Valley terminal ("**Jordan North**") and through a new onshore connection to be built by Israel Natural Gas Line Ltd. ("**INGL**") between the Israeli transmission system and Egypt at the Nitzana area. In this context, it should also be noted that on June 14, 2022, the Natural Gas Authority published a request for information regarding the ability and intention of the partners in the producing projects to export natural gas through the Jordan North terminal and via the onshore line that is to be built in the Ramat Hovav-Nitzana area. In this request, the aforementioned partners were asked to estimate the quantities of natural gas expected to be exported through these infrastructures, upon completion thereof. Further thereto, on July 25, 2022, Chevron replied to the Natural Gas Authority that Leviathan's partners are interested in using the full transmission capacity within the aforementioned infrastructures.

b. Further to Section 7.11.2(e)(5) of the Periodic Report and Section 10 of the Q1 Report regarding extension of the timeframe for piping of gas in the Ashdod-Ashkelon offshore transmission system section, it is noted that in August 2022, Chevron informed the Partnership that INGL had notified it that the anticipated date of commencement of piping is May 2023.

9. <u>**Section 7.13.2 of the Periodic Report – Gas and Oil Exploration in Recent Years**</u>

On May 30, 2022, the Ministry of Energy released a notice of its intention to launch a fourth competitive process for natural gas exploration in the EEZ of the State of Israel.[4] As of the date of approval of the report, no such competitive process was launched.

10. <u>**Section 7.17.1 of the Periodic Report – Human Capital; Section 21 of Chapter D of the Periodic Report – Compensation for Interested Parties and Senior Officers**</u>

On July 27, 2022, the compensation committee and the board of the General Partner approved an updated compensation policy for officers of the Partnership and the General Partner and updated terms of office and employment for the CEO of the General Partner, subject to approval by the general meeting of the holders of the Partnership's participation units. In addition, on July 27, 2022 and August 14, 2022, the audit committee and the board of the General Partner, respectively, approved a new arrangement regarding the Partnership's management expenses, subject to approval by the general meeting of the holders of the Partnership's participation units. Accordingly, on August 15, 2022, the Partnership released a report the calling of an annual and special general meeting that has on its agenda, *inter alia*, approval of the updated compensation policy, approval of updated terms of office and employment for the CEO of the General Partner, and approval of a new arrangement regarding the Partnership's management expenses. For further details, see the Partnership's immediate report dated August 15, 2022 (Ref. No.: 2022-01-103582) (the "**Notice of Meeting Report**"), the details appearing in which are incorporated herein by way of reference

11. <u>**Section 7.19.2 of the Periodic Report – Leviathan Bond Bonds**</u>

a. Further to Section 11 of the Q1 Report and the immediate report of the Partnership dated May 23, 2022 (Ref. No.: 2022-01-062266) regarding approval of a plan for the purchase of the bonds that were issued by Leviathan Bond Ltd., a wholly-owned subsidiary of the Partnership (the "**Leviathan Bond Bonds**"), it is noted that by the report approval date, the Partnership performed buy backs of approx. $33 million par value Leviathan Bond Bonds, in

[4] https://www.gov.il/he/departments/news/press_300522.

consideration for approx. $33 million, which includes the accrued interest as of the purchase date.

b. Regarding Leviathan Bond Bonds rating reports released by S&P Global Ratings, S&P Ma'alot and Fitch Ratings, see the Partnership's immediate reports dated July 26, 2022 and August 4, 2022 (Ref. No.: 2022-01-095074, 2022-01-095092 and 2022-01-099352, respectively), the details appearing in which are incorporated herein by way of reference.

12. **Section 7.20.2 of the Periodic Report – Section 19 of the Taxation of Profits from Natural Resources Law**

Further to the judgment issued in the originating application filed by the Partnership and the General Partner with the Tel Aviv District Court, in whose context the court was moved, *inter alia*, to determine the appropriate arrangements for striking a balance between individuals and corporations holding the Partnership's participation units, in view of tax payments the Partnership is required to make under Section 19 of the Taxation of Profits from Natural Resources Law, 5771-2011, and the appointment of the trustee to make a payment according to the judgment, it is noted that on July 19, 2022, the Partnership, on behalf of the trustee, filed a motion to issue an abstract of judgment in accordance with the approved payment outline, and on August 1, 2022, such abstract of judgment was signed as sought. As of the report approval date, the Partnership and the trustee are acting to consummate the judgment. For further details, see note 7C to the financial statements attached below.

13. **<u>Section 7.21.2(c) of the Periodic Report – The Legal Provisions and/or Directives of Competent Authorities on Environmental Issues are Binding on the Partnership</u>**

It is noted that the Climate Bill, 5781-2021, published in April 2021 with the aim of creating an organizational framework for the State of Israel's tackling climate change, was taken off the agenda, and on June 1, 2022, the Knesset was presented, for preliminary discussion, with the Climate Bill, 5782-2022[5], according to which, from 2030, the carbon emission reduction targets will be according to Government Resolution no. 171 of July 25, 2021, and from 2050 forth, the targets will be zero emissions (the "**Bill**"). On June 28, 2022, the Bill was approved at the plenum at the first reading and as of the report approval date, it is before the Internal Affairs and Environment Committee for preparation for the second and third readings. In the Partnership's estimation, the said legislative proceedings are not expected to be completed within the term of the current Knesset.

14. **<u>Section 7.21.5(b) of the Periodic Report – Environmental Risk Management Policy</u>**

As relayed to the Partnership by Chevron, the Leviathan project operator, the validity of the poison permit in the project was extended until June 4, 2023, according to the requirements of the law.

15. **<u>Section 7.21.7 of the Periodic Report – Material Legal or Administrative Proceedings in Relation to the Environment</u>**

a. Further to Section 7.21.7(e)(2) of the Periodic Report, regarding a hearing held before the Ministry of Environmental Protection due to noncompliance with the conditions of the marine discharge permit issued to the Leviathan platform and violation of the Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988 (the "**Prevention of Sea Pollution Law**"), in the context of which it is claimed that Chevron deviated from the criteria determined for discharge into the sea from the open system, it is noted that on June 28, 2022, Chevron received a letter demanding details about the annual sales turnover pursuant to Section 5(c)(b)(2) of the Prevention of Sea Pollution Law. According to the letter, the information is required for the purpose of determining the amount of the financial penalty the Ministry of Environmental Protection intends to impose on Chevron due to violation of the conditions of the marine wastewater discharge permit (gas production) numbered 24/2021, in connection with the discharge of wastewater that deviate from the marine discharge criteria. Chevron has submitted the required documents to the Ministry of Environmental Protection, and, as of the date of approval of the report, it is impossible to assess for what violations the financial penalty will be imposed and the amount of the financial penalty that will be imposed, if any.

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[5] https://main.knesset.gov.il/Activity/Legislation/Laws/Pages/LawBill.aspx?t=lawsuggestionssearch&lawitemid=2193180.

b. Further to Section 7.21.7(f) of the Periodic Report, regarding a class certification motion which was filed by a resident of the Dor Beach region on behalf of "anyone who was exposed to the air, sea and coastal environment pollution, due to prohibited emissions from the gas platform operated by the Respondents in the sea, which is located opposite Dor Beach, and treats the natural gas reservoir, Leviathan, in the period from the commencement of the platform's activity in December 2019 until a judgment is issued in the claim" (in this section: the "**Petitioner**"), it is noted that on May 16, 2022, a pretrial hearing was held, at the end of which the court ordered Chevron to file a response to a motion for a discovery order within 30 days, and that, in its decision of June 26, 2022, the court denied most of the discovery motion and granted a small part thereof, ruling that Chevron is required to disclose decisions of the Ministry of Environmental Protection regarding the imposition of penalties and transcripts of hearings held toward the imposition of penalties. Chevron has submitted the relevant documents for inspection by the court, together with a submission arguing and moving for various details to be protected by privilege. On August 7, 2022, the Petitioner filed a response to Chevron's argument, whereby Chevron was asked, *inter alia*, to disclose the transcript from a hearing held at the Ministry of Environmental Protection. In its decision of August 8, 2022, the court ordered Chevron to file several clarifications by August 18, 2022.

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

a. Further to Section 7.22.8(b)(2) of the Periodic Report, regarding guidelines on the manner of calculation of the royalty value at the wellhead, it is noted that on July 24, 2022, the specific instructions of the Petroleum Commissioner at the Ministry of Energy were received with respect to the manner of calculation of the State's royalties from the Leviathan reservoir. For further details, see Note 7B to the financial statements attached below.

b. On May 29, 2022, the PUA-E released for the public's comments a multiannual plan for achievement of the goals of consumption from renewable energies (the "**Plan**"),[6] which includes main steps the PUA-E intends to take in order to achieve the goals by 2025. The Plan specifies the installed capacity required by 2025 according to the current regulation of establishment of renewable energy facilities, and the existing challenges in development and operation of the electricity grid. In addition, on July 19, 2022, the PUA-E announced a call for the public's comments with respect to examination of the renewable energy goals for 2050.[7] Concurrently, the PUA-E would like to examine the public's recommendations on how to achieve a low carbon economy and the tools required therefor, barriers to a zero emissions economy by 2050, and proposed incentives, steps and mechanisms for reaching these goals.

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

[6] https://www.gov.il/BlobFolder/rfp/shim_rav_shenati_ne_05_2022/he/Files_Shimuah_tochnit2025_nn.pdf

[7] https://www.gov.il/he/departments/publications/Call_for_bids/kol_kore_2050

a. Further to Section 7.25.2 of the Periodic Report regarding a claim filed by the Partnership and Chevron (collectively in this section: the "**Plaintiffs**") with the Jerusalem District Court against the State of Israel, which mainly includes a demand for restitution of royalties which were overpaid by the Plaintiffs to the State, under protest, in respect of income which the Plaintiffs derived from gas supply agreements which were signed between natural gas consumers and the Yam Tethys partners, it is noted that on July 19, 2022, the parties agreed, on the advice of the court, to conduct negotiations in an attempt to reach a settlement. According to the parties' motion as of August 15, 2022, the court agreed on August 16, 2020, to extend the date for the update of the court regarding the outcome of the negotiations by August 26, 2022, while in the absence of agreements, the court is expected to issue a judgment in the claim by November 2022.

b. Further to Section 7.25.3 of the Periodic Report and Section 14(b) of the Q1 Report regarding a class certification motion in relation to the merger transaction between the Partnership and Avner Oil Exploration – Limited Partnership, it is noted that after several extensions that were requested by the respondents, on June 29, 2022, they filed their closing statements.

c. Further to Section 7.25.5 of the Periodic Report and Section 14(d) of the Q1 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 against the Partnership and Chevron (jointly 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 Ltd., Dor Gas Exploration - Limited Partnership and Everest Infrastructures - Limited Partnership, without involvement on the part of the Respondents, it is noted that on May 25, 2022, the parties submitted a list of questions to be referred to the regulator, and on May 31, 2022, the court ordered the transfer of the pleadings in the case to the Office of the Tel Aviv District Attorney (Civil) in order to receive the regulator's position on the dispute contemplated in the Certification Motion. According to the court's decision, the regulator shall file its position with the court by January 1, 2023. A pretrial hearing has been scheduled for February 26, 2023.

d. Further to Section 7.25.7 of the Periodic Report regarding an administrative appeal filed by Lobby 99 Ltd. (CIC) and Hatzlacha – For Promotion of a Fair Society (R.A.) (collectively in this section: the "**Administrative Appellants**") against the Competition Commissioner, EMED Pipeline B.V. and Eastern Mediterranean Gas Company S.A.E (collectively in this section: the "**Respondents**"), with the Competition Court at the Jerusalem District Court, it is noted that in June-July 2022, trial hearings were held, and according to the court's decision, the Administrative Appellants are required to file closing statements on their behalf by September 15, 2022, the Respondents are required to file closing statements on their behalf by November 8, 2022, and the

Administrative Appellants are required to file responding summations by November 30, 2022.

e. Further to Section 7.25.10 of the Periodic Report and Section 14(g) of the Q1 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 December 15, 2022.

18. **Section 7.26.3 of the Periodic Report – Renewable Energies**

As part of the Partnership's strategy as pertaining to entry into and the making of investments in the renewable energy industry, and further to the Partnership's immediate report of August 1, 2022 (Ref. No.: 2022-01-097288), it is noted that on August 14, 2022, the Partnership signed an MOU thereon with Enlight Renewable Energy Ltd., which MOU is subject, *inter alia*, to approval by the general meeting of the holders of the Partnership's participation units. For further details, see the Partnership's immediate report of August 15, 2022 (Ref. No.: 2022-01-102961) and the Notice of Meeting Report, the details appearing in which are incorporated herein by way of reference.

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

a. It is noted that on May 31, 2022, Respondents 1-2, the General Partner and NewMed Energy Trusts Ltd., the Partnership's limited partner (in this section: the "**Respondents**") filed an answer to an appeal filed with the Supreme Court on February 23, 2022 by Respondents 5-7, holders of the Partnership's participation units (in this section below: the "**Appeal**"), and on the same date, the ISA filed its position in the Appeal. In addition, on June 1, 2022, Respondent 4, Delek Group Ltd. ("**Delek Group**"), filed an answer to the Appeal, on June 30, 2022, a hearing was held in the Appeal and on July 25, 2022, the Supreme Court's judgment in the Appeal was received. On August 15, 2022, the Respondents filed a motion to correct an error in the judgment given on the Appeal and on August 17, 2022, a court rejected the motion to correct an error but accepted the Respondents' alternative motion to extend the deadline for convening the general meeting of the holders of the Partnership's participation units. For further details, see the Partnership's immediate reports dated June 1, 2022, June 23, 2022, July 26, 2022 and August 17, 2022 (Ref. No.: 2022-01-068698, 2022-01-069019, 2022-01-077878, 2022-01-095101 and 2022-01-104887, respectively), the details appearing in which are incorporated herein by way of reference.

b. As part of the Partnership's strategy for promotion of a transaction for the exchange of all of the participation units of the Partnership for shares of a new company incorporated in England, which shall be cross-listed on the London Stock Exchange and the Tel Aviv Stock Exchange, by way of approval of an arrangement pursuant to Sections 350 and 351 of the Companies Law, 5759-1999 (the "**Transaction**"), it is noted that as of the report approval date, the Partnership is holding preliminary discussions with regards to the possibility of performing the Transaction with a company that is listed on the London Stock Exchange.

20. **Section 10C of Chapter D of the Periodic Report – Use of Securities Proceeds in Reference to the Goals for the Proceeds Pursuant to the Prospectus**

It is noted that on May 13, 2022, the Partnership released a shelf prospectus. For further details, see the Partnership's immediate report dated May 30, 2022 (Ref. No.: 2022-01-055113), the information appearing in which is incorporated herein by way of reference.

21. **Below is a table that includes natural gas production data in Q1/2022 and Q2/2022 in the Leviathan project:**[8,9]

		Q1	Q2
Total output (attributable to the holders of the equity interests of the Partnership) during the period (in MMCF)		43,527.37	44,782.92
Average price per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF)		5.67	6.50
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	0.68
	Third parties	0.15	0.16
	Interested parties	0.07	0.08
Average production costs per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF)[10, 11]		0.76	0.81
Average net proceeds per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF)		4.08	4.77

Date: August 17, 2022

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

[8] 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.

[9] 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.

[10] 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.

[11] 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 and in the sum of approx. $31.8 million in Q2/2022 (100%).

Board of Directors report

This report is a translation of NewMed Energy – Limited Partnership's Hebrew-language Report of the Board of Directors 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.

August 17, 2022

NewMed Energy – Limited Partnership

Report of the Board of Directors of the General Partner for the six- and three-month periods ended June 30, 2022

The board of directors of NewMed Energy Management Ltd. (the "**General Partner**") hereby respectfully submits the board of directors' report for the six- and three-month periods ended June 30, 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 update to Chapter A (Description of the Partnership's Business) of the above periodic report for 2021 (the "**Periodic Report**"), as well as the condensed interim financial statements as of March 31, 2022 and the condensed interim financial statements as of June 30, 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[1].

As of the date of approval of the Condensed Interim Financial Statements, the Partnership is continuing to promote a transaction for a possible restructuring

[1] It is noted that on August 14, 2022, the Partnership signed an MOU on the matter with Enlight Renewable Energy Ltd., which is subject, *inter alia*, to the approval of the general meeting of the holders of the Partnership's participation units. For further details, see the Partnership's immediate report of August 15, 2022 (Ref. no. 2022-01-102961) and the notice of meeting report, the details appearing in which are included herein by reference.

by way of approval of an arrangement pursuant to Sections 350 and 351 of the Companies Law, 5759-1999 (the "**Transaction**"), mainly for the exchange of all of the participation units of the Partnership for ordinary shares of a new company incorporated in England, which will hold the full rights of the General Partner and of the Limited Partner of the Partnership and whose shares shall be cross-listed on the Tel Aviv Stock Exchange and London Stock Exchange. It is noted that as of the date of approval of the Condensed Interim Financial Statements, the Partnership is holding preliminary discussions with regards to the possibility of performing a transaction with a company that is listed on the London Stock Exchange.

The profit from the Partnership's continuing operations before tax in the Report Period was approx. $275 million, compared with approx. $178 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. $87 million and from a decrease in the net financial expenses of approx. $36 million, which was conversely offset in part by a write-off of the New Yahel and New Ofek projects in the sum of approx. $15 million and an increase in the cost of production of the gas, mainly due to a rise in the costs of transmission of the gas to Egypt, in the sum of approx. $15 million.

The Partnership's net profit in the Report Period, after recording for the first time of expenses for income on taxes in the sum of approx. $67 million and loss from discontinued operations (the Tamar project) of approx. $3 million, totaled approx. $205 million compared with approx. $237 million in the same period last year, which did not include expenses for income on taxes and included profit from discontinued operations (the Tamar project) in the sum of approx. $59 million.

The Partnership's income from continuing operations before tax in Q2/2022 was approx. $159 million, compared with approx. $85 million in the same quarter last year. The increase derived mainly from the reasons stated above.

The Partnership's net profit in Q2/2022 totaled approx. $121 million, compared with approx. $122 million in the same period last year.

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	4-6/22	1-6/22	1-6/21	4-6/21	2021
Revenues						
From natural gas and condensate sales	246,799	290,818	537,617	438,033	221,578	882,537
Net of royalties	36,043	41,624	77,667	65,066	32,902	128,758
Revenues, net	**210,756**	**249,194**	**459,950**	**372,967**	**188,676**	**753,779**
Expenses and costs:						
Cost of natural gas and condensate production	33,643	36,906	70,549	55,348	28,438	118,382
Depreciation, depletion and amortization expenses	37,750	21,926	59,676	48,810	27,776	113,083
Other direct expenses	995	708	1,703	1,909	1,143	4,206
G&A expenses	3,128	4,783	7,911	7,671	4,649	17,183
Total expenses and costs	**75,516**	**64,323**	**139,839**	**113,738**	**62,006**	**252,854**
The Partnership's share in the losses of a company accounted for at equity	(1,138)	(1,035)	(2,173)	(2,435)	(1,220)	(4,497)
Operating income	**134,102**	**183,836**	**317,938**	**256,794**	**125,450**	**496,428**
Financial expenses	(38,327)	(37,920)	(76,247)	(102,246)	(51,173)	(211,306)
Financial income	19,909	13,582	33,491	23,552	10,632	31,468
Financial expenses, net	(18,418)	(24,338)	(42,756)	(78,694)	(40,541)	(179,838)
Profit before taxes on income	**115,684**	**159,498**	**275,182**	**178,100**	**84,909**	**316,590**
Taxes on income	(31,638)	(35,275)	(66,913)	-	-	(207,837)
Income from continuing operations	**84,046**	**124,223**	**208,269**	**178,100**	**84,909**	**108,753**
Income (loss) from discontinued operations	-	(3,098)	(3,098)	58,805	37,257	151,736
Income from the sale of natural gas and oil assets	-	-	-	-	-	144,583
Total income (loss) from discontinued operations	-	(3,098)	(3,098)	58,805	37,257	296,319
Net profit	**84,046**	**121,125**	**205,171**	**236,905**	**122,166**	**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	-	-	-	13,597	4,511	13,597
Comprehensive income (loss) from discontinued operations	-	(3,098)	(3,098)	72,402	41,768	309,916
Total comprehensive income	**84,046**	**121,125**	**205,171**	**250,502**	**126,677**	**418,669**

Net revenues in the Report Period totaled approx. $460 million, compared with approx. $373 million in the same period last year, up around 23%. 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.

Net revenues in Q2/2022 totaled approx. $249 million, compared with approx. $189 million in the same quarter last year, up around 32%. The rise derives mainly from the reasons stated above.

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)*				
	Israel	Jordan	Egypt	Total
Q1	0.9	0.7	1.1	2.7
Q2	0.8	0.6	1.4	2.8
Total	**1.7**	**1.3**	**2.5**	**5.5**

2021 – (BCM)*				
	Israel	Jordan	Egypt	Total
Q1	1.2	0.7	0.8	2.7
Q2	1.4	0.6	0.8	2.8
Total	**2.6**	**1.3**	**1.6**	**5.5**

* 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. $71 million, compared with approx. $55 million in the same period last year, up around 29%.

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 that derive, *inter alia*, from the increase in the quantity of gas sold to Egypt.

Cost of gas and condensate production in Q2/2022 totaled approx. $37 million, compared with approx. $28 million in the same period last year. The rise derived mainly from the reasons stated above.

Depreciation, depletion and amortization expenses in the Report Period totaled approx. $60 million, compared with approx. $49 million in the same period last year, up around 22%. The increase mainly derives from depreciation of the New Ofek project to the Statement of Comprehensive Income. For further details, see Note 3B(4) to the financial statements attached below.

Depreciation, depletion and amortization expenses in Q2/2022 totaled approx. $22 million, compared with approx. $28 million in the same period last year. The decrease derives mainly from an update to the abandonment expenses in respect of the Yam Tethys project compared with the update in a higher amount in the same quarter last year.

Other direct expenses in the Report Period totaled approx. $2 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.

Other direct expenses in Q2/2022 totaled approx. $1 million similarly to the same quarter last year.

G&A expenses in the Report Period totaled approx. $8 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. $3 million (in the same period last year: approx. $2 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.

G&A expenses in Q2/2022 totaled approx. $5 million, similarly to the same quarter last year, and include, *inter alia*, expenses in the sum of approx. $2 million (in the same quarter last year: approx. $2 million), recorded against a capital reserve for transactions between a corporation and a control holder thereof as aforesaid. In this context, it is noted that, since May 2021, the Partnership has not paid the General Partner management fees for the management services the General Partner continues to provide the Partnership (however, for the cost of the management fee, in the amount of $80 thousand per month, a provision is recorded in the Partnership's books). See also Note 7I to the financial statements attached below.

The Partnership's share in the losses of a company accounted for at equity in the Report Period totaled a loss of approx. $2 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**").

The Partnership's share in the profits (losses) of EMED a company accounted for at equity in Q2/2022 totaled approx. $1 million similarly to the same quarter last year.

Financial expenses in the Report Period totaled approx. $76 million, compared with approx. $102 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. $73 million. In the same period last year, financial expenses mainly derived from interest in respect of bonds (approx. $101 million). The decrease in the financial expenses for the period, compared with the same period last year, derived from full repayment in December 2021 of the bonds issued by Delek & Avner (Tamar Bond) Ltd., a wholly-owned subsidiary of the Partnership, following the Tamar Transaction (see below income (loss) from discontinued operations), and repayment of the Series A bonds.

The financial expenses in Q2/2022 totaled approx. $38 million, compared with approx. $51 million in the same quarter last year. The financial expenses in the quarter mainly derived from interest in respect of Leviathan Bond Bonds in the sum of approx. $37 million. The financial expenses in the same quarter last year derived from interest in respect of bonds in the sum of approx. $50 million.
The decrease in the financial expenses mainly derived from the reasons stated above.

Financial income in the Report Period totaled approx. $33 million, compared with approx. $24 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. $31 million, compared with a revaluation of approx. $20 million in the same period last year. For further details, see Note 7A to the financial statements attached below.

Financial income in Q2/2022 totaled approx. $14 million, compared with approx. $11 million in the same period last year. The increase mainly derived from the increase in income from revaluation of royalties and debt receivable from the Karish and Tanin leases as aforesaid.

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 (deferred taxes) in the sum of approx. $67 million, out of which in Q2/2022 the sum of approx. $35 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 (loss) from discontinued operations in the Report Period totaled a loss of approx. $3 million, compared with a profit of approx. $59 million in the same period last year, and derived from the Partnership's holdings in the Tamar project, which were sold in December 2021 (the "**Tamar Transaction**"). In the

Report Period, the loss mainly derived from an update to provision of overriding royalties payable and oil and gas profit levy in respect of the Tamar project.

Net income (loss) from discontinued operations, net, in Q2/2022 totaled a loss of approx. $3 million, compared with income of approx. $37 million in the same quarter last year. The loss in Q2 derived from the reasons stated above. For further details, see Note 4 to the financial statements attached below.

3. Financial position, liquidity and financing sources

A. Financial position

The main changes in the items of the statement of financial position as of June 30, 2022, compared with the statement of financial position as of December 31, 2021, are specified below:

The condensed statement of financial position as of June 30, 2022 totaled approx. $3,786 million, compared with approx. $3,850 million as of December 31, 2021.

Current assets of the Partnership as of June 30, 2022 totaled approx. $622 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 June 30, 2022 total approx. $68 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. $154 million, and a balancing and tax payment to the participation unit holders in the sum of approx. $86 million, a profit distribution to the participation unit holders in the sum of approx. $50 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 June 30, 2022 total approx. $204 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. $173 million (approx. $100 million last year) and investments in ETFs in the sum of approx. $19 million. The increase in the item mainly derived from classification of a long-term deposit which serves as a cushion for the bond series of Leviathan Bond maturing in June 2023.

(3) **Trade receivables item** as of June 30, 2022 totals approx. $229 million, compared with approx. $153 million as of December 31, 2021. The increase mainly derived from an increase in the total sales from the Leviathan project.

(4) **Other receivables item** as of June 30, 2022 totals approx. $122 million, compared with approx. $87 million as of December 31, 2021. The increase mainly derived from classification to current assets of some of the royalty receivables 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 June 30, 2022 total approx. $3,164 million, compared with approx. $3,269 million on December 31, 2021, as specified below:

(1) **Investments in oil and gas assets** as of June 30, 2022 total approx. $2,557 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. $38 million, a decrease in the cost of retirement of Leviathan assets in the sum of approx. $19 million, and depreciation of the New Ofek project in the sum of approx. $9 million to the Statement of Comprehensive Income. For further details, see Note 3B(4) to the financial statements attached below. Conversely, the Partnership recorded mainly investments in the Leviathan project in the sum of approx. $52 million.

(2) **Investment in the company accounted for at equity** as of June 30, 2022 totaled approx. $61 million, compared with approx. $63 million as of December 31, 2021, 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 June 30, 2022 total approx. $1 million, compared with approx. $101 million as of December 31, 2021. The decrease derives from classification as a current asset of the deposit that serves as a safety cushion for the redemption of the Leviathan Bond Bonds in the sum of approx. $100 million due to classification as a current liability of the bond series of Leviathan Bond maturing in June 2023.

(4) **Other long-term assets** as of June 30, 2022 totaled approx. $546 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) and from an increase in receivables in respect of an investment in the EMG pipeline.

Current liabilities as of June 30, 2022 total approx. $617 million, compared with approx. $385 million as of December 31, 2021, as specified below:

(1) **Bonds** as of June 30, 2022 totaled approx. $486 million and include the Series 2023 Leviathan Bond Bonds maturing in June 2023, net of issue expenses, and net of bonds which were purchased in the context of a buyback plan (for further details, see Section C and Part Four below).

(2) **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.

(3) **Trade and other payables** as of June 30, 2022 totaled approx. $118 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.

(4) **Other short-term liabilities** as of June 30, 2022 totaled approx. $13 million compared with approx. $28 million as of December 31, 2021, and they derive from the oil and gas asset retirement obligation in the Yam Tethys project. The decrease mainly derived from the progress of the retirement work.

Non-current liabilities as of June 30, 2022 total approx. $2,071 million, compared with approx. $2,527 million as of December 31, 2021, as specified below:

(1) **Bonds** as of June 30, 2022 total approx. $1,729 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). The decrease mainly derived from classification of the Series 2023 Leviathan Bond Bonds maturing in June 2023 as current liabilities.

(2) **Deferred tax liability** as of June 30, 2022 totals approx. $275 million, compared with approx. $208 million as of December 31, 2021. The increase in the item mainly derived from a rise in the exchange rate and its effect on the temporary differences between the measurement basis as reported for tax purposes (ILS) and the measurement basis as reported in the financial statements (dollars) in respect of oil and gas assets and other long-term assets. The increase also derived from differences between accounting depreciation and amortization versus depreciation and amortization for tax purposes in respect of oil and gas assets (including assets of the retirement of oil and gas assets).

(3) **Other long-term liabilities** as of June 30, 2022 total approx. $67 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 June 30, 2022 totals approx. $1,098 million, compared with approx. $939 million as of December 31, 2021. The change in capital mainly derives from comprehensive income that was recorded in the Report Period in the sum of approx. $205 million, from an update to tax payments and balancing payments in the sum of approx. $2 million, as well as from an increase in a capital reserve for benefits from the control holder in the sum of approx. $3 million, which was offset by profits distributed in the sum total of approx. $50 million.

B. Cash flow

(1) The cash flows generated by the Partnership from operating activities totaled, in the Report Period, approx. $184 million, compared with approx. $248 million in the same period last year. The decrease mainly derived from an increase in the trade receivables item and from a decrease in the other payables item compared with a rise in the same period last year.

The cash flows generated by the Partnership from operating activities totaled, in Q2/2022, approx. $49 million compared with approx. $41 million in the same period last year. The increase mainly derived from a more moderate decrease in the other payables item compared with the same quarter last year, which was offset by a greater rise in the trade receivables balance compared with the same quarter last year.

(2) The cash flows used for investment activities totaled, in the Report Period, approx. $42 million, compared with approx. $20 million in the same period last year. In the Report Period, the Partnership invested approx. $50 million, mainly in the Leviathan project, and approx. $20 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, and a decrease was recorded in short-term investments in the sum of approx. $16 million that derived from the withdrawal of surplus funds from the pledged deposits of the Leviathan project.

The cash flows generated from investment activities totaled, in Q2/2022, approx. $2 million, compared with approx. $79 million generated from investment activities in the same period last year. In Q2/2022, a decrease was recorded of approx. $41 million in investments in short-term deposits due to the withdrawal of surplus funds from the pledged deposits of the Leviathan project. Conversely, the Partnership invested approx. $36 million, mainly in the Leviathan project.

(3) The cash flows used for financing activities totaled, in the Report Period, approx. $295 million, compared with approx. $56 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), on account of the tax owed by the holders of participation units for the period up to and including 2021 in the sum of approx. $307 million. Conversely, an income tax refund was received in respect of tax payments in previous years in the sum of approx. $15 million.

The cash flows used for financing activities totaled in Q2/2022 approx. $53 million, compared with approx. $16 million used for financing activities in the same period last year. The cash flows used for the financing activities in Q2/2022 were used mainly for a profit distribution to the participation unit holders.

The cash and cash equivalents balance as of June 30, 2022 totaled approx. $68 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 Levithan 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 took 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.

As of the date of approval of the Condensed Interim Financial Statements, the Partnership has purchased $33 million par value of Series 2023 Leviathan Bond Bonds at a total cost of approx. $33 million that includes the interest accrued as of the date of performance of the transaction.

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 negligible 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 was performed on June 16, 2022.

(4) On August 17, 2022, after receiving the recommendation of the Financial Statements Review Committee of the General Partner, the board of directors of the General Partner approval [sic] a distribution of profit in the sum of $50 million ($0.0426 per participation unit), with the record date for the distribution being August 25, 2022. Such distribution of profit will be carried out on September 22, 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 Condensed Interim 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 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 (EU) 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, a global energy crisis has begun to emerge which is expressed, *inter alia*, in excess demand for natural gas and for other fuels relative to the available supply in the international market, concerns of a long-term shortage of natural gas and oil, rises in the natural gas and oil prices in the global markets, and volatile trade therein. As of the date of approval of the Condensed Interim Financial Statements, the Partnership estimates that the global energy crisis is expected to continue for the foreseeable future. However, the Partnership cannot estimate the long-term effect of the crisis on the energy markets and particularly on the Partnership's operations. In this context, it is noted that in 2021, Russia supplied approx. 150 BCM of natural gas to European countries, approx. 40% of the total European gas consumption. At present, in view of the events specified above, both the EU as a whole, and governments in Europe are seeking to diversify their natural gas sources with the aim of permanently ending the dependence on natural gas imported from Russia. This target may lead to additional significant demand for natural gas (via a pipeline or liquefaction and transportation) from other sources. 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.

G. Inflation and the rise in the interest rate and their possible impact on the Partnership's business and the financial reporting and disclosure

As a result of global macro economic developments, including the Covid Crisis and the military conflict between Russia and Ukraine, as aforesaid, the inflation rates have risen in Israel, the U.S. and in other countries. As a result, and in order to curb the price increase, the central banks in Israel, the U.S. and other countries have started to increase the interest rates and declared plans for further interest rate raises in the future.

As of the date of approval of the Condensed Interim Financial Statements, the Partnership is being impacted by the price increase as aforesaid, and particularly by the rise in the commodities prices, which is expressed mainly in the rise of the 'revenues from the sale of natural gas and condensate' item resulted from the rise in the Brent barrel prices to which the agreements for the export of gas to Egypt and Jordan are linked. In addition, such price increase is also affecting the cost of gas production and the cost of construction of projects and drilling of development, appraisal and exploration wells, but in an immaterial manner. In addition, the price increase may also affect the costs of future wells and projects in which the Partnership shall be a partner.

The impact of the interest rate rises as aforesaid on the financial position of the Partnership is evident mainly in the assets and liabilities in the Statement of Financial Position, which include capitalization components (see Part Two below for further details in connection with the sensitivity tests). In this context it is noted that the Leviathan Bond Bonds bear fixed interest and therefore the interest expenses in respect thereof are not affected by the interest rate changes. It is clarified that insofar as the Partnership shall need, in the future, to raise debt or, alternatively, shall use the credit facility as specified in Note 10C to the financial statements for 2021, this may also affect the Partnership's financial expenses.

Caution concerning forward-looking information – The Partnership's assessments regarding the possible consequences of Covid, the military conflict between Russia and Ukraine, the inflation and the rise in the interest rate 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 Condensed Interim Financial Statements 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.

Part Two – Exposure to and Management of Market Risks

Report on exposure to and management of market risks

4. Sensitivity tests

A. Description of parameters, assumptions and models:

Parameters:

Parameter	Source/Method of Treatment
ILS/Dollar exchange rate	Representative rate as of June 30, 2022
Dollar interest	According to the LIBOR curve

B. Analysis of sensitivity of the value of royalty receivables 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%
Royalty receivables from the Karish and Tanin leases	(15,060)	(5,201)	291,600	5,394	16,804
Loan to Energean as part of the sale of the Karish and Tanin leases	(1,998)	(679)	65,700	692	2,119

C. Analysis of sensitivity of the value of contingent proceeds in connection with royalty receivables 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 royalty receivables 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%
Royalty receivables from the Karish and Tanin leases	25,363	12,725	10,473	5,321	291,600	(5,239)	(3,622)	(16,639)	(23,453)

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%
Royalty receivables from the Karish and Tanin leases	18,141	8,870	9,820	4,921	291,600	(4,524)	(878)	(10,969)	(14,628)

D. 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%
	3.850	3.675	3.500	3.017	2.858
Cash and cash equivalents	(1,444)	(722)	14,436	722	1,444
Bank deposits	(17)	(9)	174	9	17
Trade and other payables	67	33	(667)	(33)	(67)
Total	(1,394)	(698)	13,943	698	1,394

During the Report 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 June 30, 2022:

	Financial Balances			
	In dollars or dollar-linked	In ILS, unlinked	Non-financial balances	Total
Assets				
Cash and cash equivalents	53,375	14,436	-	67,811
Short-term investments	203,574	174	-	203,748
Trade receivables	228,690	-	-	228,690
Other receivables	106,564	-	15,046	121,610
Investments in oil and gas assets	-	-	2,556,674	2,556,674
Investment in company accounted for at equity	-	-	60,623	60,623
Long-term deposits	500	-	-	500
Other long-term assets	300,476	-	245,774	546,250
Total assets	**893,179**	**14,610**	**2,878,117**	**3,785,906**
Liabilities				
Bonds	485,649	-	-	485,649
Trade and other payables	79,925	667	37,675	118,267
Other short-term liabilities	-	-	13,202	13,202
Bonds	1,728,901	-	-	1,728,901
Deferred tax liability	-	-	274,750	274,750
Other long-term liabilities	-	-	67,089	67,089
Total liabilities	**2,294,475**	**667**	**392,716**	**2,687,858**
Total net assets	**(1,401,296)**	**13,943**	**2,485,401**	**1,098,048**

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

Financial Balances

	In dollars or dollar-linked	In ILS, unlinked	Non-financial balances	Total
Assets				
Cash and cash equivalents	214,079	6,109	-	220,188
Short-term investments	120,432	225	-	120,657
Trade receivables	152,534	-	-	152,534
Other receivables	73,408	-	13,979	87,387
Investments in oil and gas assets	-	-	2,570,453	2,570,453
Investment in company accounted for at equity	-	-	62,796	62,796
Long-term deposits	100,667	-	-	100,667
Other long-term assets	305,340	-	230,114	535,454
Total assets	**966,460**	**6,334**	**2,877,342**	**3,850,136**
Liabilities				
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 Condensed Interim Financial Statements, 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 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 June 30, 2022	500,000	600,000	600,000	550,000
Linked par value as of June 30, 2022	500,000	600,000	600,000	550,000
Value in the Partnership's books as of June 30, 2022[2]	485,649	595,435	592,900	540,566
TASE value as of June 30, 2022[3]	481,118	567,750	555,000	494,175
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 30 and every December 30 from the issue date in 2020-2023	Semiannual interest payable on every June 30 and every December 30 from the issue date in 2020-2025	Semiannual interest payable on every June 30 and every December 30 from the issue date in 2020-2027	Semiannual interest payable on every June 30 and every December 30 from the issue date in 2020-2030
Linkage base: base index[4]	None			
Conversion right	None			
Right to prepayment or mandatory conversion[5]	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			

[2] See Section 1C above regarding a bond buyback plan which was adopted by the Partnership's board.
[3] The bonds are traded in Israel on the "TACT-institutional" system on TASE
[4] The bonds' principal and interest are depicted in dollars.
[5] 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.

Leviathan Bond series	2023	2025	2027	2030
Rating as of the issue date[6]	Fitch Rating: BB stable Moody's: Ba3 Stable S&P: BB- Stable Standard & Poor's Maalot: ilA+ stable			
Rating as of the report date[7]	Fitch Rating: BB stable Moody's: Ba3 Stable S&P: BB- Stable Standard & Poor's Maalot: ilA+ stable			
Has the company fulfilled, by June 30, 2022 and during the report year, all of the conditions and obligations under the indenture	Yes			
Is the bond series material[8]	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			

[6] 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.
[7] For updated rating reports, see the Partnership's immediate reports of August 4, 2022, July 26, 2022, July 26, 2022 and February 8, 2022 (Ref. no.: 2022-01-095074, 2022-01-099352, 2022-01-095092 and 2022-01-016279, respectively), the information appearing in which is included herein by way of reference.
[8] 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.

Additional information

The board of directors of the General Partner expresses its appreciation of the management of the General Partner, the officers and the entire team of employees for their dedicated work and their significant contribution to the promotion of the Partnership's business.

Sincerely,

Yossi Abu	**Gabi Last**
CEO	Chairman of the Board

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

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)

	30.6.2022 Unaudited	30.6.2021 Unaudited	31.12.2021 Audited
Assets:			
Current Assets:			
Short term Bank deposits	100,304	2	5
Related parties	*	*	*
Loans to shareholders	499,433	-	-
	599,737	2	5
Noncurrent Assets:			
Loans to shareholders	1,749,043	2,248,005	2,248,082
Long term bank deposits	-	100,115	100,160
	1,749,043	2,348,120	2,348,242
	2,348,780	2,348,122	2,348,247
Liabilities and Equity:			
Current Liabilities:			
Related parties	304	117	165
Bonds	500,000	-	-
Interest payable	-	-	-
	500,304	117	165
Noncurrent Liabilities:			
Bonds	1,750,000	2,250,000	2,250,000
Loans from shareholders	100,000	100,000	100,000
	1,850,000	2,350,000	2,350,000
Equity (Deficit)	(1,524)	(1,995)	(1,918)
	2,348,780	2,348,122	2,348,247

*** Less than $1,000**

Statements of Comprehensive Income (Expressed in US$ Thousands)

	For the Six Month Ended 30.06.2022 Unaudited	For the Six Month Ended 30.06.2021 Unaudited	For the Three Month Ended 30.06.2022 Unaudited	For the Three Month Ended 30.06.2021 Unaudited	For the Period Ended 31.12.2021 Audited
Financial expenses	71,123	70,968	35,667	35,538	141,872
Financial income	(71,517)	(71,362)	(35,949)	(35,261)	(142,343)
Total comprehensive expenses (income)	(394)	(394)	(282)	277	(471)

SPONSOR FINANCIAL DATA REPORT[9]

ITEM		QUARTER ENDED 30.6.2022 QUANTITY/ACTUAL AMOUNT (IN USD$,000)
A.	Total Offtake (BCM)	2.8[10]
B.	Leviathan Revenues (100%)	641,879[11]
C.	Loss Proceeds, if any, paid to Revenue Account	-
D.	Sponsor Deposits, if any, into Revenue Account	-
E.	Gross Revenues (before Royalties)	237,453
F.	Overriding Royalties	
	(a) Statutory Royalties	(31,210)
	(b) Third Party Royalties	(12,379)
G.	Net Revenues	193,864
H.	Costs and Expenses:	
	(a) Fees Under the Financing Documents (Interest Income)	147
	(b) Taxes	-
	(c) Operation and Maintenance Expenses	(38,815)
	(d) Capital Expenditures	(38,586)
	(e) Insurance (income)	(6,455)
I.	Total Costs and Expenses (sum of Items H(a), (b), (c), (d) and (e))	(83,709)
J.	Total Cash Flows Available for Debt Service (Item G *minus* Item H)	110,155
K.	Total Cash Flow from operation (Item G minus Items H(c) and H(e)	148,594
L.	Total Debt Service	73,677[12]
M.	Total Distribution to the Sponsor	89,000

[9] 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.

[10] Gas sales from April 1, 2022 to June 30, 2022 for 100% of the Leviathan partners on an accrual basis.

[11] Gas sales from April 1, 2022 to June 30, 2022 for 100% of the Leviathan partners on an accrual basis.

[12] Including bond purchase by the sponsor of approximately 2.9 million dollars.

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:	June 30, 2022

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Identification of the object of the valuation:	Royalties in respect of the sale of all of the interests in the Karish and Tanin leases.
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. $291.6 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:	Giza Singer Even Financing & Financial Advisory Ltd. is a subsidiary of Giza Singer Even Ltd. (jointly: the "**Valuator**"), which is a leading financial consulting and investment banking firm in Israel. The firm has vast experience in supporting the largest companies, the most prominent privatizations and the most important transactions in the Israeli market, which experience was gained thereby over the course of its 30 years of activity. Giza Singer Even is active in three segments, through autonomous and independent business divisions: economic consulting; investment banking; analytical research and corporate governance. The work was performed by a team headed by CPA Nir Harush, Partner at Giza Singer Even and CEO of Giza Singer Even Financing & 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. 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 it received a fee for the valuation. Furthermore,

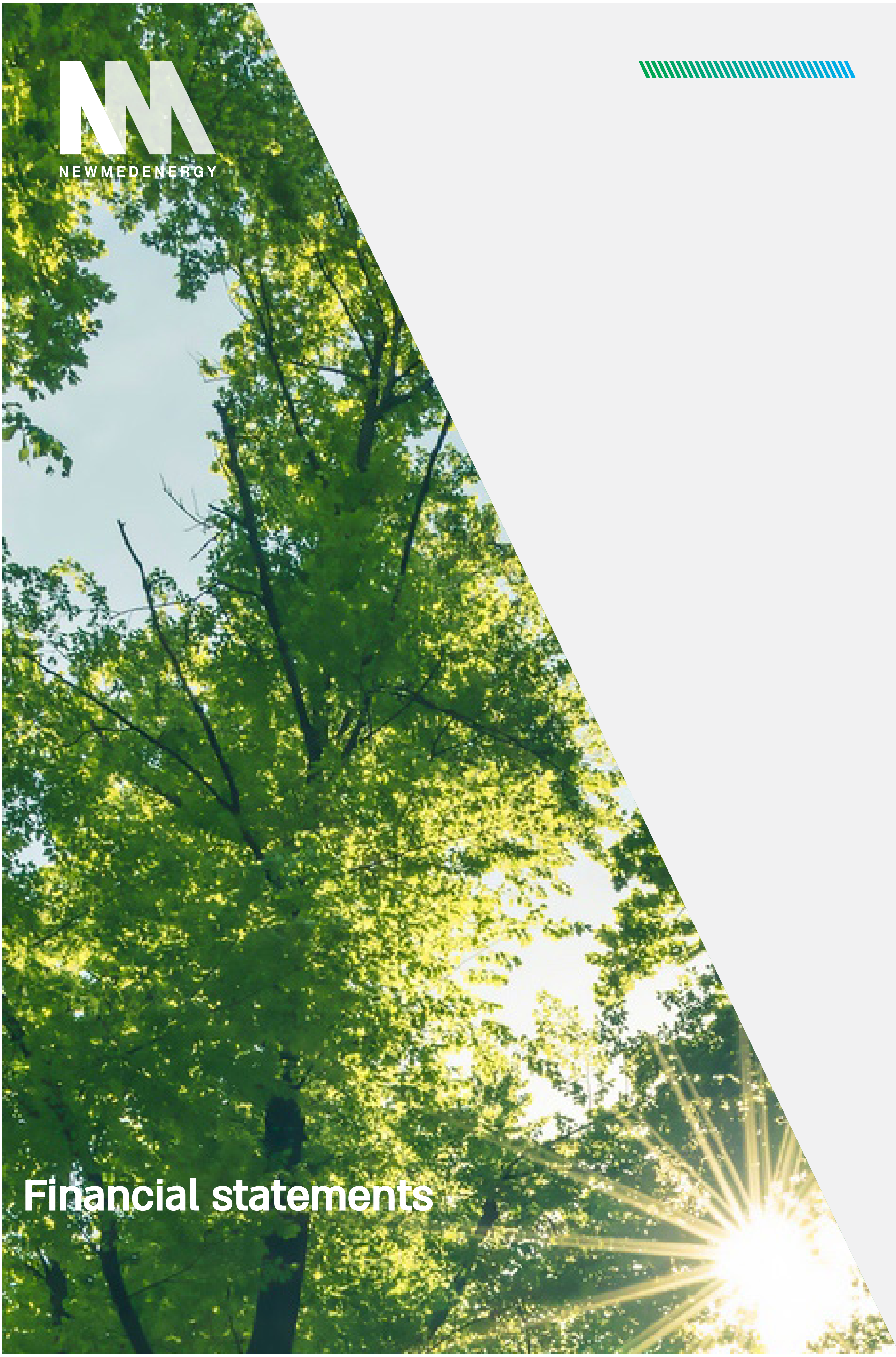
Identification of the object of the valuation:	Royalties in respect of the sale of all of the interests in the Karish and Tanin leases.
	the Valuator has confirmed that its fee is not contingent on the results of the valuation. In addition, insofar as the Valuator shall be bound by a peremptory judgment to pay any sum to a third party in connection with the work, the Partnership shall pay the Valuator the sum charged to the Valuator in excess of the fee paid for the work multiplied by 3. It is noted that this indemnification undertaking shall not apply should it be ruled that the Valuator acted with negligence or intentional misconduct in connection with the performance of the work.
The valuation model applied by the Valuator:	Discounting expected cash flows while adjusting the discount rates to the risks entailed by the cash flow forecasts.

Identification of the object of the valuation:	Royalties in respect of the sale of all of the interests in the Karish and Tanin leases.
The assumptions based on which the Valuator prepared the valuation according to the valuation model:	The key assumptions underlying the valuation are as follows: 1. Period of production from the Karish lease: September 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, 2027 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: 12.5%; 6. Effective royalty rate to be paid to the State for the gas and the condensate: 11.5%; 7. Gas price formula: The basic price in the contracts according to which the valuation was prepared was estimated based on the formula specified in the price mechanism between Energean and ICL and ORL and between Energean and OPC and weighting the price of the gas in the Ramat Hovav contract; 8. Condensate price: The condensate price forecast was estimated based on a long-term oil price forecast average of the World Bank[13] and the

[13] A World Bank quarterly report: Commodity Markets Outlook, April 2022.

Identification of the object of the valuation:	Royalties in respect of the sale of all of the interests in the Karish and Tanin leases.
	EIA[14] and the forward prices of Brent according to Bloomberg data and based on the assumption that the condensate price will derive from the Brent price with adjustments to oil quality differences; 9. On March 17, 2021, Energean released a resource report of D&M (the "**Report**"), a certified reserves and resources valuator, for the Karish and Tanin leases. According to the Report, the gas quantity in the Karish lease is approx. 40.3 BCM and the quantity of the hydrocarbon liquids is approx. 66.4 MMBBL; the gas quantity in the Karish North lease is approx. 33.3 BCM and the quantity of the hydrocarbon liquids is approx. 30.7 MMBBL; and the gas quantity in the Tanin lease is approx. 26.5 BCM and the quantity of the hydrocarbon liquids is approx. 4.2 MMBBL. 10. Petroleum profit levy: According to the Petroleum Profit Taxation Law, 5771-2011; 11. Corporate tax rate: 23%.

[14] U.S Energy Information Administration: Analysis & Projections, July 2022.



Financial statements

August 17, 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 August 17, 2022 on the Partnership's condensed financial information as of June 30, 2022 and for the six- and three-month periods then ended.

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

NewMed Energy – Limited Partnership

Condensed Interim Financial Statements as of June 30, 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 June 30, 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 June 30, 2022

in U.S. Dollars in Thousands

Unaudited

Contents

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 June 30, 2022 and the Condensed Statements of Comprehensive Income, Changes in the Partnership's Equity and Cash Flows for the six- and three-month periods 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 periods in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of financial information for such interim periods 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 periods 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, August 17, 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)

	30.6.2022	30.6.2021	31.12.2021
	Unaudited		Audited
Assets:			

	30.6.2022	30.6.2021	31.12.2021
	Unaudited		Audited
Current assets:			
Cash and cash equivalents	67,811	242,589	220,188
Short-term investments	203,748	192,353	120,657
Trade receivables	228,690	178,752	152,534
Trade and other receivables	121,610	32,591	87,387
	621,859	646,285	580,766
Assets held for sale (Note 1C4)	-	848,784	-
	621,859	1,495,069	580,766
Non-current assets:			
Investments in oil and gas assets	2,556,674	2,576,854	2,570,453
Investment in a company accounted for at equity	60,623	64,853	62,796
Long-term deposits	500	100,609	100,667
Other long-term assets	546,250	543,570	535,454
	3,164,047	3,285,886	3,269,370
	3,785,906	4,780,955	3,850,136
Liabilities and equity:			
Current liabilities:			
Bonds	485,649	1,030,494	-
Provision for tax and balancing payments	-	-	86,178
Trade and other payables	118,267	92,388	270,726
Other short-term liabilities	13,202	69,681	27,649
	617,118	1,192,563	384,553
Liabilities relating to assets held for sale (Note 1C4)	-	35,930	-
	617,118	1,228,493	384,553
Non-current liabilities:			
Bonds	1,728,901	2,222,077	2,224,813
Deferred taxes	274,750	-	207,837
Other long-term liabilities	67,088	76,632	94,395
	2,070,739	2,298,709	2,527,045
Equity:			
Partners' equity	154,791	154,791	154,791
Capital reserves	(28,134)	(33,056)	(30,680)
Retained earnings	971,392	1,132,018	814,427
	1,098,049	1,253,753	938,538
	3,785,906	4,780,955	3,850,136

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

August 17, 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 six-month period ended		For the three-month period ended		For the year ended
	30.6.2022	30.6.2021	30.6.2022	30.6.2021	31.12.2021
	Unaudited				Audited
Revenues:					
From natural gas and condensate	537,617	438,033	290,818	221,578	882,537
Net of royalties	77,667	65,066	41,624	32,902	128,758
Revenues, net	**459,950**	**372,967**	**249,194**	**188,676**	**753,779**
Expenses and costs:					
Cost of production of natural gas and condensate	70,549	55,348	36,906	28,438	118,382
Depreciation, depletion and amortization expenses	59,676	48,810	21,926	27,776	113,083
Other direct expenses	1,703	1,909	708	1,143	4,206
G&A	7,911	7,671	4,783	4,649	17,183
Total expenses and costs	**139,839**	**113,738**	**64,323**	**62,006**	**252,854**
The Partnership's share in the losses of a company accounted for at equity	(2,173)	(2,435)	(1,035)	(1,220)	(4,497)
Operating profit	**317,938**	**256,794**	**183,836**	**125,450**	**496,428**
Financial expenses	(76,247)	(102,246)	(37,920)	(51,173)	(211,306)
Financial income	33,491	23,552	13,582	10,632	31,468
Financial income (expenses), net	(42,756)	(78,694)	(24,338)	(40,541)	(179,838)
Profit before income taxes	**275,182**	**178,100**	**159,498**	**84,909**	**316,590**
Taxes on income (see Note 1D)	(66,913)	-	(35,275)	-	(207,837)
Profit from continuing operations	208,269	178,100	124,223	84,909	108,753
Profit (loss) from discontinued operations	(3,098)	58,805	(3,098)	37,257	151,736
Profit from the sale of natural gas and oil assets	-	-	-	-	144,583
Total profit (loss) from discontinued operations	(3,098)	58,805	(3,098)	37,257	296,319
Net income	**205,171**	**236,905**	**121,125**	**122,166**	**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	-	13,597	-	4,511	13,597
Comprehensive income (loss) from discontinued operations	**(3,098)**	**72,402**	**(3,098)**	**41,768**	**309,916**
Total comprehensive income	**205,171**	**250,502**	**121,125**	**126,677**	**418,669**
Basic and diluted profit (loss) per participation unit (in Dollars):					
From continuing operations	0.177	0.152	0.106	0.072	0.093
From discontinued operations	(0.003)	0.050	(0.003)	0.032	0.252
Profit per participation unit	0.174	0.202	0.103	0.104	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	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 six-month period ended on June 30, 2022:						
Balance as of December 31, 2021 (audited)	154,791	1,631	24,670	(56,981)	814,427	938,538
Comprehensive income	-	-	-	-	205,171	205,171
Update of balancing payments	-	-	-	-	2,123	2,123
Profits distributed	-	-	-	-	(50,329)	(50,329)
Capital reserve for benefits from a control holder	-	-	2,546	-	-	2,546
Balance as of June 30, 2022	154,791	1,631	27,216	(56,981)	971,392	1,098,049

	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 six-month period ended on June 30, 2021:						
Balance as December 31, 2020 (audited)	154,791	1,631	20,331	(70,578)	891,520	997,695
Net profit	-	-	-	-	236,905	236,905
Other comprehensive income	-	-	-	13,597	-	13,597
Total comprehensive income	-	-	-	13,597	236,905	250,502
Update of tax liability owed by the participation unit holders	-	-	-	-	3,901	3,901
Profits distributed	-	-	-	-	(308)	(308)
Capital reserve for benefits from a control holder	-	-	1,963	-	-	1,963
Balance as of June 30, 2021	**154,791**	**1,631**	**22,294**	**(56,981)**	**1,132,018**	**1,253,753**

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
	Unaudited					
For the three-month period ended on June 30, 2022:						
Balance as of March 31, 2022	154,791	1,631	25,590	(56,981)	898,155	1,023,186
Comprehensive income	-	-	-	-	121,125	121,125
Update of balancing payments	-	-	-	-	2,123	2,123
Profits distributed	-	-	-	-	(50,011)	(50,011)
Capital reserve for benefits from a control holder	-	-	1,626	-	-	1,626
Balance as of June 30, 2022	154,791	1,631	27,216	(56,981)	971,392	1,098,049

	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 June 30, 2021:						
Balance as of March 31, 2021	154,791	1,631	20,800	(61,492)	1,006,259	1,121,989
Net profit	-	-	-	-	122,166	122,166
Other comprehensive income	-	-	-	4,511	-	4,511
Total comprehensive income	-	-	-	4,511	122,166	126,677
Update of tax liability owed by the participation unit holders	-	-	-	-	3,901	3,901
Profits distributed	-	-	-	-	(308)	(308)
Capital reserve for benefits from a control holder	-	-	1,494	-	-	1,494
Balance as of June 30, 2021	154,791	1,631	22,294	(56,981)	1,132,018	1,253,753

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 December 31, 2021:						
Balance as of December 31, 2020	**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 six-month period ended on		For the three-month period ended on		For the year ended on
	30.6.2022	30.6.2021	30.6.2022	30.6.2021	31.12.2021
	Unaudited		Unaudited		Audited
Cash flows – operating activities					
Profit for the period	205,171	236,905	121,125	122,166	405,072
Adjustments for:					
Depreciation, depletion and amortization	62,942	60,628	23,336	30,142	133,105
Taxes on income	66,913	-	35,275	-	207,837
Update of asset retirement obligations	(10,364)	(1,717)	(12,231)	(2,229)	(46,446)
Revaluation of short-term and long-term investments and deposits	716	(98)	321	(41)	(52)
Revaluation of liability for payment based on participation units	-	(11)	-	-	(11)
Benefit from a control holder included in expenses against a capital reserve	2,546	1,963	1,626	1,494	4,339
Revaluation of other long-term assets	(31,132)	(22,659)	(12,258)	(10,727)	(43,089)
Partnership's share in losses of company accounted for at equity	2,173	2,435	1,035	1,220	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	(76,156)	(33,071)	(54,997)	(28,473)	(8,086)
Increase in trade and other receivables balances (including the operator of the joint ventures)	(5,078)	(483)	(8,423)	(14,936)	(15,296)
Increase in other long-term assets	(5,965)	(2,233)	(2,049)	(508)	(6,837)
Increase (decrease) in trade and other payables (including the operator of the joint ventures)	(21,566)	8,288	(42,342)	(51,582)	(44,630)
Increase (decrease) in liability for oil and gas profit levy	(5,838)	(222)	(1,089)	(5,188)	8,529
Decrease in other long-term liabilities	-	(1,431)	-	(254)	(708)
	(20,809)	11,389	(71,796)	(81,082)	48,569
Net cash deriving from operating activities	**184,362**	**248,294**	**49,329**	**41,084**	**453,641**
Cash flows - investment activity:					
Investment in oil and gas assets	(49,816)	(16,798)	(36,420)	(3,159)	(30,387)
Proceeds from the sale of natural gas and oil assets (Annex C)	10,531	-	-	-	954,880
Investment in other long-term assets	(20,408)	(24,843)	(2,518)	(758)	(34,436)
Investment in a company accounted for at equity	-	-	-	-	(5)
Proceeds from the exercise of a financial asset	-	30,629	-	30,629	30,629
Repayment of loans granted	-	14,343	-	-	14,343
Decrease (increase) in short-term investments, net	16,361	(22,968)	41,040	52,373	48,623
Decrease (increase) in other receivables - operator of the joint ventures	1,121	(365)	315	(110)	(1,611)
Net cash deriving from (used for) investment activity	**(42,211)**	**(20,002)**	**2,417**	**78,975**	**982,036**
Cash flows - financing activity:					
Profit distributed	(50,011)	-	(50,011)	-	-
Profits, tax and balancing payments distributed for the period up to and including 2021	(86,635)	(36,570)	-	(308)	(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)	(19,112)	-	(15,241)	(16,796)
Returns received from income tax for previous years	15,128	-	-	-	3,217
Early redemption of bonds issued	(2,778)	-	(2,778)	-	(19,901)
Repayment of bonds	-	-	-	-	(1,015,403)
Net cash used for financing activity	**(294,528)**	**(55,682)**	**(52,789)**	**(15,549)**	**(1,285,468)**
Increase (decrease) in cash and cash equivalents	(152,377)	172,610	(1,043)	104,510	150,209

	For the six-month period ended on		For the three-month period ended on		For the year ended on
	30.6.2022	30.6.2021	30.6.2022	30.6.2021	31.12.2021
	Unaudited		Unaudited		Audited
Balance of cash and cash equivalents as of beginning of period	220,188	69,979	68,854	138,079	69,979
Balance of cash and cash equivalents as of end of period	67,811	242,589	67,811	242,589	220,188

	For the six-month period ended on		For the three-month period ended on		For the year ended on
	30.6.2022	30.6.2021	30.6.2022	30.6.2021	31.12.2021
	Unaudited		Unaudited		Audited
Annex A – Non-cash flow financing and investment activity:					
Investments in oil and gas assets against liabilities	18,726	1,751	3,286	(2,106)	37,506
Net long-term investments in other assets against assets or liabilities	(1,174)	-	(1,174)	-	-
Distributable profit, tax and balancing payments that have been declared	-	-	-	-	85,084
Annex B – Additional information on cash flows:					
Interest paid	72,010	97,155	71,030	97,155	193,537
Interest received	1,571	3,870	395	216	4,242
Taxes paid	14	22,225	6	22,225	64,809
Proceeds not yet received from the sale of oil and gas assets (see Annex C and Note 4)	-	-	-	-	10,531
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.

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 Partnership's participation units 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, in the regional market 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 promoting 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 Limited[4]. On December 9, 2021, the transaction was closed and the Partnership received a consideration of approx. $955 million. In addition, on March 31, 2022, an additional consideration was received in the amount of approx. $10.5 million. The results of the Tamar Project were presented for the report period and for the same period last year and also 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.

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 was published in the Official Gazette, whereby starting from the tax year 2022, the tax regime that applies to the Partnership would change, such that it would be taxed as a company with respect to its taxable income. As a result of this change, as of the tax year 2022, holders of participation units are subject to a tax regime that applies to profit distributions by the Partnership, which is similar to the taxation imposed on shareholders of a company for dividend distributions (i.e., according to the two-stage method). As a result of the aforesaid amendment, the Partnership has recognized deferred income taxes since September 30, 2021 and current income tax expenses as of 2022 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 in the domestic market and in the regional market. 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 six-month period ended on		For the three-month period ended on		For the year ended on
	30.6.2022	30.6.2021	30.6.2022	30.6.2021	31.12.2021
	Unaudited		Unaudited		Audited
Revenues:					
Domestic market	123.2	186.6	60.1	94.3	319.5
Regional market	414.4	251.4	230.7	127.3	563.0
	537.6	438.0	290.8	221.6	882.5
Quantities (BCM)					
Domestic market	0.79	1.19	0.38	0.62	2.06
Regional market	1.71	1.30	0.88	0.64	2.80
	2.50	2.49	1.26	1.26	4.86

Note 1 – General (Cont.)

H. (Cont.)

Further to Note 1F and Note 12L18 to the Annual Financial Statements - regarding an appeal filed with the Supreme Court from the judgment of the District Court, which granted a motion to convene a special general meeting for the purpose of approval of an arrangement under Sections 350 and 351 of the Companies Law, 5759-1999 (the "**Companies Law**"), essentially for the exchange of the participation units with ordinary shares of a new company, which was incorporated in England and is scheduled to hold all of the rights of the limited partner and the General Partner in the Partnership (the "**Arrangement**" or the "**Transaction**" and the "**Respondents**", respectively) - on July 25, 2022, the Supreme Court issued a judgement giving effect to the compromise proposed by the judges, whereby the Respondents were given a possibility to convene a special general meeting for the purpose of approving the Arrangement until September 22, 2022. The court further ruled that the approval of the Arrangement by the court is subject to the issuance of an order by the Minister of Justice. Further to the Respondents' motion as of August 15, 2022 to correct an error in the aforesaid judgment, on August 17, 2022, the court rejected the motion to correct an error but accepted the Respondents' alternative motion to extend the deadline for convening the general meeting until January 31, 2023. As of the date of approval of the financial statements, the Partnership is holding preliminary discussions with regards to the possibility of entering into a transaction with a company that is listed on the London Stock Exchange.

I. According to the Partnership's strategy as pertaining to entry into the renewable energy industry, the Partnership is examining several options for entry into the renewable energy industry, *inter alia*, by way of joining joint ventures and acquiring existing operation platforms. In this context, and with the aim of utilizing the knowledge and experience the Partnership has accumulated in the regional markets, on August 14, 2022, the Partnership engaged with Enlight Renewable Energies Ltd. ("**Enlight**") in an MOU for exclusive collaboration, for a fixed term, on the initiation, development, financing, construction and operation of renewable energy projects (including solar projects, wind project, energy storage and also other segments of renewable energy, in so far as shall be relevant) in several target countries, including Egypt, Jordan, Morocco, the UAE, Bahrain, Oman and Saudi Arabia. According to the MOU that was signed between Enlight and Yossi Abu, the CEO of the Partnership's General Partner ("**Mr. Abu**") Enlight shall allocate to Mr. Abu a certain part of its interests in the Transaction. The Transaction is subject, *inter alia*, to the parties' signing a detailed agreement and to approval by the general meeting of the holders of the Partnership's participation units of the making of investments in renewable energy projects, as required by the TASE Rules (see Note 7I below), and, *inter alia*, approval of the outline of the Transaction with Enlight, considering, among other things, the personal interest of the CEO of the General Partner of the Partnership in the Transaction.

Note 1 – General (Cont.)

J. 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 (EU) 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, a global energy crisis has begun to emerge which is expressed, *inter alia*, in excess demand for natural gas and for other fuels relative to the available supply in the international market, concerns of a long-term shortage of natural gas and oil, rises in the natural gas and oil prices in the global markets, and volatile trade therein. As of the date of approval of the financial statements, the Partnership estimates that the global energy crisis is expected to continue for the foreseeable future. However, the Partnership cannot estimate the long-term effect of the crisis on the energy markets and particularly on the Partnership's operations. In this context, it is noted that in 2021, Russia supplied approx. 150 BCM of natural gas to European countries, approx. 40% of the total European gas consumption. At present, in view of the events specified above, both the EU as a whole, and governments in Europe are seeking to diversify their natural gas sources with the aim of permanently ending the dependence on natural gas imported from Russia.

This target may lead to additional significant demand for natural gas (via a pipeline or liquefaction and transportation) from other sources. 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.

K. Further to Note 1H to the Annual Financial Statements regarding the Covid crisis, it is noted that during 2022, the recovery continued in the prices of energy products worldwide, and especially in the natural gas prices in the international natural gas trading 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 will the extent of its impact 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.

L. The financial figures of the joint ventures used by the Partnership in preparing its financial statements are based, *inter alia*, on accounting data and documents provided by the operator of the joint ventures in Israel, Chevron Mediterranean Ltd. ("**Chevron**" or the "**Operator**") and S.O.A. Energy Israel Ltd. ("**SOA**") and the operator of the joint venture in Cyprus, Chevron Cyprus Ltd. ("**Chevron Cyprus**").

Note 2 - Significant Accounting Policies

Notes to the Condensed Interim Financial Statements as of June 30, 2022 (dollars in thousands)

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

Note 3 – Investments in Oil and Gas Assets

A. Composition

	30.6.2022	30.6.2021	31.12.2021
	Unaudited		Audited
Oil and gas assets:			
Ratio Yam (Leviathan project)	2,433,852	2,448,590	2,439,133
	2,433,852	**2,448,590**	**2,439,133**
Appraisal and exploration assets:			
Block 12 Cyprus	122,822	120,805	121,852
New Ofek	-	6,946	8,955
New Yahel	-	513	513
	122,822	**128,264**	**131,320**
Total	**2,556,674**	**2,576,854**	**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 ended in June 2022, in accordance with the timetables and below the planned budget. The cost of the drilling as of the date of the financial statements amounted to approx. $119.6 million (100%, the Partnership's share being a total of approx. $54.2 million). According to the work plan, the well will be completed and connected to the existing subsea production system of the Leviathan project during Q1/2023, after completion activities are carried out therein.

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

B. Developments in investments in oil and gas assets (Cont.)

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 total budget is approx. $232 million (100%, the Partnership's share $113 million). As of the date of the financial statements, the Yam Tethys partners spent approx. $202 million of such budget (100%, the Partnership's share approx. $98 million).

3. Block 12 in Cyprus

Further to Note 7C3 to the Annual Financial Statements, the partners in the Aphrodite reservoir intend to bring to the approval of the Cypriot government by the end of the year an update to the development and production plan for the reservoir, such that development of the reservoir will be combined with preexisting 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 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 towards updating the drilling date.

4. Licenses New Ofek/405 and 406/New Yahel (the "Licenses")

Further to Note 7C6 to the Annual Financial Statements, on June 20, 2022, the Licenses expired and the Partnership did not join the application of the operator of the Licenses to the Petroleum Commissioner at the Ministry of Energy (the "**Commissioner**") in a request to extend their validity. Accordingly, the Partnership recorded a depreciation in respect of its investments in the Licenses in the amount of approx. $14.8 million.

Notes to the Condensed Interim Financial Statements as of June 30, 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 six-month period ended on		For the three-month period ended on		
	30.6.2022	30.6.2021	30.6.2022	30.6.2021	2021[5]
	Unaudited				Audited
Revenues:					
From natural gas and condensate sales	-	123,702	-	61,052	289,868
Net of royalties	(862)	(23,691)	(862)	(11,821)	(57,095)
	(862)	100,011	(862)	49,231	232,773
Costs and expenses:					
Cost of natural gas and condensate production	(136)	(17,500)	(136)	(7,674)	(29,735)
Depreciation, depletion and amortization expenses	-	(7,274)	-	-	(7,274)
Other direct expenses	-	(95)	-	(55)	(220)
Total costs and expenses	(136)	(24,869)	(136)	(7,729)	(37,229)
Operating income (loss) before oil and gas profit levy	(998)	75,142	(998)	41,502	195,544
Oil and gas profit levy	(2,100)	(16,332)	(2,100)	(4,233)	(43,788)
Operating income (loss)	(3,098)	58,810	(3,098)	37,269	151,756
Financial expenses	-	(207)	-	(103)	(380)
Financial income	-	202	-	91	360
Financial expenses, net	-	(5)	-	(12)	(20)
Profit (loss) from discontinued operations	(3,098)	58,805	(3,098)	37,257	151,736
Income from sale of petroleum assets and gas	-	-	-	-	144,583
Total profit (loss) from discontinued operations	(3,098)	58,805	(3,098)	37,257	296,319
Other comprehensive income from discontinued operations					
Amounts that will not be reclassified in the future to the income statement:					
Profit from investment in equity instruments designated for measurement at fair value through other comprehensive income	-	13,597	-	4,511	13,597
Total comprehensive income (loss) from discontinued operations	(3,098)	72,402	(3,098)	41,768	309,916

	For the six-month period ended on		For the three-month period ended on		For the year ended on
	30.6.2022	30.6.2021	30.6.2022	30.6.2021	31.12.2021
	Unaudited		Unaudited		Audited
Current	1,856	64,992	(873)	8,421	175,181
Investment	10,531	23,922	-	29,359	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 through the existing PEI systems, it is noted that on

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

April 26, 2022, an MOU 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 financial statements, 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 August 2022 Chevron informed the Partnership that INGL informed Chevron that the forecast for commencement of flow is May 2023.

C. In April 2022, the 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 its operations for 2022.

Note 6 – Contingent Liabilities

A. Further to Note 12L1 to the Annual Financial Statements, regarding a claim filed by the Partnership and Chevron (jointly in this section: the "**Plaintiffs**") with the Jerusalem District Court against the State of Israel which mainly includes a request to return royalties which the Plaintiffs paid to the state in excess and under dispute for revenues generated for the Plaintiffs from gas supply agreements, which were signed between natural gas consumers and the Yam Tethys partners, it is noted that on July 19, 2022, the parties agreed, with the advice of the court, to negotiate in an attempt to reach a settlement. According to the parties' motion as of August 15, 2022, the court approved on August 16, 2022 the extension for updating the court regarding the outcome of the negotiations by August 26, 2022, where, in the case of failure to reach mutual agreement, the court is expected to issue a judgment on the claim by November 2022.

Note 6 – Contingent Liabilities (Cont.)

B. 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.

C. 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 were filed on June 29, 2022.

D. 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.

E. 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:

Note 6 – Contingent Liabilities (Cont.)

E. (Cont.)

(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.

It is noted that on May 25, 2022, the parties filed a list of questions to be forwarded to the regulator and on May 31, 2022, the court ordered the transfer of the pleadings in the case to the Office of the Tel Aviv District Attorney (Civil) in order to receive the regulator's position on the dispute contemplated in the Certification Motion. According to the court's decision, the regulator is to file its position with the court by January 1, 2023. A pretrial is scheduled for February 26, 2023.

F. Further to Note 12L7 to the Annual Financial Statement, regarding an administrative appeal filed by Lobby 99 Ltd. (CIC) and Hatzlaha - for Promotion of a Fair Society (R.A.) (jointly in this section: the "**Appellants**") with the Competition Court at the Jerusalem District Court against the Competition Commissioner, EMED and EMG (jointly in this section: the "**Respondents**"), it is noted that in June-July 2022, trial hearings were conducted and according to the decision of the court, the Appellants are required to file their closing statements by September 15, 2022, the Respondents are required to file their closing statements by November 8, 2022 and the Appellants are required to file their responding summations by November 30, 2022.

G. 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.

H. 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.

Note 6 – Contingent Liabilities (Cont.)

I. 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.

J. 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 December 15, 2022.

K. Further to Note 12L15 to the Annual Financial Statements regarding a motion for class certification which was filed by a resident of Dor Beach region on behalf of "anyone who was exposed to the air, sea and coastal environment pollution, due to prohibited emissions from the gas platform operated by the respondents in the sea, which is located opposite Dor Beach, and treats the natural gas reservoir, Leviathan, in the period from the commencement of the platform's activity in December 2019 until a judgment is issued in the claim" (in this section: the "**Petitioner**"), 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 a response to the motion for a discovery order within 30 days and in its decision of June 26, 2022, the court denied the main part of the discovery motion and granted a small part thereof, ruling that Chevron must discover the decisions of the Ministry of Environmental Protection regarding the imposition of penalties and transcripts of hearings held towards the imposition of penalties. Chevron has submitted the relevant documents for inspection by the court, together with a submission arguing and moving for various details to be protected by privilege. On August 7, 2022, a response to Chevron's argument was filed on behalf of the Petitioner, in which response Chevron was asked, *inter alia*, to disclose the transcript of a hearing held at the Ministry of Environmental Protection. In its decision of August 8, 2022, the court ordered Chevron to file several clarifications by August 18, 2022.

Note 6 – Contingent Liabilities (Cont.)

L. Further to Note 12M2G to the Annual Financial Statements regarding a hearing held before the Ministry of Environmental Protection due to noncompliance with the conditions of the marine discharge permit issued to the Leviathan platform, and violation of the Prevention of the Sea Pollution from Land-Based Sources Law, 5748-1988 (the "**Prevention of Sea Pollution Law**"), in the context of which it is claimed that Chevron deviated from the criteria determined for discharge into the sea from the open system, it is noted that on June 28, 2022, Chevron received a letter demanding details on the annual sales turnover pursuant to Section 5(c)(b)(2) of the Prevention of Sea Pollution Law. According to the letter, the information is required for the purpose of determining the amount of the financial penalty the Ministry of Environmental Protection intends to impose on Chevron due to violation of the conditions of the marine wastewater discharge permit (gas production) numbered 24/2021, in connection with the discharge of wastewater that deviate from the marine discharge criteria.
Chevron has submitted the required documents to the Ministry of Environmental Protection. As of the date of approval of the financial statements, it is impossible to assess the amount of and for what violations the financial penalty, if any, will be imposed.

M. 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 regarding the Natural Gas Commission's decision with respect to regulation of standards and tariffs for the operation of the transmission system in a control flow regime, it is noted that the hearing of the petition is scheduled for November 16, 2022.

Note 7 – Additional Information:

A. Further to Note 8B to the Annual Financial Statements regarding the agreement for sale of the interests in the I/17 Karish and I/16 Tanin leases (jointly: the "**Leases**"), in May 2022, the buyer, 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 has engaged an external independent appraiser to assess the fair value of the royalties and the remaining annual payments on the loan given to Energean. Below are main parameters out of the valuations that were used to measure the royalties and the loan: the loan cap rate is estimated at 6.69%; the cap rate estimated for the royalties component is estimated at 12.5%; 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.

Note 7 – Additional Information (Cont.)

A. (Cont.)

The financial income recorded in the report period includes a sum of approx. $30.7 million deriving from a revaluation of the value of royalties from the Leases of approx. $29.4 million and from an update of amounts receivables in connection with the loan to Energean in the sum of approx. $1.3 million.

On March 24, 2022, Energean informed the Partnership that it considered itself to be acting under *force majeure* as defined in the agreement for sale of the interests, as a result of which the annual loan payment scheduled for March 2022 would be deferred.

On May 31, 2022, the Partnership filed a claim on the matter against Energean, in which the court was moved to order Energean to immediately pay the Partnership the balance of the loan as required under the agreement, in the total amount of U.S. $65.1 million, plus lawful linkage differentials and agreed annual interest differentials of 4.6%, and alternatively only, immediately pay the Partnership the periodic payment for 2022 that was determined for March 2022 as required by the agreement and that was not yet paid, in the total sum of U.S. $10.85 million, plus lawful linkage differentials and agreed annual interest differentials of 4.6% and grant a declaratory remedy whereby the conditions of the *"force majeure"* stipulation under the agreement, were not fulfilled. It is noted that Energean is required to file an answer by September 15, 2022.

B. Further to Note 12M4 to the Annual Financial Statements regarding the directives on the method of calculation of the royalty value at the wellhead, on July 24, 2022, the Director of Natural Resources at the Ministry of Energy released specific directives regarding the method of calculation of the royalty value at the wellhead in the Leviathan project (the "**Specific Directives**"), in which the rate of deductible expenses was determined in the calculation of the royalty value at the wellhead in the Leviathan reservoir. Based on the estimates and appraisals of the Leviathan partners, there are no material differences between the amounts recorded in the Statement of Comprehensive Income in the report period as royalty expenses and the royalty expenses as would have been calculated in accordance with the Specific Directives. The difference between the royalties actually paid to the State and to the overriding royalty interest owners and the effective royalty rate used by the Partnership in its financial statements in the Leviathan project totaled approx. $12 million and approx. $4.4 million, respectively, and was included in the 'other long-term assets' item.

C. Further to Note 20A5 to the Annual Financial Statements in connection with balancing payments for assessment differences for the years 2015-2016, on July 19, 2022, the Partnership, on behalf of the Trustee, filed a motion to issue an abstract of judgment in accordance with the approved payment outline, and on August 1, 2022, the abstract of judgment was signed as sought. On July 21, 2022, the Partnership transferred to the account of the Trustee, as the entity responsible for the making of the payment according to the outline determined by the court for payment to entitled holders which are a body corporate in each of the years 2015-2016, a sum of approx. ILS 39.7 million (approx. $11.4 million), including linkage and interest.

Note 7 – Additional Information (Cont.)

D. 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 Partnership's participation units for 2020.

E. Further to Note 20C5 to the Annual Financial Statements regarding the disputes between the Assessing Officer for Large Enterprises and the holders of the rights in the Tamar venture as to the oil and gas profit levy reports for the years 2013-2019, in May 2022, the Assessing Officer for Large Enterprises issued an assessment to the best of judgement for the 2020 tax year, which includes, *inter alia*, the disputes for previous years. On July 28, 2022, the holders of the rights in the Tamar venture filed an objection to the above assessment with the Assessing Officer for Large Enterprises.

It is clarified that insofar as it is determined in a final and binding proceeding that the Tax Authority's position regarding the aforesaid disputes is accepted in full, the Partnership may incur an additional liability of payment of an oil and gas profit levy to the Tax Authority in an estimated amount, as of June 30, 2022, of approx. $35 million.

In the Partnership's estimation, based on the opinion of its legal counsel with respect to the disputed issues, the chances that the Partnership's arguments with respect to most of the disputed issues will be accepted are higher than the chances of rejection thereof.

F. 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 ($0.04260 per participation unit of the Partnership), with the record date for distribution being May 30, 2022. Such distribution of profit was performed on June 16, 2022.

On August 17, 2022, after receiving the recommendation of the Financial Statements Review Committee of the General Partner of the Partnership, the board of directors of the General Partner approved a distribution of profit in the sum of $50 million ($0.04260 per participation unit of the Partnership), with the record date for the distribution being August 25, 2022. Such distribution of profit will be carried out on September 22, 2022.

G. 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. Up to the date of approval of the Financial Statements, the Partnership made buy-backs of approx. $33 million par value of bonds of Leviathan Bond in exchange for approx. $33 million, which includes the interest accrued as of the buy-back date.

Notes to the Condensed Interim Financial Statements as of June 30, 2022 (dollars in thousands)

Note 7 – Additional Information (Cont.)

H. On May 31, 2022, the Partnership released a shelf prospectus for the issuance of various securities, including, *inter alia*, participation units, bonds and warrants. The shelf prospectus is valid for 24 months with an option to extend by 12 additional months.

I. On August 15, 2022, the Partnership announced the calling of a general meeting of the holders of the Partnership's participation units to be held on September 21, 2022, the agenda of which will include the following items, among others: approval of a new arrangement with respect to the Partnership's administrative expenses; amendment of the Partnership Agreement in connection with donations and community aid; approval of a new compensation policy for officers of the Partnership and the General Partner; approval of the updated terms of service and employment of the CEO of the General Partner, including its monthly salary, the period of the engagement, the advance notice period, the granting of equity compensation; approval to refrain from distribution of profits for the purpose of investment in the "Block 12" petroleum asset in Cyprus; approval of the Partnership's entry into the renewable energy industry in the context of the collaboration with Enlight (see Note 1I above).

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 Annual Financial Statements:

	As of June 30, 2022	
	Fair value	Book value
Bonds:	Unaudited	
Leviathan Bond	2,098,043	2,214,550
Total	2,098,043	2,214,550

	As of June 30, 2021	
	Fair value	Book value
Bonds:	Unaudited	
Series A	397,469	394,555
Tamar Bond	646,970	635,939
Leviathan Bond	2,475,136	2,222,077
Total	3,519,575	3,252,571

Notes to the Condensed Interim Financial Statements as of June 30, 2022 (dollars in thousands)

Note 8 – Financial Instruments (Cont.)
Fair Value of Financial Instruments (Cont.)
A. (Cont.)

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

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:

	30.6.2022			
	Level 1	Level 2	Level 3	Total
	Unaudited			
Financial assets at fair value through profit or loss:				
- ETFs	19,213	-	-	19,213
- Royalties receivable from the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	-	291,600	291,600
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	65,700	-	65,700
Total Financial assets at fair value through profit or loss:	19,213	65,700	291,600	376,513

	30.6.2021			
	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)	-	-	256,500	256,500
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	63,892	-	63,892
Total Financial assets at fair value through profit or loss:	-	63,892	256,500	320,392

Note 8 – Financial Instruments (Cont.)

Fair value of financial instruments (Cont.)

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 (Cont.):

Notes to the Condensed Interim Financial Statements as of June 30, 2022 (dollars in thousands)

	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

C. Adjustment due to fair value measurements classified as Level 3 in the financial instruments fair value hierarchy:

	For the six-month period ended June 30, 2022	
	Future production-based royalties	Total
	Unaudited	
Balance as of December 31, 2021 (audited)	262,183	262,183
Remeasurement recognized in profit or loss	29,417	29,417
Balance as of June 30, 2022	291,600	291,600

Notes to the Condensed Interim Financial Statements as of June 30, 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 (Cont.)

	For the six-month period ended June 30, 2021	
	Future production-based royalties	Total
	Unaudited	
Balance as of December 31, 2020 (audited)	242,200	242,200
Remeasurement recognized in profit or loss	14,300	14,300
Balance as of June 30, 2021	256,500	256,500

	For the three-month period ended June 30, 2022	
	Future production-based royalties	Total
	Unaudited	
Balance as of March 31, 2022	279,800	279,800
Remeasurement recognized in profit or loss	11,800	11,800
Balance as of June 30, 2022	291,600	291,600

	For the three-month period ended June 30, 2021	
	Future production-based royalties	Total
	Unaudited	
Balance as of March 31, 2021	247,900	247,900
Remeasurement recognized in profit or loss	8,600	8,600
Balance as of June 30, 2021	256,500	256,500

Notes to the Condensed Interim Financial Statements as of June 30, 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 (Cont.)

	For the year ended December 31, 2021	
	Future production-based royalties	Total
	Audited	
Balance as of December 31, 2020	242,200	242,200
Remeasurement recognized in profit or loss	19,983	19,983
Balance as of December 31, 2021	262,183	262,183

Note 9 – Subsequent Events

A. See Note 1I for details regarding engagement with Enlight in an MOU for collaboration in the renewable energies industry.

B. See Note 7C for details regarding transfer of balancing payments to the Trustee for assessment differences for the years 2015-2016.

C. See Note 7B for details regarding the publication of Specific Directives with respect to the method of calculation of the royalty value at the wellhead in the Leviathan project.

D. See Note 7F for details regarding approval of the Partnership's General Partner's board of distribution of profit in the sum of approx. $50 million.

E. See Note 7I for details regarding calling a general meeting of the holders of the Partnership's participation units.

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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, under the supervision of the board of directors of the general partner of NewMed Energy – Limited Partnership (the "**GP**" and the "**Partnership**", respectively), 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 quarterly report on the effectiveness of the internal control over financial reporting and disclosure, which was attached to the quarterly report for the period ended March 31, 2022 (the "**Latest Quarterly Report on Internal Control**"), the internal control was found to be effective.

Until the date of the report, no occurrence or issue were brought to the attention of the board or the management of the GP, which may change the evaluation of the effectiveness of the internal control, as was found in the Latest Quarterly Report on Internal Control.

As of the date of the report, based on the Latest Quarterly Report on Internal Control, and based on information which was brought to the attention of the management and the 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 Q2/2022 (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 quarterly report as of March 31, 2022) 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.

August 17, 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 Q2/2022 (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 our 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 the period between the date of the most recent report (the quarterly report as of March 31, 2022) 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.

August 17, 2022 Tzachi Habusha, CPA

CFO

Valuation

GIZA SINGER EVEN

NewMed Energy - Limited Partnership

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

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August 2022

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

GIZA SINGER EVEN

Table of Contents

1. Introduction and Disclaimer

1.1. General

This paper (the "**Paper**" and/or the "**Opinion**") was prepared by Giza Singer Even 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 June 30, 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. Giza Singer Even 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.

[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".

It is emphasized that the Information specified in this Paper, including with respect to forecasts and the primary commercial terms in the agreement for the sale of the reservoirs, its total financial scope, the rights transferred thereunder, and the Royalties agreed therein, constitute forward-looking information in the meaning thereof in the Securities Law, 5728-1968, of which there is no certainty that it will materialize, in whole or in part, in the said manner or otherwise. The actual performance of the said Information may differ materially due to various factors such as delays in the timetables for the development of the reservoirs, etc.

We hereby confirm that we have no personal interest and/or dependence on the Partnership and/or on the general partner in the Partnership, apart from the fact that we are receiving a fee for this Paper. Furthermore, we confirm that our fee is not dependent on the results of the Paper.

In accordance with the engagement agreement, if we are charged with payment of any amount to a third party in connection with performance of the services specified in the engagement agreement in a legal proceeding or in another binding proceeding, the Partnership undertakes to indemnify us for any such amount that shall be paid by us over and above an amount equal to three times our fees. The indemnity undertaking shall not apply if it is ruled that we acted in performance of the work maliciously or with gross negligence.

Neither GSE nor any company controlled thereby directly and/or indirectly as well as any controlling shareholder, officer and employee therein, are responsible for any damage, loss or expense whatsoever, including direct and/or indirect, which will be incurred by anyone relying on the contents of this Paper in whole or in part.

1.2. Sources of information

<u>The main sources of information used in the preparation of the Opinion are specified below:</u>

- Information regarding the terms of the transaction for the sale of the Partnership's interests in the I/16 Tanin and I/17 Karish leases.
- Reports and publications released by Energean Oil & Gas plc (the parent company of Energean Israel Limited), including a resources and reserves report as of December 31, 2021 prepared by DeGolyer and MacNaughton ("**D&M CPR**").
- Immediate reports of publicly traded companies and public information released on websites (including Energean's website), journalistic articles or other public sources.
- Internal sources and databases of GSE.
- Meetings and/or phone calls with office holders at the Partnership.

GIZA SINGER EVEN

1.3. Details of the valuating company

Giza Singer Even 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 Giza Singer Even 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,

Giza Singer Even Financial Advisory

August 17, 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 to NewMed Energy for the Debt Component had been made by Energean on March 29, 2018 and was since regularly paid every year in March, up to and including the fourth payment that was received in March 2021.

In May 2021, Energean informed the Partnership that, per its position, it was operating under "force majeure" circumstances due to the Covid crisis. Subsequently thereto, in March 2022, Energean failed to transfer the fifth payment for the Debt Component to the Partnership. A legal proceeding is currently pending between the parties, the outcome of which we are unable

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

to assess. Therefore, it was assumed in this valuation, as of the date hereof, that the fifth payment will be paid to the Partnership in March 2023, together with the sixth payment.

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 Limited[5]:

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 total value of the Royalties as of June 30, 2022 is estimated at approx. $291.6 million (the value of the Karish Royalties (including Karish North) and the Tanin Royalties are estimated at approx. $251.3 million and approx. $40.4 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 Cap Rates (in Base Points)		Change in the Natural Gas Price Vector (U.S. $ per MMBTU)						
		(1.50)	(1.00)	(0.50)	-	0.50	1.00	1.50
	+250 bp	241.3	249.6	262.6	267.4	278.8	282.2	293.6
	+150 bp	249.3	258.0	271.5	276.6	288.4	292.0	303.9
	+50 bp	257.9	267.0	281.0	286.4	298.7	302.6	314.9
	-	262.4	271.8	286.0	**291.6**	304.1	308.2	320.7
	-50 bp	267.1	276.7	291.2	297.0	309.7	314.0	326.8
	-150 bp	277.0	287.1	302.2	308.4	321.6	326.3	339.6
	-250 bp	287.6	298.3	314.1	320.7	334.4	339.5	353.4

[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, production and sale 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.

[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.

On August 16, 2015, a government resolution was made regarding a framework for the regulation of the natural gas market in Israel including with respect to the interests of the Partnership in the natural gas reservoirs Tamar, Leviathan, Karish and Tanin. Under the Framework the gas and petroleum corporations operating in the gas market in Israel, including the Partnerships, were granted an exemption from several provisions of the Restrictive Trade Practices Law given compliance with several conditions, including the sale of Karish and Tanin leases within 14 months.

On November 14, 2015, the Partnerships announced that they purchased from Chevron the right to sell the share of Chevron in the Karish and Tanin leases, in equal parts, in consideration for a total amount of approx. $67 million. According to the agreement between the Partnerships and Chevron, the latter will not be entitled to any further consideration for the sale of the rights to a third party.

On December 17, 2015, the then Prime Minister Netanyahu (in his capacity as Minister of Economic Affairs) signed several exemptions from the Antitrust Law which were adopted in the context of the government resolution on the Gas Framework.

On August 16, 2016, an agreement was executed for the sale of all of the interests in the Karish and Tanin leases between NewMed Energy and Avner and Energean Israel Ltd. (formerly Ocean Energean Oil and Gas Ltd.), a company registered in Cyprus which is a subsidiary of Energean E&P Holdings Ltd..[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;

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

ii. An additional payment of $30 million which was paid to the Sellers on the transaction closing date;

iii. The consideration balance, in an amount of $108.5 million, will be paid to the Sellers in ten annual equal installments plus interest according to the mechanism set in the agreement. These payments will be made immediately after the date on which a Final Investment Decision (FID) will be adopted regarding the development of the leases, or on the date which the total expenses of the Buyer in relation to the development of the leases will exceed $150 million, whichever is earlier[8];

iv. The Buyer will transfer to the Sellers royalties for natural gas and condensate which will be produced from the leases at a rate of 7.5% before payment of a petroleum profits levy by virtue of the Natural Resources Taxation Law (the "**Levy**") and 8.25% after the commencement of payment of the Levy, net of the rate of the existing royalties[9] 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 land[11] and many operational advantages.

[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 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 in cost saving[12]. According to the estimates of the Natural Gas Authority[13], the transition to natural gas in the years 2014-2021 saved the Israeli market an estimated total of approx. ILS 115.62 billion[14]. 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

[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] Review of Developments in the Natural Gas Sector, Summary as of 2021 – Natural Gas Authority.
[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.

apply to natural gas, similarly to all of the other fuel products[15]. Furthermore, according to the Petroleum Law, the State charges royalties at a rate of up to. 12.5% of the total sales of natural gas at the wellhead. Moreover, following the conclusions of the Sheshinski Committee, the State is entitled to proceeds of petroleum and gas profits levy at a rate of up to 50% (depending, *inter alia*, on the corporate tax rate) of the revenues of 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 exclusive economic zone (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

[15] Other than the electricity and industrial sectors in which consumers do not pay excise tax for the gas.
[16] Source: 2021 financial statement of IEC.

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 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 or large industrial consumers.

- **Medium and small consumers** – The distribution networks' consumers sector which includes mainly medium and small enterprises and businesses, is a relatively new sector in the natural gas sector which began executing agreements for purchase and infrastructure conversion performance only in recent years. These consumers typically consume low gas pressure, at a relatively small amount, non-continuous over a whole day (24 hours), some of which not yet connected to the onshore transmission systems, or the distribution, and therefore consuming Compressed Natural Gas (CNG) – a temporary and not optimal solution, since the cost of consumption can reach twice the cost of the natural gas which is transmitted through the distribution network. It is noted that according to the regulation in this respect, some of these consumers are building or planning to build small scale, natural gas-fired power plants, which are intended to provide electricity and heat to the enterprise on the premises of which such power plants are built.

- **Additional markets and consumers** – In addition to the electricity and 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 and sale of natural gas from reservoirs in the territorial waters of the State of Israel are subject to regulatory restrictions pertaining to the amount of gas produced, restrictions on the export of the gas outside of Israel, and others. 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

[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

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:

a. 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.

b. 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.

c. On December 9, 2021, the Partnership closed the sale of its 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.

d. 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

[19] Declaration on holders of a monopoly under Section 26(a) of the Restrictive Trade Practices Law, 5748-1988: Delek Drilling Limited Partnership together with Avner Oil & Gas Exploration, Limited Partnership, Noble Energy Mediterranean Ltd., Isramco Negev 2, Limited Partnership, and Dor Gas Exploration, Limited Partnership – holders of a monopoly in the supply of natural gas to Israel starting from H2/2013 (November 13, 2012) Restrictive Trade Practices 500249.

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 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.

- **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 in gas supply** – Over the past two decades, 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 may lead to further discoveries. 2017 saw the commencement of substantial production from the Egyptian "Zohr" reservoir, which supplies gas to the Egyptian market. In addition, significant reservoirs were discovered in the EEZ of Cyprus, for which reservoirs development decisions have yet to be made. Furthermore, additional reservoirs may be discovered in the future, both in Israel and in other countries in the Eastern Mediterranean Basin, the development of which reservoirs may lead to the entry of additional natural gas supply competitors into the domestic market and into neighboring countries, thus increasing the 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,

[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_mithadshot_03_2022_n.pdf

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 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

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

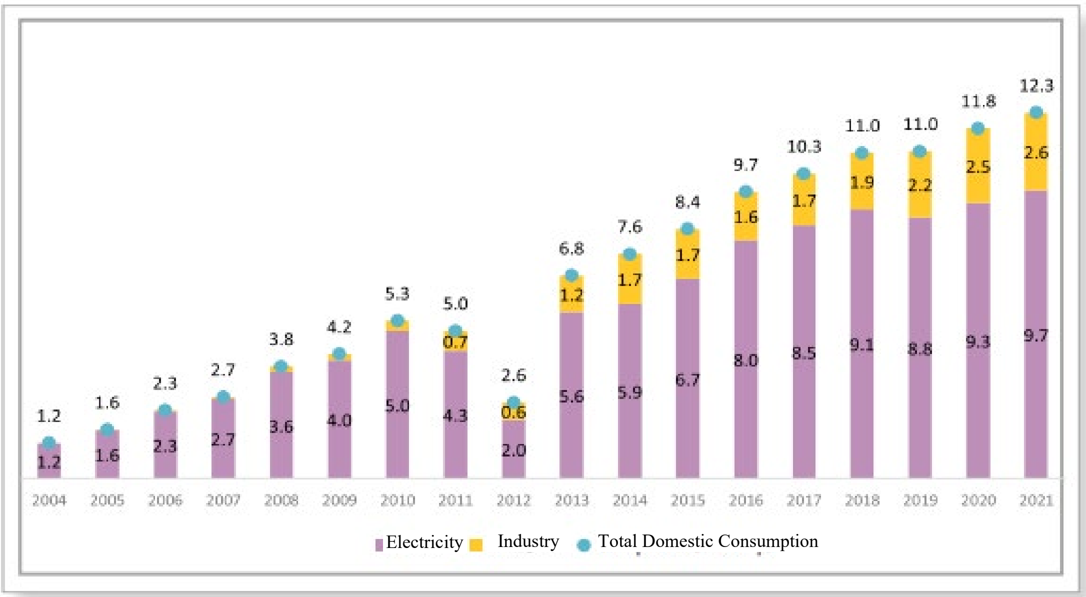
well as related approvals of the State's authorities (including the Ministry of Energy, the Ministry of Defense, the Ministry of Environmental Protection, the tax authorities, the Competition Authority and the various planning authorities). In recent years several proposals were made for amendments of laws and/or regulations and/or directives relevant to the operating segment and several resolutions, laws and directives were released, the implementation of which could have a negative effect on the companies operating in the field.

- **Applicable environmental regulation** – The companies that operate in the natural gas sector are subject to a range of laws, regulations and directives on the issue of environmental protection, which relate to various matters such as: leaking of oil, natural gas or of other pollutants into the marine environment, the release into the sea of polluting substances and waste of various types (wastewater, residues of drilling equipment, drilling mud, slurry, etc.), chemical substances used at the various work stages, emission of pollutants into the air, light and noise nuisances, construction of piping infrastructures on the seabed and related facilities. In addition, the companies are required, through the operators of the projects, to obtain approvals from entities authorized under the Petroleum Law, the Natural Gas Sector Law and other laws (such as environmental protection laws) for the purpose of their activity.

  Additional risk factors – There are other factors which contribute to the uncertainty prevailing in the operating segment including difficulties in obtaining financing, information security risks, dependence on material customers, dependence on weather and sea conditions, cancellation or expiration of rights and petroleum assets and more.

4.5 Demand

<u>Chart 1 – Natural gas consumption in the domestic market in 2004-2021 in BCM per year[22]</u>



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 sector[23], 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 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

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[22] Source: Review of the developments in the natural gas sector, 2021 summary, Natural Gas Authority https://www.gov.il/BlobFolder/reports/ng_2021/he/ng_2021.pdf

[23] Source: The report of the professional team for second periodic review of the government's policy on the issue of the natural gas sector https://www.gov.il/BlobFolder/rfp/ng_210621/he/ng_report_2_draft.pdf

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. As of the Valuation Date, these units are still active.

- 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 Protection[24] on the Ministers' decision to instruct the IEC to expand the planned shutdown of the polluting coal-fired units 1-4 at the Rabin Lights site in Hadera, commencing from the second half of 2020 until the final shutdown thereof in 2022, thus bringing about another significant reduction of air pollutant emissions.

- On June 24, 2020, the Minister of Energy[25] announced his decision to further reduce approx. 20% of the use of coal in IEC's power plants, as compared with 2019. Therefore, the use of coal in 2020 will not exceed 24.9% (compared with 30% in 2019).

- 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]

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[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

- On April 18, 2021, the Ministry of Energy released a Road Map[27] until 2050 for the low carbon energy sector, which continues the program to reduce the use of polluting energy which was presented in 2018. In accordance with the program, the following targets for the sectors were determined:

  a. Electricity sector – The production of electricity by using 70% natural gas and 30% renewable energies beginning in 2030, while ending the use of coal for electricity production in Israel by 2025.

  b. The transportation sector – A gradual shift to electric cars and natural gas trucks, so that by 2030 the number of electric cars sold will be 50% of the total cars sold in Israel. Furthermore, Israel will adopt the common regulation worldwide and beginning in 2030 it will impose a total prohibition on the import of cars which run on polluting fuels.

  In addition, it was determined that by 2030 greenhouse gas emissions in the energy sector will be reduced by approx. 23% compared with 2015, and by 2050, 80% of greenhouse gas emissions will be reduced compared with 2015.

- On June 10, 2021, the Electricity Authority (the "**Authority**") announced a call with respect to an update to the demand hour clusters. In this context, the Authority requested public comment on an update to the electricity demand hours[28].

- 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. 77% 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

[27] https://www.gov.il/he/departments/publications/reports/energy_180421
[28] https://www.gov.il/BlobFolder/rfp/kol_kore_mashab/he/Files_Kol_Kore_kol_kore_mashab_malle.pdf
[29] Source: 2021 Electricity Sector Status Report – Electricity Authority
https://www.gov.il/he/departments/publications/reports/doch_meshek_hachashmal_2021
[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 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 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.

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- 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%)). Further to the foregoing, an agreement was signed between EMED and EMG, under 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 of September 7, 2014 regarding the funding of projects for export via the Israeli transmission system and distribution of the costs of construction of the combined Ashdod-Ashkelon section. The addendum to the decision determines, *inter alia*, that the offshore section of the transmission system to be built between Ashdod and Ashkelon, enabling transmission to Egypt of the full gas quantities specified in the Dolphinus agreements, shall be funded by the holder of the transmission license (43.5%) and by the exporter (56.5%), according to milestones that will be set under the transmission agreement.

- On February 15, 2021, the partners in the Tamar and Leviathan reservoirs reported the fulfillment of the closing conditions in the transmission agreement that was signed with INGL for the export of gas to Egypt in a manner that will allow flow on a regular basis and increased sale quantities to Egypt according to the supply conditions in the gas sale agreements of the various partnerships.

- On October 13, 2021, the Adiri 2 committee recommended leaving in place the natural gas export restrictions on existing reservoirs, as determined in Government Resolution 4442, but cancelling the export restriction on new reservoirs that shall be discovered.

- On February 16, 2022, the Ministry of Energy[31] approved commencement of the piping of the natural gas to Egypt, via the Kingdom of Jordan. The export via the new route, which was approved in view of the increasing demand for natural gas in Egypt, is expected to be 2.5-3 BCM in 2022, and may increase to 4 BCM in subsequent years. Actual piping of the natural gas began on March 1, 2022[32] and is expected to increase the volume of natural gas

[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

exported to neighboring countries in a manner that shall secure supply of the annual contract quantity required under the export agreements in 2022.

- 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 the Israeli and global energy sectors

- 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 energy sector by comparing the data for the period from March 2020 to the end of the year with the data for the corresponding period in the previous 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 was restored to pre-Covid levels, and as countries came out of lockdowns, the demand for all energy types increased. The response on the supply side was slow relative to the demand side, due to the need to resume investments,

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

rehire employees, and thus restart the business. Therefore, the sharp rise in demand, along with the uncertainty surrounding the rate of recovery from the pandemic, was not met with adequate supply, which led to a price increase.

As a result of the worldwide rise in coal prices (as of June 30, 2022, a ton of coal is traded for approx. $370[34]), and given the electricity production mix in Israel (coal constitutes approx. 26% of all electricity production), in August 2022, the Electricity Authority increased the Electricity Tariff by approx. 8.6%[35]. The worldwide rise in petroleum prices (as of June 2022, the average price of a Brent barrel was approx. $120.08[36]) led to a rise in the prices of oil products – petrol, LPG, fuel oil, and others. Furthermore, although the State of Israel does not depend on the import of natural gas and supplies the principal part of the demand itself, natural gas prices in Israel will be indirectly affected due to the linkage components under the contracts for purchase of gas in Israel. The global energy crisis is expected to lead to an increase in natural gas prices in Israel 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.

[34] https://markets.businessinsider.com/commodities/coal-price.
[35] Decision No. 63608 – Update of the Electricity Tariff for IEC Consumers.
[36] A World Bank Monthly Commodity Price Data (The Pink Sheet), August 2022.

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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, Chevron, 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 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 Chevron 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, Chevron 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

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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 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 precedent[37]. On February 28, 2022, the partners reported the satisfaction of the condition precedent of the Remaining Tamar Partners joining the amendment to the agreement[38]. On July 24, 2022, all of the conditions precedent were satisfied and the agreement took effect. The amendment to this agreement was signed concurrently with the termination of the sale agreement between Dalia and Energean for the supply of 0.2 BCM of natural gas per year from the Karish reservoir (for details, see Section 4.6.2).

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[37] https://maya.tase.co.il/reports/details/1419083/2/0.
[38] https://maya.tase.co.il/reports/details/1433483/2/0.

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- On January 24, 2022, the partners in the Tamar reservoir reported the signing of an amendment to the 2012 IEC-Tamar Agreement[39], 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)[40]. In addition, the term of the 2012 IEC-Tamar Agreement was extended by another 2.5 years, such that this agreement will end on December 31, 2030 (the "**Date of Conclusion of the Amended Agreement**"). The gas price in the 2012 IEC-Tamar Agreement after the reduction determined in 2021 will be linked to the U.S. Consumer Price Index (the "**U.S. CPI**"), as follows:

  - An increase of up to 2.25% will be taken into account in full.

  - An increase of between 2.25% and 3.75% will not be taken into account in the relevant year, and may accrue and be taken into account in subsequent years only insofar as the rate of the rise in the U.S. CPI therein is less than 2.25%, and in any event the linkage in such years shall not exceed 2.25%.

  - An increase of over 3.75% will be taken into account in full (the portion exceeding 3.75%).

  - 1% per annum will be deducted from the above weighted linkage rate.

  The IEC also undertook to purchase an additional 16 BCM (over and above the quantity to which it committed in the 2012 IEC-Tamar Agreement) until the Date of Conclusion of the Amended Agreement (in accordance with its operational needs). Insofar as the IEC does not consume the total natural gas quantity to which it committed until such date, the agreement will automatically be extended until consumption of the full natural gas quantity. The price per unit of heat (MMBTU) for this additional quantity was determined in the agreement at approx. $4, without linkage and without rights to adjustments in the future. On July 24, 2022, the agreement took effect after the satisfaction of all conditions precedent.

- On May 1, 2022, Alon Gas Energy Development Ltd. ("**Alon Gas**"), that holds approx. 4% of the Tamar reservoir, announced that its controlling shareholder, "Alon", Israeli Fuel Company Ltd., engaged in an agreement for the sale of its entire holdings in Alon Gas, which constitute approx. 79.56% of the company's shares, to Noy Reserves Limited Partnership for a consideration of approx. ILS 395 million.

[39] https://maya.tase.co.il/reports/details/1427402/2/0.

[40] 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.

4.6.2 "Karish and Tanin" leases

- **Adoption of an investment decision** – On March 27, 2018, Energean notified the Partnership of the adoption of an investment decision for the development of the Karish reservoir, and in March 2018, March 2019, March 2020 and March 2021 it paid the Partnership the first, second, third and fourth payments in the sum of $10.85 million, $15.34 million, $14.84 million and $14.34 million, respectively.

- **Listing of Energean on the Israeli stock exchange** – On October 29, 2018, trading of Energean's parent company, Energean Oil & Gas plc, was launched on the Tel Aviv Stock Exchange as a cross-listed company whose shares are additionally also premium-listed on the London Stock Exchange.

- **Commencement of manufacture of Energean's floating production facility** – On November 27, 2018, Energean announced commencement of manufacture, in China, of the floating platform (FPSO) that is due to be used by the Karish and Tanin reservoirs. The platform is intended to treat the natural gas to be produced at the Karish-Tanin project in Israel's EEZ. The process of production and treatment of gas will be carried out at the wellhead, at a distance of approx. 90 km from the shore.

- **Signing of an agreement for the construction and delivery of the eastern section of the infrastructure for gas transmission from the leases** – On June 25, 2019, Energean announced that it signed an agreement with INGL, whereby it would build and transfer to INGL the eastern section of the gas infrastructure, which includes an offshore section approx. 10 km off the coast and an onshore section. In consideration therefor, INGL will pay Energean approx. ILS 369 million.

- **Signing of agreements for the sale of natural gas to the Alon Tavor power plant**– On November 21, 2019, Rapac Energy Ltd. reported that MRC Group, the winner of IEC's tender for the purchase of the Alon Tavor power plant, engaged in an agreement with Energean for the supply of natural gas in an annual amount of approx. 0.5 BCM for a period of 15 yeas (and in total up to 8 BCM). On December 17, 2020, Energean reported that it had engaged with Rapac Energy Ltd. in an additional agreement for supply of natural gas in an average annual amount of approx. 0.4 BCM for a period of 6 to 15 years, in addition to the existing signed agreements between Energean and Rapac Energy.

- **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**"). On May 15, 2022, Dalia reported that, upon conclusion of an arbitration proceeding, Energean and Dalia had signed an agreement for immediate termination of the above sale agreement with neither party being awarded damages.

- 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.[41] 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.

- **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, in an annual quantity of up to 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 up to approx. $2.0 billion throughout the life of the contracts. The total natural gas sold under the agreement is expected to be up to approx. 12 BCM over a period of about 15 years. The agreement is

[41] https://www.energean.com/media/5159/024343-energean-israel-2021ye-cpr.pdf.

subject to the closing of the acquisition of the plant by Edeltech and Shikun & Binui Energy. On June 1, 2022, IEC reported that the process for sale of the plant to Edeltech and Shikun & Binui Energy had been closed.

- On May 3, 2022, Energean released that the PFSO 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. On June 2022, Energean reported on FPSO reaching its destination.

- On June 15, 2022, Energean released a chart demonstrating the projected annual natural gas production rate from the reservoirs, in accordance with 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. According to Energean, the date of commencement of natural gas production from the Karish reservoir is expected as planned, during Q3/2022.

- On July 2, 2022, it was reported in various media that the IDF intercepted 3 unmanned aircraft that were making their way from Lebanon towards the FPSO platform in the Karish reservoir. According to the reports, the aircraft were launched against the background of negotiations that are currently taking place between Israel and Lebanon regarding the maritime-economic border layout between them.

5. Valuation of Royalties

5.1 Methodology

According to IFRS 3, contingent consideration is defined as: "…*an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met.*"

As specified in Chapter 4 above, the consideration to which the Partnership is entitled includes a possibility of receiving future proceeds, in addition to the amounts to be received in cash ($40 million), which are contingent upon the occurrence of future events as specified below:

i. Consideration in the amount of $108.5 million which will be paid to the Sellers in ten equal annual payments plus interest commencing on the date on which the Buyer shall have made a final investment decision (FID) or the Buyer shall have invested in the development of the reservoir an aggregate sum exceeding $150 million (the "**Investment Decision**"), whichever is earlier. Therefore, this consideration component is similar in its nature to a financial debt of the Buyer to the Sellers, which is contingent upon the development of the leases, whether by an FID or the actual performance of the investment. On March 27, 2018, as aforesaid, Energean notified the Partnership of the adoption of an Investment Decision for the development of the Karish reservoir, and therefore the Debt Component is defined as deferred consideration.

   In view of the bond offering, during May-June 2021, letters were exchanged between Energean and the Partnership in connection with the Partnership's demand for payment of the balance of the consideration for the Debt Component in a single and immediate payment, in accordance with the terms and conditions of the agreement for the sale of the interests in Karish and Tanin. As of the date of the Paper, the Partnership's position has not yet been accepted by Energean, and we are unable to estimate the likelihood of Energean's granting this demand and/or the outcome of a legal proceeding, insofar as conducted. Consequently, no assessment was made herein of a Debt Component prepayment scenario.

ii. Royalties from revenues (net of existing royalties[42]) 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.

[42] 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 2027.

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, Q3/2023 and Q1/2027, 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.

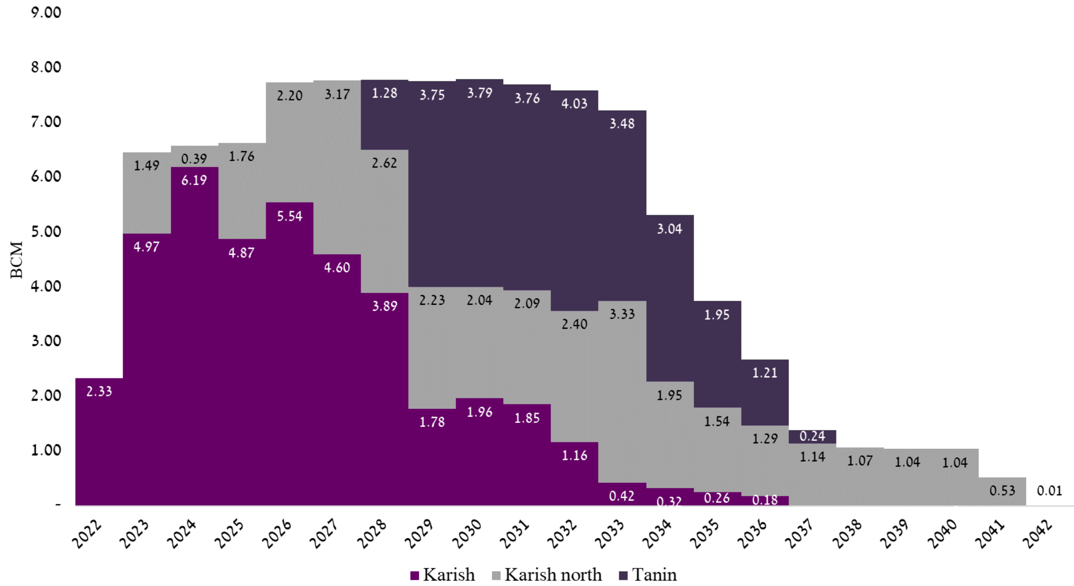
5.2.3 Quantity forecast and annual production rate

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:

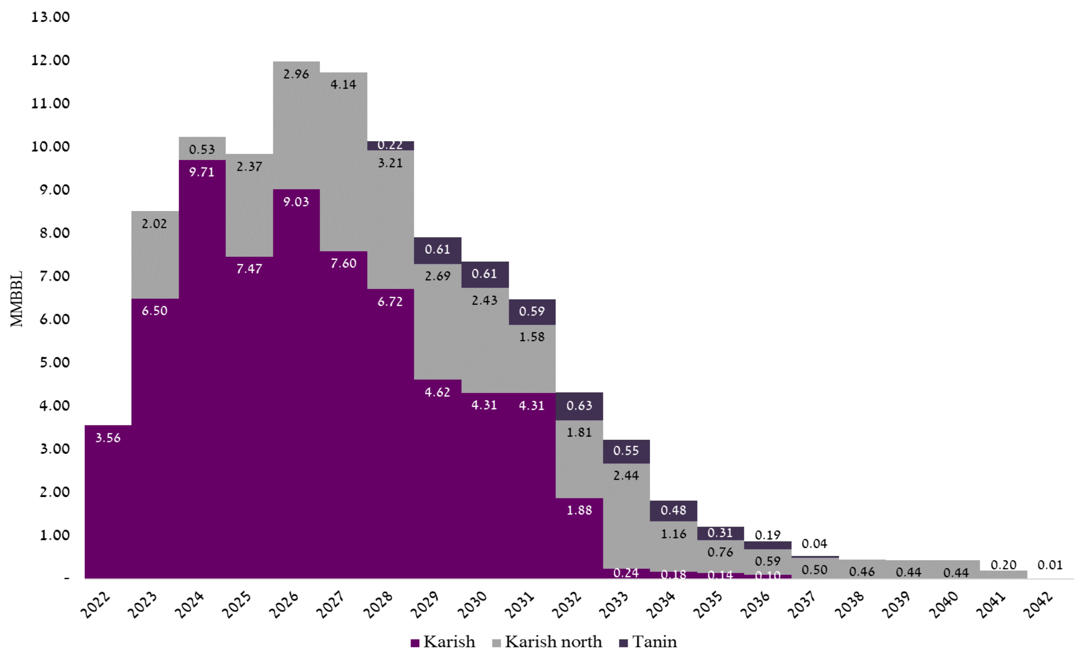
Reservoir	Reserves and Resources	
	Natural Gas (BCM)	Hydrocarbon Liquids (MMBBL)
	2P	2P
Karish Center	40.3	66.4
Karish North	33.3	30.7
Tanin	26.5	4.2
Total	**100.2**	**101.3**

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 on August 1, 2022 the Electricity Authority decided to increase the Production Component Tariff to 31.40 Agorot. 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. 25.80-33.45 Agorot throughout 2022-2037.

  ii. **ICL and ORL** – **floor** price of U.S. $3.975 per MMBTU according to an agreement between the company and ICL and ORL.

  iii. **OPC** – floor price of U.S. $3.975 per MMBTU when the production component is larger or equal to 26.4 Agorot, and a floor price of U.S. $3.8 per MMBTU when the production component is lower than 26.4 according to an agreement between the company and OPC.

  iv. **Ramat Hovav** – fixed price of U.S. $3.95 per MMBTU.

- It was assumed that a gas amount of 1.0 BCM shall be regularly supplied to the Ramat Hovav power plant and that the remaining gas amount which will be sold will be equally distributed between independent power producers (such as the contract with OPC) and industrial producers (such as the contracts with ICL and ORL).

Note that for the base scenario and the low scenario, the D&M CPR assumed a fixed natural gas price of approx. U.S. $4.04 per MMBTU throughout all the years of the forecast.

5.2.5 Condensate prices forecast

The condensate prices forecast was estimated based on the average of the long-term petroleum prices forecast of the World Bank[43], the EIA[44] 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.[45] The actual royalties' rate is lower as a result of deduction of expenses for the transmission systems and the treatment of the gas up to the gas delivery point on shore. According to the Partnership's estimates, it was assumed that the effective royalty rate which will be paid to the State for the gas and condensate is 11.5%. Furthermore, the rate of the existing royalties in the leases, borne by each of the Partnerships were similarly adjusted. We shall note that the actual rate of royalties could change and is not final.

5.2.7 Petroleum profits levy

The Petroleum Profits Levy is a progressive levy which is set according to a mechanism which connects the rate of the levy to the ratio of the net accrued revenues from the petroleum and gas production project and the total accrued investments for the exploration and initial development of the reservoir (the "**Investment Coverage Ratio**"). The minimal levy at a rate of 20% will be charged when the Investment Coverage Ratio will reach 1.5 and rise gradually to a rate of 50% (according to the corporate tax rate[46]) 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

[43] A World Bank Semi-Annual Report: Commodity Markets Outlook, April 2022.
[44] U.S Energy Information Administration: Analysis & Projections, July 2022.
[45] 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
[46] Corporate tax of 23% was assumed according to the statutory tax rate known as of the Valuation Date.

premiums due to the Covid outbreak, as well as other risks deriving from developments in the 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. Furthermore, in view of the arrival of the FPSO to Israel, and Energean's compliance with the timetables for the production of first natural gas from the Karish reservoir during Q3/2022, we have reduced the premium that derives from risks regarding the development of the reservoirs by 0.5% such that the total cap rate for the overriding royalties is estimated at approx. 12.5% (before tax).

5.3 Results of the valuation

According to the assumptions specified in the Paper itself, the value of the Royalties as of June 30, 2022 is estimated at approx. $291.6 million (the value of the Karish Royalties (including Karish North) and the Tanin Royalties are estimated at approx. $251.3 million and approx. $40.4 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	241.3	249.6	262.6	267.4	278.8	282.2	293.6
	+150 bp	249.3	258.0	271.5	276.6	288.4	292.0	303.9
	+50 bp	257.9	267.0	281.0	286.4	298.7	302.6	314.9
	-	262.4	271.8	286.0	**291.6**	304.1	308.2	320.7
	-50 bp	267.1	276.7	291.2	297.0	309.7	314.0	326.8
	-150 bp	277.0	287.1	302.2	308.4	321.6	326.3	339.6
	-250 bp	287.6	298.3	314.1	320.7	334.4	339.5	353.4

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	232.6	248.0	257.8	267.4	274.8	279.4	286.7
	+150 bp	241.6	257.1	267.0	276.6	283.9	288.5	295.7
	+50 bp	251.3	267.0	276.8	286.4	293.6	298.2	305.3
	-	256.5	272.2	282.0	**291.6**	298.8	303.2	310.3
	-50 bp	261.9	277.6	287.4	297.0	304.1	308.5	315.5
	-150 bp	273.4	289.2	298.8	308.4	315.3	319.6	326.4
	-250 bp	286.0	301.7	311.2	320.7	327.3	331.5	338.0

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	247.2	252.9	264.7	267.4	277.5	279.5	290.0
	+150 bp	255.7	261.6	273.8	276.6	286.9	289.1	299.9
	+50 bp	264.8	270.9	283.5	286.4	297.0	299.4	310.6
	-	269.6	275.8	288.6	**291.6**	302.4	304.8	316.2
	-50 bp	274.6	280.9	293.9	297.0	307.9	310.5	322.0
	-150 bp	285.1	291.7	305.1	308.4	319.6	322.4	334.3
	-250 bp	296.4	303.3	317.2	320.7	332.3	335.3	347.7

Annex A – Cash Flow Forecast

Year	Unit	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Production												
*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*	*3.30*
Gas production - Tanin	*bcm/y*	-	-	-	-	-	-	*1.18*	*3.47*	*3.50*	*3.48*	*3.73*
*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*	*3.41*
Condensate production - Tanin	*bbl/y m*	-	-	-	-	-	-	*0.20*	*0.57*	*0.57*	*0.55*	*0.59*
Prices												
Natural gas price	*US$*	*4.16*	*4.32*	*4.56*	*4.39*	*4.33*	*4.26*	*4.29*	*4.30*	*4.06*	*4.02*	*4.00*
Condensate Price	*US$*	*103.54*	*92.88*	*82.51*	*79.67*	*76.23*	*73.55*	*71.98*	*70.44*	*68.93*	*67.46*	*66.02*
Revenues												
*Karish - Revenues**												
Natural Gas Revenues	*US$ MM*	*201.3*	*835.5*	*1,033.2*	*1,000.4*	*1,151.2*	*1,139.7*	*960.4*	*592.1*	*558.4*	*545.1*	*490.7*
Condensate Revenues	*US$ MM*	*205.4*	*643.0*	*781.1*	*725.2*	*844.8*	*798.5*	*660.8*	*475.9*	*430.1*	*367.5*	*225.1*
Total Gross Revenues	*US$ MM*	*406.7*	*1,478.4*	*1,814.3*	*1,725.6*	*1,996.0*	*1,938.3*	*1,621.2*	*1,068.1*	*988.5*	*912.7*	*715.8*
Tanin - Revenues												
Natural Gas Revenues	*US$ MM*	-	-	-	-	-	-	*188.9*	*554.6*	*528.5*	*519.7*	*555.2*
Condensate Revenues	*US$ MM*	-	-	-	-	-	-	*14.5*	*40.0*	*39.0*	*36.9*	*38.7*
Total Gross Revenues	*US$ MM*	-	-	-	-	-	-	*203.4*	*594.6*	*567.6*	*556.5*	*593.9*
K&T - Total Gross Revenues	*US$ MM*	*406.7*	*1,478.4*	*1,814.3*	*1,725.6*	*1,996.0*	*1,938.3*	*1,824.6*	*1,662.7*	*1,556.0*	*1,469.2*	*1,309.8*
Delek Drilling - Transaction Revenues												
*Karish ORRI, Net**	*US$ MM*	*19.1*	*69.6*	*74.4*	*34.1*	*37.7*	*30.6*	*25.6*	*16.8*	*15.6*	*14.4*	*11.3*
Tanin ORRI Net	*US$ MM*	-	-	-	-	-	-	*9.6*	*28.0*	*23.3*	*11.3*	*12.2*
Transaction ORRI, Net*	*US$ MM*	***19.1***	***69.6***	***74.4***	***34.1***	***37.7***	***30.6***	***35.1***	***44.8***	***38.8***	***25.7***	***23.5***
Instalments	*US$ MM*	-	*25.7*	*13.3*	*12.8*	*12.3*	*11.8*	-	-	-	-	-
*Karish Discounted Transaction Revenues**	*US$ MM*	*18.6*	*61.9*	*59.2*	*24.1*	*23.6*	*17.0*	*12.6*	*7.4*	*6.1*	*5.0*	*3.5*
Tanin Discounted Transaction Revenues	*US$ MM*	-	-	-	-	-	-	*4.7*	*12.3*	*9.1*	*3.9*	*3.8*
Total Discounted Transaction Revenues	*US$ MM*	***18.6***	***61.9***	***59.2***	***24.1***	***23.6***	***17.0***	***17.3***	***19.7***	***15.2***	***8.9***	***7.2***

*Including Karish North

**Net of Existing ORRI net of Petroleum Tax

Year	Unit	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Production											
*Gas production - Karish**	*bcm/y*	*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*	*3.22*	*2.81*	*1.80*	*1.80*	*1.53*	-	-	-	-	-
*Condensate production - Karish**	*bbl/y m*	*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*	*0.51*	*0.51*	*0.44*	*0.28*	*0.02*	-	-	-	-	-
Prices											
Natural gas price	*US$*	*4.00*	*4.00*	*3.97*	*3.91*	*3.91*	*3.92*	*3.89*	*3.89*	*3.89*	*3.89*
Condensate Price	*US$*	*64.61*	*63.22*	*61.87*	*60.55*	*59.26*	*57.99*	*56.75*	*55.54*	*54.35*	*53.19*
Revenues											
*Karish - Revenues**											
Natural Gas Revenues	*US$ MM*	*516.1*	*516.2*	*309.8*	*304.9*	*305.0*	*305.9*	*239.6*	*196.4*	*152.4*	*115.7*
Condensate Revenues	*US$ MM*	*220.3*	*215.6*	*153.3*	*150.0*	*73.3*	*71.8*	*47.6*	*35.6*	*25.2*	*23.3*
Total Gross Revenues	*US$ MM*	*736.4*	*731.7*	*463.2*	*455.0*	*378.3*	*377.7*	*287.2*	*232.0*	*177.6*	*139.0*
Tanin - Revenues											
Natural Gas Revenues	*US$ MM*	*478.6*	*418.3*	*266.3*	*262.1*	*221.7*	-	-	-	-	-
Condensate Revenues	*US$ MM*	*32.7*	*32.0*	*27.4*	*17.1*	*1.3*	-	-	-	-	-
Total Gross Revenues	*US$ MM*	*511.3*	*450.3*	*293.7*	*279.2*	*223.0*	-	-	-	-	-
K&T - Total Gross Revenues	*US$ MM*	*1,247.7*	*1,182.0*	*756.8*	*734.1*	*601.3*	*377.7*	*287.2*	*232.0*	*177.6*	*139.0*
Delek Drilling - Transaction Revenues											
*Karish ORRI, Net**	*US$ MM*	*11.6*	*11.5*	*7.3*	*7.2*	*6.0*	*6.0*	*4.5*	*3.7*	*2.8*	*2.2*
Tanin ORRI Net	*US$ MM*	*8.6*	*7.1*	*4.6*	*4.4*	*3.5*	-	-	-	-	-
Transaction ORRI, Net**	*US$ MM*	***20.2***	***18.6***	***11.9***	***11.6***	***9.5***	***6.0***	***4.5***	***3.7***	***2.8***	***2.2***
Instalments	*US$ MM*	-	-	-	-	-	-	-	-	-	*0.2*
*Karish Discounted Transaction Revenues**	*US$ MM*	*3.2*	*2.8*	*1.6*	*1.4*	*1.0*	*0.9*	*0.6*	*0.4*	*0.3*	*0.2*
Tanin Discounted Transaction Revenues	*US$ MM*	*2.3*	*1.7*	*1.0*	*0.8*	*0.6*	-	-	-	-	-
Total Discounted Transaction Revenues	*US$ MM*	***5.5***	***4.5***	***2.6***	***2.2***	***1.6***	***0.9***	***0.6***	***0.4***	***0.3***	***0.2***

*Including Karish North

**Net of Existing ORRI net of Petroleum Tax

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Definitions

NewMed Energy/the Partnership	NewMed Energy Limited Partnership.
Avner	Avner Oil Exploration - Limited Partnership.
Natural Gas	A gas mixture containing mainly Methane, used mainly for the production of electricity and as a source of energy for industry.
The Buyer/Energean	Energean E&P Holdings Ltd. through Energean Israel Limited (Formerly Ocean Energean Oil and Gas Ltd.).
The Partnerships/Sellers	NewMed Energy and Avner.
The Petroleum Law	The Petroleum Law, 5712-1952.
The Gas Framework or **the Framework**	The resolution of the Israeli Government to create a framework for increasing the amount of natural gas produced from the Tamar natural gas field and the quick development of the Leviathan, Karish and Tanin natural gas fields as well as other gas fields.
Chevron	Chevron Energy Mediterranean Ltd.
Condensate	Hydrocarbon liquid created during the production of natural gas, used as raw material for the production of fuels and constitutes a petroleum substitute.
Petroleum Asset	A preliminary permit, license or lease by virtue of the Petroleum Law in Israel or a right of similar meaning granted by the entity authorized therefor outside Israel.
BCM	Billion Cubic Meters.
DCF	Discounted Cash Flows.
FID	The adoption of a decision to invest in the development of the Karish and Tanin natural gas reservoirs.
LNG	Liquefied Natural Gas.
MMBTU	A Million BTU – an energy unit used as a basis for the determination of natural gas prices.