

The background of the cover is a photograph of an offshore oil rig at sea. The rig is illuminated with warm lights, and the sky is a mix of orange, pink, and blue, suggesting a sunset or sunrise. The water is dark and choppy. A large, dark, diagonal graphic element cuts across the image from the top left towards the bottom right.

# 2023

## FINANCIAL STATEMENTS

### AS OF

## 30.09.2023

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## Update to Chapter A (Description of the Partnership's Business)

### of the 2022 Periodic Report

#### of NewMed Energy – Limited Partnership (the "Partnership")<sup>1</sup>

#### 1. Section 1 of the Periodic Report – Description of the General Development of the Partnership's Business

- a. Following the deadly attack perpetrated by the terrorist organization "Hamas" on 7 October 2023, targeting communities and military bases in the south of Israel, the Israeli government declared the "Iron Swords" war against this terrorist organization (the "**War**"). As of the report approval date, the War is ongoing and it is impossible to predict how long it will last or its impact on the Partnership, its business and its assets. For further details, see Section 3(a) below.

The Partnership's management and its employees are committed to the national effort, express their deepest condolences to the families of those who have fallen and were murdered, hope for the safe return of the hostages and missing persons, and wish all the injured a swift recovery. Together we will win.

- b. Further to Section 1.8 of the Periodic Report and Section 1(b) of the Q1 Report, regarding a non-binding indicative offer received by the Partnership's general partner, NewMed Energy Management Ltd. (the "**GP**"), from Abu Dhabi National Oil Company (ADNOC) P.J.S.C. and BP Exploration Operating Company (the "**Buyers**"), with respect to a possible transaction in which the Buyers will make a cash purchase of all of the Partnership's participation units (the "**Units**") held by the public and some of the Units held by Delek Group Ltd., the control holder of the Partnership ("**Delek Group**"), subject to certain terms and conditions (the "**Transaction**"), and regarding the decision of the GP's board, in view of Delek Group's personal interest in the Transaction and the materiality of the Transaction, to appoint the members of the audit committee of the GP's board to review and decide on any issue pertaining to the purchase of the Units held by the public in the Transaction and to take any and all actions required for the exercise of the committee's powers, at the committee's discretion, as of the report approval date, the parties are continuing to conduct negotiations to promote the Transaction.

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<sup>1</sup> This chapter includes material news or changes that occurred in the Partnership's business, in accordance with Section 39A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and other updates regarding the Partnership's business that occurred during Q3/2023 until shortly before the report approval date, on any matter that is required to be described in the Periodic Report (as defined below), except updates included in the Q1/2023 report, as released on 11 May 2023 (Ref. no.: 2023-01-050346) (the "**Q1 Report**") and the Q2/2023 report, as released on 21 August 2023 (Ref. no.: 2023-01-095937) (the "**Q2 Report**"). The update refers to the section numbers in Chapter A (Description of the Partnership's Business) of the periodic report for 2022 which was released on 28 March 2023 (Ref. no.: 2023-01-033096) (the "**Periodic Report**"), unless stated otherwise.

## 2. Section 4 of the Periodic Report – Distribution of Profits

On 15 November 2023, the GP's board approved, after adopting the recommendation of the GP's Financial Statements Review Committee, a profit distribution in the sum total of 50 million U.S. dollars ("\$\$"), with the record date for the distribution being 27 November 2023. The said profit distribution will be performed on 21 December 2023.

## 3. Section 6 of the Periodic Report – General Environment and Impact of External Factors

### a. The "Iron Swords" war

1. Since the start of the War on 7 October 2023, thousands of rockets have been fired from the Gaza Strip mainly into the south and center of the State of Israel. At the same time, as the fighting has progressed, the terrorist organization 'Hezbollah' has escalated the tension on the Israel-Lebanon border and initiated combat operations against Israel. Consequently, and in view of the possibility of expansion of the War on the northern border and other fronts, the IDF mobilized hundreds of thousands of reservists, communities located close to the frontlines on the southern and northern borders were evacuated, and the Home Front Command is periodically issuing current instructions limiting the activity of workplaces and educational institutions.
2. As a result of the War, in October 2023, the credit rating agencies Moody's and Fitch announced that they were considering a possible downgrade of the credit rating of the State of Israel. The credit rating agency S&P Global Ratings also announced a downgrade of the State of Israel's credit rating outlook from stable to negative, while leaving the existing credit rating unchanged.
3. Shortly after the outbreak of the War, gas production from the Tamar reservoir was halted according to the government's order. No such order was given for the Leviathan and Karish reservoirs, and as of the report approval date, production from the Leviathan reservoir is continuing as usual. On 9 November 2023, the Ministry of Energy notified the operator in the Tamar reservoir that it may restart the Tamar reservoir. As a result of such halting of production from the Tamar reservoir, the Leviathan partners supplied natural gas also to a number of customers of the Tamar reservoir in the domestic market, and mainly to the Israel Electric Corporation Ltd. (the "IEC"), and as a result, the quantity of natural gas allocated for export to Egypt was reduced. At the same time, due to the War, the activity of the EMG pipeline, which is a main transmission infrastructure for the piping of gas from Israel to Egypt, was halted. Consequently, Eastern Mediterranean Gas Company S.A.E ("EMG") informed Blue Ocean Energy (the gas consumer in Egypt) of the existence of 'force majeure' circumstances preventing the piping of gas to Egypt through the EMG pipeline. As a result, since the outbreak of the War, all gas supplies to Egypt were piped through the Jordanian transmission system, which entails additional transmission costs. On 14 November 2023, transmission of gas via the EMG pipeline was resumed. Further to the aforesaid, the gas quantity



supplied to Egypt in October was around 82% of the monthly contract quantity of gas that the Leviathan partners are obligated to supply.

4. The natural gas platforms, the onshore and offshore production and transmission facilities, and other essential infrastructure systems in Israel and in the export countries may be targets for missile fire and sabotage operations, and damage thereto, if any, may cause extremely significant damage, and disrupt or disable the production and/or transmission activity for a period of time and to an extent that may be significant. In such cases, it is possible that the insurance policies purchased by the operator in the Leviathan project, Chevron Mediterranean Limited ("**Chevron**") and the Partnership will not suffice to cover the damage and losses caused to the Partnership. In this context it is noted that there is a risk that on the date of renewal of the insurance policies, mainly in connection with war and terrorism, it will not be possible to purchase appropriate policies under reasonable commercial terms and conditions or at all. Another risk deriving from the War is damage to the terminals for condensate, which is a by-product of the production of natural gas from the Leviathan project (for further details, see Section 7.15.1(e) of the Periodic Report). The risk of such incidents may significantly increase in the event of escalation on the northern front of the State of Israel or expansion of the War to additional fronts. In the event of expansion of the War as aforesaid, there may also be greater risk that the government will impose restrictions on regular production from the Leviathan reservoir and/or the Karish reservoir. Any limiting or halting of production from both the Tamar and Karish reservoirs is expected to obligate the Leviathan partners to increase the quantities supplied to the domestic market at the expense of exports to Egypt.
5. In view of the continuance of the War, there is a greater geopolitical risk in connection with the export of natural gas from the Leviathan reservoir, which accounted for most of the Partnership's revenues in the first three quarters of 2023. However, since the outbreak of the War, export of gas from the Leviathan reservoir has continued.
6. As of the report approval date, the Leviathan partners are continuing to promote the third pipeline project, as specified in Section 7.2.5(e) of the Periodic Report and Section 3(b) of the Q2 Report, as well as the other activities, in accordance with the work plans. In addition, due to the outbreak of the War, the work of Israel Natural Gas Lines Ltd. ("**INGL**") on the laying of the Ashdod-Ashkelon offshore pipeline has been suspended, and therefore a further postponement of the scheduled date of completion of this project is expected. For further details, see Section 9(b) below. In addition, due to the War, a delay is expected in commencement of the piping of the condensate to Ashdod Refinery Ltd. via the pipeline of Energy Infrastructures Ltd. ("**PEI**"). For further details, see Section 8 below.
7. Should certain events materialize, such as premature termination of the export agreements and unrepaired physical damage to the Leviathan project, if they are reasonably expected to have a material adverse impact, and subject to

grace periods, qualifications and conditions, there is a risk of violation of the terms of the bonds of Leviathan Bond Ltd., a wholly-owned subsidiary of the Partnership ("**Leviathan Bond**"), which are secured by the Partnership's interests in the Leviathan project and are traded in the TACT-Institutional system of the Tel Aviv Stock Exchange Ltd. (TASE) (the "**Bonds**"), which may give the bondholders grounds for acceleration and enforcement of the collateral. For details regarding rating reports released regarding the bonds, see Section 11 below. For further details regarding the Bonds, see Note 10B to the Partnership's financial statements as of 31 December 2022, which were released on 28 March 2023 (Ref. no.: 2023-01-033096) (the "**Financial Statements as of 31 December 2022**"). In addition, although as a consequence of the War, there has been an increase in the yields of the Bonds, this increase does not affect the nominal interest of the Bonds, the Partnership's cash flow or the ability to repay the Bonds, although it may have an adverse effect on the Partnership's ability to raise additional debt and increase the financing costs of raising additional debt as aforesaid.

8. As aforesaid, despite the War, and until the report approval date, production from the Leviathan reservoir is continuing as usual. During the period of shutdown of the Tamar reservoir and the EMG pipeline, which led to a reduction of the quantities allocated for export, transmission of gas to Egypt via the Jordanian transmission system (instead of the EMG pipeline), and the supply of gas to customers of the Tamar reservoir in the domestic market, as specified in Section 3(a)(3) above and until the report approval date, the Partnership's revenues and profitability were not materially impacted. In the Partnership's estimation, given resumption of transmission via the EMG pipeline on 14 November 2023, and assuming that the risk factors specified above and below do not materialize, the Partnership's revenues and profitability are not expected to be materially impacted in Q4/2023, and no material change is expected in the discounted cash flow figures, as included in the Partnership's immediate report of 19 March 2023 (Ref. no.: 2023-01-023806), the information appearing in which is incorporated herein by reference.
9. As of the report approval date, significant uncertainty exists, making it impossible to estimate how the War will develop and whether it will expand to additional fronts, how long the War will last, its results and its repercussions. Under these circumstances, it is impossible to estimate the chances of materialization of the risk factors arising from the War and their possible effect, including the specific risk factors specified above, whose materialization could have a material adverse effect on the Partnership, its assets and its business.

Caution concerning forward-looking information - The Partnership's estimates specified above, including in relation to the potential impact of the War on the Partnership, are forward-looking information as defined in Securities Law, 5728-1968. These estimates may not materialize, in whole or in part, or may materialize differently, including significantly differently than expected, mainly due to the considerable uncertainty at this time, including with respect to the War's duration, scope, and its repercussions for the Israeli economy, and also due to the occurrence of events beyond the Partnership's control.

4. Section 7.2.5 of the Periodic Report - Plan for Development of the Leviathan Reservoir

Further to Section 7.2.5(f) of the Periodic Report and Section 3(c) of the Q1 Report regarding stage 1B of the development plan for the Leviathan project, as of the report approval date, the Pre-FEED stage for expansion of the Leviathan reservoir's production system has been completed, including the planning of subsea infrastructures and of required facilities on the production platform, and the Leviathan partners intend to proceed to performance of the FEED for purposes of increasing the natural gas quantities for export via existing and future infrastructures (as specified in Section 9 below) to the domestic and regional markets. During performance of the Pre-FEED for the floating liquefied natural gas (FLNG) facility (the "**Facility**"), indications emerged of a material change in the cost estimation for building the Facility, and therefore the Leviathan partners intend to review the economic implications of the decision regarding the FEED stage.

5. Sections 7.3.3, 7.3.6 and 7.3.11 of the Periodic Report - Plan for Development of the Aphrodite Reservoir

Further to the Partnership's reports of 31 May 2023, 27 August 2023, and 7 November 2023 (Ref. no.: 2023-01-058887, 2023-01-079951 and 2023-01-122265, respectively), regarding the Cypriot government's decision to deny the request of the partners in the Aphrodite reservoir in the area of the EEZ of the Republic of Cyprus (the "**Aphrodite Reservoir**"), for approval of changes to the development and production plan that was approved on 7 November 2019 (the "**Approved Plan**"), and regarding an extension received by the partners from the Cypriot government to comply with the Approved Plan such that the date of the final and binding decision of the Cypriot government regarding the partners' request shall be postponed to 20 November 2023, and the date for compliance with the milestone for commencement of the Front-End Engineering Design (FEED), as scheduled in the Production Sharing Contract (PSC), shall be postponed to 7 January 2024, provided that the partners in the Aphrodite Reservoir confirm their consent to the aforesaid and sign an amendment to the PSC in connection therewith, it is noted that as of the report approval date, the partners in the Aphrodite Reservoir have not yet adopted a decision on the aforesaid, and the operator in the Aphrodite Reservoir, Chevron Cyprus Limited, intends to continue its efforts to reach agreements with representatives of the Cypriot government regarding the reservoir's development plan. It is clarified that insofar as no other agreement is reached with the Cypriot government and the milestone is not timely fulfilled as aforesaid, the Cypriot government may impose sanctions on the partners in the Aphrodite Reservoir, claiming a breach of the terms and conditions of the PSC.



**6. Section 7.3.12 of the Periodic Report – Contingent and Prospective Resources Attributed to the Petroleum Asset Block 12 in Cyprus**

Further to Section 3 of the Q1 Report and Section 4(a) of the Q2 Report regarding completion of the drilling of the A-3 (Aphrodite 3) appraisal well, on 5 September 2023, the Partnership released an updated report on the resources attributed to the Aphrodite Reservoir. For further details, see the Partnership's immediate report of 5 September 2023 (Ref. no.: 2023-01-102990), the information appearing in which is incorporated herein by reference.

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

Further to Section 6(a) of the Q2 Report regarding agreements for the sale of natural gas from the Leviathan project to independent power producers and to industrial customers in the domestic market, in Q3/2023 and up to the report approval date, the Partnership signed several additional agreements for the sale of natural gas with various customers in the Israeli market, from the Leviathan project, on a spot basis, mainly as a result of the halting of production from the Tamar reservoir as a result of the War, as stated in Section 3(a)(3) above.

**8. Section 7.10.4 of the Periodic Report – Agreements for the Supply of Condensate from the Leviathan Reservoir**

Further to Section 7.10.4(c) of the Periodic Report regarding an agreement signed between Chevron and PEI for the regulation of an alternative mechanism for transmission of condensate from the Leviathan project through an existing pipeline of PEI and its related systems, following the War, the date of commencement of transmission of the condensate in the said pipeline is expected to be postponed to Q1/2024.

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

a. Further to Section 7.11.2(b) of the Periodic Report and Section 7 of the Q2 Report regarding preliminary budgets that were approved by the Leviathan partners for the purpose of technical design and reservation of supply dates for increasing the natural gas export quantities, on 25 October 2023, the Leviathan partners approved additional preliminary budgets, prior to making final investments decisions (FID), if adopted, as detailed below:

1. An additional sum of approx. \$11 million (100%) in connection with the construction of a new onshore connection between the Israeli transmission system and the Egyptian transmission system in the area of Nitzana, such that the total budget approved as of the report approval date is approx. \$14.5 million (100%).
2. An additional sum of approx. \$24 million (100%) in connection with the construction of a compressor station and further related work in the transmission system for export, such that the total budget approved as of the report approval date is approx. \$37.5 million (100%).

- b. Further to Section 7.11.2(e)(5) of the Periodic Report, regarding the timetables for transmission of the gas in the combined section (the Ashdod-Ashkelon marine transmission system), in October 2023, Chevron updated the Partnership that it received notice from INGL whereby as a result of the War, work on such project had been suspended and that the expected date of commencement of the flow is about four months from the date of resumption of the work.

#### 10. Section 7.13.2 of the Periodic Report – Gas and Oil Exploration in Israel

Further to Section 8 of the Q2 Report, regarding a bid submitted by the Partnership in the fourth competitive process for natural gas exploration in the EEZ of the State of Israel, which was released by the Ministry of Energy, on 29 October 2023, the Partnership received notice by the Petroleum Commissioner at the Ministry of Energy in which, *inter alia*, it was decided to grant the Partnership, together with Republic (SOCAR) which was defined as the operator, and BP Exploration Operating Company Limited (BP), 6 exploration licenses (blocks) in one cluster (licenses 4, 5, 6, 7, 8 and 11 in Cluster I). For further details, see the Partnership's immediate report of 30 October 2023 (Ref. no.: 2023-01-119721), the information in which is included herein by reference. The Partnership intends to call a special general meeting of the unit holders, on the agenda of which is the amendment to the Partnership agreement and the adding of the said licenses to the list of the petroleum assets specified therein.

#### 11. Section 7.19 of the Periodic Report – Financing

##### a. Leviathan Bond bonds

- (1) With regards to rating reports for the bonds that were released by Moody's, according to which the bonds were placed on negative watch for a downgrade, see the Partnership's immediate reports of 23 October 2023 and 26 October 2023 (Ref. no.: 2023-01-097321 and 2023-01-098338 respectively), the information in which is included herein by reference.
- (2) With regards to a rating report for the bonds that was released by Fitch Ratings, according to which the bonds were placed on negative watch for a downgrade, see the Partnership's immediate report of 1 November 2023 (Ref. no.: 2023-01-100228), the information in which is included herein by reference.
- (3) With regards to rating reports for the bonds that were released by Ma'alot S&P and S&P Global Rating, according to which the rating outlook of the bonds was downgraded to negative, see the Partnership's immediate reports of 6 November 2023 (Ref. no.: 2023-01-122076 and 2023-01-122103 respectively), the information in which is included herein by reference.
- (4) Further to Section 7.19.2 of the Periodic Report regarding the bonds buyback plan which was approved by the GP's board, in an aggregate amount of up to \$100 million, for a two-year period starting from 23 January 2023 until 23 January 2025 (the "**Buyback Plan**"), according to which, until the report approval date, the Partnership made buybacks of approx. \$9 million, on 15 November 2023, the GP's board authorized the continued performance of

buybacks in accordance with the Buyback Plan, from the bonds series maturing on 30 June 2025 and/or from the bonds series maturing on 30 June 2027. It is clarified that such resolution does not bind the Partnership and/or Leviathan Bond to buyback the bonds, and the Partnership's management may decide not to buyback bonds at all.

b. Credit facility

Further to Section 7.19.3 of the Periodic Report, regrading banking credit facilities that the Partnership received from an Israeli bank, in the sum total of \$150 million, designated to serve the Partnership in its operating activities, as of the report approval date, the Partnership withdrew \$70 million out of such credit facilities.

**12. Section 7.21.7 of the Periodic Report – Material Legal or Administrative Environmental Proceedings**

- a. Further to Section 12(a) of the Q2 Report regarding a notice that Chevron received from the Ministry of Environmental Protection (MoEP) of its intention to impose a penalty in the sum of approx. ILS 2.9 million (100%) due to an alleged violation of the marine discharge permit for the Leviathan project, Chevron filed its response to such notice on 3 September 2023.
- b. Further to Section 12(b) of the Q2 Report regarding a notice and invitation to a hearing before the MoEP that Chevron received due to alleged violations of the marine discharge permit and of the toxic materials permit for the Leviathan project, as a result of the War, the hearing scheduled for 8 October 2023 was postponed and no alternative date has been set.
- c. Further to Section 7.21.7(c) of the Periodic Report and Section 12(c) of the Q2 Report regarding a class certification motion which was filed by a resident of the Dor Beach area on behalf of "anyone who was exposed to the air, marine and coastal pollution due to prohibited emissions from the gas platform which is operated by the respondents in the sea, located offshore Dor Beach, and treats the Leviathan natural gas reservoir, in the period from commencement of the platform's activity in December 2019 until a judgment is issued in the claim", in view of the notice by the Minister of Justice regarding the application of the Courts and Execution Offices Regulations (Procedure in a Special State of Emergency), 5751-1991 (the "**Notice of the Minister of Justice Regarding the Special State of Emergency**"), the date for filing Chevron's summations was postponed until after the end of the special state of emergency as mentioned.

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

- a. Following the outbreak of the War, on 9 October 2023 and on 18 October 2023, the Government adopted Resolutions no. 943 and 977, respectively, regarding "declaration of emergency in the natural gas sector" (the "**Resolutions**"). In the Resolutions, the Government authorized the Minister of Energy and Infrastructure to declare a state of emergency in the natural gas sector so long as the circumstances stated in Government Resolution no. 2592 are fulfilled, and insofar

as it is necessary to exercise the powers prescribed in the Natural Gas Economy Regulations (Management of the Natural Gas Economy During an Emergency), 5777-2017 (the "**Emergency Regulations**"), in order to tackle a natural gas shortage in the domestic market, if any, starting from the date of issuance of the Resolutions until 23 November 2023. The Resolutions further determined that any declaration given within the approved timeframe will be given for a period of no more than two weeks, and in any event will end no later than 7 December 2023. In accordance with Section 8 of the Emergency Regulations, the Minister is authorized, *inter alia*, to order a different allocation of quantities of natural gas for supply. It is clarified that, as of the report approval date, there is no shortage of natural gas in the domestic market.

- b. Further to Section 7.21.2(c) of the Periodic Report regarding the Climate Bill, 5782-2022, on 12 September 2023, the Ministerial Committee for Legislative Affairs approved the draft Climate Law, -57832023 (the "**Draft Climate Law**" ) in preparation for the first reading in the Knesset. The Draft Climate Law anchors a national target for reducing greenhouse gas emissions for the year 2030 and increases it from a 27% reduction in greenhouse gas emissions, as stipulated in Government Resolution no. 171, to a 30% reduction in greenhouse gas emissions, such that it will be 70% of the quantity of greenhouse gas emissions measured in 2015 (the base year). In addition, on 22 September 2023, Government Resolution no. 927 was adopted, in which the Government approved the Draft Climate Law subject to several amendments. Due to the impact of the War on the activity of the Knesset, and in particular the legislative activity, as of the report approval date, there is no certainty as to the date and manner of promotion of the Draft Climate Law.
- c. On 6 September 2023, the Electricity Authority released the electricity sector report summarizing 2022 and presenting 2023 trends. Such report stated, *inter alia*, that in 2022 the economic demand for electricity increased by approx. 3.7%, that 2022 was characterized by a downward trend in IEC's share in electricity generation, as part of the implementation of the reform in the electricity sector, and that in 2023, the majority of electricity in the economy is expected to be produced by the private sector. The report also states that already in H1/2023, a decrease in the scope of electricity production from coal is evident.

**14. Section 7.24.9(b)(3) of the Periodic Report – The Effective Rate of Royalties in the Leviathan project**

In accordance with a letter of demand received from the Ministry of Energy in October 2023, the Leviathan partners are required to pay advances to the State on account of the State royalties for the revenues from the Leviathan project in 2023 at the rate of 11.06%, instead of 11.26% as paid by the Leviathan partners starting from the date of commencement of gas supply from the reservoir. The royalties rate on which the Partnership was based in its financial statements as of 30 September 2023 is approx.



10.7%.<sup>2</sup> For further details, see Note 15 to the financial statements as of 31 December 2022.

## 15. Section 7.25 of the Periodic Report – Legal Proceedings

- a. Further to Section 7.25.2 of the Periodic Report and Section 7(a) of the Q1 Report, regarding an appeal filed by the Partnership and Chevron from the judgment rendered in the claim they filed with the Jerusalem District Court against the State of Israel (the "**Defendant**"), which mainly includes a demand to receive royalties that the plaintiffs paid the Defendant in excess and under protest, for revenues generated for the plaintiffs from the gas supply agreements which were signed between natural gas consumers and the Yam Tethys partners, on 13 August 2023, the Defendant filed its response to the appeal.
- b. Further to Section 7.25.3 of the Periodic Report, Section 7(b) of the Q1 Report and Section 14(a) of the Q2 Report, regarding an appeal filed by the holders of participation units in Avner Oil Exploration - Limited Partnership ("**Avner**") with the Supreme Court from the judgment denying the motion for class action certification filed in connection with the merger transaction between the Partnership and Avner, against Avner, the general partner at Avner and its members of the board, Delek Group as the control holder of Avner (indirectly) and Price Waterhouse Coopers Advisory Ltd. (PWC) (jointly in this section: the "**Respondents**"), the Respondents are required to file their response to the appeal by 7 January 2024, and that a hearing on the appeal has been scheduled for 15 April 2024.
- c. Further to Section 7.25.8 of the Periodic Report, Section 7(e) of the Q1 Report and Section 14(d) of the Q2 Report, regarding a class certification motion which was filed by a unit holder (the "**Petitioner**") with the Tel Aviv District Court (Economic Department) against the Partnership, the GP, Delek Group, Yitzhak Sharon (Tshuva), the directors of the GP, including the former chairman of the board, and the CEO of the GP (in this section, collectively: the "**Respondents**"), claiming that the Respondents had 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). Following the notice by the Minister of Justice regarding the special state of emergency, the date for filing the Petitioner's summations will be rescheduled at the end of the special state of emergency as mentioned.
- d. Further to Section 7.25.13 of the Periodic Report, Section 7(g) of the Q1 Report and Section 14(f) of the Q2 Report regarding a claim filed by the Partnership against Energean Oil and Gas Plc in connection with payment of the balance of the consideration under the agreement for the sale of the interests in the Karish and Tanin leases, on 5 November 2023, a judgment was entered on the agreements reached between the parties. For further information, see the Partnership's

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<sup>2</sup>In the discounted cash flow figures of the Leviathan project, the Partnership assumed that the effective rate of the State royalties is 11.26%.

immediate report of 6 November 2023 (Ref. no.: 2023-01-121773), the information in which is included herein by reference.

**16. Sections 28 and 29(c)(b) of Chapter D to the Periodic Report –Community Aid and Donations**

Further to Sections 28 and 29(c)(d) of Chapter D to the Periodic Report regarding the resolution of the special general meeting of the unit holders, dated 21 September 2022 to authorize an amendment to the Partnership agreement, according to which the Partnership may donate reasonable amounts to worthy causes, even if the donation is not intended to maximize profits for the Partnership (for details see the Partnership's immediate reports of 15 August 2022 and 21 September 2022 (Ref. no.: 2022-01-103582 and 2022-01-120358, respectively), on 15 November 2023, the GP's board resolved to adopt a specified policy for the granting of donations, under which, *inter alia*, the total annual donations shall not exceed one quarter of percent (0.25%) of the Partnership's annual profit before tax. The GP's board intends to allocate a significant portion of the donation budget to support the many communities affected by the War.

**17. Below is a table that includes natural gas production data in the first three quarters of 2023 in the Leviathan project:<sup>3,4</sup>**

|  |                    | Q1        | Q2        | Q3        |
|--|--------------------|-----------|-----------|-----------|
| Total output (attributable to the holders of the equity interests of the Partnership) during the period (in MMCF)  |                    | 45,277.33 | 40,043.67 | 46,237.36 |
| Average price per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF)  |                    | 6.21      | 6.26      | 6.18      |
| 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          | 0.67      | 0.67      | 0.67      |
|  | Third parties      | 0.16      | 0.16      | 0.16      |
|  | Interested parties | 0.08      | 0.08      | 0.08      |
| Average production costs per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF) <sup>5,6</sup>  |                    | 0.82      | 0.88      | 0.80      |
| Average net proceeds per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF)   |                    | 4.48      | 4.47      | 4.47      |

Date: 15 November 2023

**NewMed Energy – Limited Partnership  
through NewMed Energy Management Ltd., GP**  
Signed by: Gabi Last, Chairman of the Board  
and Yossi Abu, CEO

<sup>3</sup> 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.

<sup>4</sup> Since the sum of the costs entailed by production of the condensate during Q3/2023 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.

<sup>5</sup> 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.

<sup>6</sup> The average production costs per output unit include costs for the transmission of natural gas via INGL's transmission system to EMG's terminal in Ashkelon to the terminal of FAJR in the Jordan border, as well as costs of transmission via FAJR's transmission system to the point of delivery in Aqaba, Jordan, for the purpose of supplying the gas to Egypt in the sum of approx. \$38.1 million in Q1/2023, in the sum of approx. \$38.8 million in Q2/2023 and in the sum of approx. \$40.1 million in Q3/2023 (100%).



## Board of Directors report



## **NewMed Energy – Limited Partnership**

### **Report of the Board of Directors of the General Partner for the nine- and three-month periods ended 30 September 2023**

The board of directors of NewMed Energy Management Ltd. (the "GP") hereby respectfully submits the board of directors' report for the nine- and three-month periods ended 30 September 2023 (the "Report Period" and "Q3", respectively).

#### **Part One – Explanations of the Board of Directors on the State of the Partnership's Business**

##### **1. Main changes that occurred in the Report Period**

For a comprehensive description of the main changes in the Partnership's business in the Report Period, see the update to Chapter A (Description of the Partnership's Business) of the periodic report for 2022 (the "Periodic Report"), and the condensed interim financial statements as of 31 March 2023, the condensed interim financial statements as of 30 June 2023 and the condensed interim financial statements as of 30 September 2023 ("Condensed Interim Financial Statements"), which are attached below.

##### **2. Results of operations**

###### **A. General**

As of the date of approval of the Report, the Partnership operates in the energy sector and mainly engages in the exploration, development, production and marketing of natural gas, condensate and oil in Israel and in Cyprus, as well as in the promotion of various natural gas-based projects, with the aim of increasing the volume of sales of the natural gas produced by the Partnership. At the same time, the Partnership explores business opportunities in the field of exploration, development, production, and marketing of natural gas, condensate and oil in other countries, and is also exploring and promoting possibilities for investing in projects in the renewable energies sector, in the context of the collaboration with Enlight Renewable Energy Ltd.<sup>1</sup>, and possibilities of entry into the hydrogen sector, including blue hydrogen, which is produced from natural gas and may constitute a low-carbon substitute for energy consumers. As of the report approval date, the parties are continuing to conduct negotiations to promote the transaction in connection with an offer received by the GP from Abu Dhabi National Oil Company (ADNOC) P.J.S.C. and BP Exploration Operating Company, as stated in Note 1E to the financial statements attached hereto.

Following the deadly attack perpetrated by the terrorist organization "Hamas" on 7 October 2023, targeting communities and military bases in the south of Israel, the Israeli government declared the "Iron Swords" war against this terrorist organization (the "War"). As of the report approval date, the War is ongoing and it is impossible to predict how long

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<sup>1</sup> For details on the Enlight transaction, see Section 7.8 of the Description of the Partnership's Business Chapter for 2022.

it will last or its impact on the Partnership, its business and its assets. For further details, see Section 3 of the update to Chapter A (Description of the Partnership's Business) of this report.

The comprehensive income of the Partnership in the Report Period totaled approx. \$332 million compared with approx. \$328 million in the same period last year. The increase in profit mainly derived from a decrease in depreciation, depletion and amortization expenses in the sum of approx. \$44 million, which was mainly offset by an increase in the cost of natural gas and condensate production and by a decrease in net revenues from the sale of natural gas.

The Partnership's comprehensive income in Q3/2023 totaled approx. \$118 million compared with approx. \$123 million year-over-year. The decrease in profit mainly derived from a decrease in net revenues from the sale of natural gas and an increase in the cost of natural gas and condensate production, which was mainly offset by a decrease in depreciation, depletion and amortization expenses.

## B. Analysis of statements of comprehensive income

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

|  | 1-3/23       | 4-6/23       | 7-9/23       | 1-9/23       | 1-9/22       | 7-9/22       | 2022         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenues</b>  |              |              |              |              |              |              |              |
| From natural gas sales   | 281.1        | 250.8        | 285.8        | 817.7        | 855.7        | 318.0        | 1,143.9      |
| Net of royalties   | 41.1         | 36.4         | 41.9         | 119.4        | 130.9        | 53.2         | 172.0        |
| Revenues, net  | <b>240.0</b> | <b>214.4</b> | <b>243.9</b> | <b>698.3</b> | <b>724.8</b> | <b>264.9</b> | <b>971.9</b> |
| <b>Expenses and costs:</b>   |              |              |              |              |              |              |              |
| Cost of natural gas and condensate production                              | 38.2         | 34.8         | 37.0         | 110.0        | 99.6         | 29.0         | 134.1        |
| Depreciation, depletion and amortization expenses                          | 19.9         | 20.9         | 19.3         | 60.1         | 104.4        | 44.7         | 131.0        |
| Other direct expenses  | 0.8          | 0.9          | 1.1          | 2.8          | 3.2          | 1.5          | 5.2          |
| G&A expenses   | 5.6          | 5.8          | 5.0          | 16.4         | 11.9         | 4.0          | 19.7         |
| <b>Total expenses and costs</b>  | <b>64.5</b>  | <b>62.4</b>  | <b>62.4</b>  | <b>189.3</b> | <b>219.1</b> | <b>79.2</b>  | <b>290.0</b> |
| The Partnership's share in the losses of a company accounted for at equity | (1.3)        | (0.1)        | (0.7)        | (2.1)        | (3.4)        | (1.2)        | (3.1)        |
| <b>Operating income</b>  | <b>174.2</b> | <b>151.9</b> | <b>180.8</b> | <b>506.9</b> | <b>502.3</b> | <b>184.4</b> | <b>678.8</b> |
| Financial expenses   | (37.2)       | (31.9)       | (30.5)       | (99.6)       | (112.6)      | (36.4)       | (155.3)      |
| Financial income   | 19.9         | 6.9          | 7.8          | 34.6         | 55.3         | 21.8         | 71.1         |
| Financial expenses, net  | (17.3)       | (25.0)       | (22.7)       | (65.0)       | (57.3)       | (14.6)       | (84.2)       |
| <b>Profit before taxes on income</b>                                       | <b>156.9</b> | <b>126.9</b> | <b>158.1</b> | <b>441.9</b> | <b>445.0</b> | <b>169.8</b> | <b>594.6</b> |
| Taxes on income  | (36.2)       | (34.0)       | (40.2)       | (110.4)      | (110.3)      | (43.4)       | (116.0)      |
| <b>Income from continuing operations</b>                                   | <b>120.7</b> | <b>92.9</b>  | <b>117.9</b> | <b>331.5</b> | <b>334.7</b> | <b>126.4</b> | <b>478.6</b> |
| Loss from discontinued operations  | -            | -            | -            | -            | (10.8)       | (7.7)        | (13.2)       |
| Income from the sale of natural gas and oil assets                         | -            | -            | -            | -            | 4.3          | 4.3          | 4.3          |
| <b>Total loss from discontinued operations</b>                             | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>(6.4)</b> | <b>(3.4)</b> | <b>(8.9)</b> |
| <b>Comprehensive income</b>  | <b>120.7</b> | <b>92.9</b>  | <b>117.9</b> | <b>331.5</b> | <b>328.2</b> | <b>123.0</b> | <b>469.7</b> |

**Net revenues** in the Report Period totaled approx. \$698 million compared with approx. \$725 million year-over-year, down around 4%. The decrease mainly derived from a decline in the natural gas quantities that were sold from the Leviathan reservoir as well as from a decrease in the average price per MMBTU, which mainly derived from the decrease in the price of gas for export which is partially linked to the Brent oil barrel price.

Net revenues in Q3/2023 totaled approx. \$244 million compared with approx. \$265 million year-over-year, down around 8%. The decline derived from the reasons stated above.

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

the Report Period and in the same period last year according to the customers' geographic location:

| <b>2023 - (BCM)*</b> |               |               |              |              |                        |
|----------------------|---------------|---------------|--------------|--------------|------------------------|
|                      | <b>Israel</b> | <b>Jordan</b> | <b>Egypt</b> | <b>Total</b> | <b>Average price**</b> |
| <b>Q1</b>            | 0.6           | 0.7           | 1.5          | 2.8          | \$6.09                 |
| <b>Q2</b>            | 0.3           | 0.6           | 1.6          | 2.5          | \$6.14                 |
| <b>Q3</b>            | 0.4           | 0.8           | 1.7          | 2.9          | \$6.06                 |
| <b>Total</b>         | <b>1.3</b>    | <b>2.1</b>    | <b>4.8</b>   | <b>8.2</b>   | <b>\$6.10</b>          |

| <b>2022 - (BCM)*</b> |               |               |              |              |                        |
|----------------------|---------------|---------------|--------------|--------------|------------------------|
|                      | <b>Israel</b> | <b>Jordan</b> | <b>Egypt</b> | <b>Total</b> | <b>Average price**</b> |
| <b>Q1</b>            | 0.9           | 0.7           | 1.1          | 2.7          | \$5.78                 |
| <b>Q2</b>            | 0.8           | 0.6           | 1.4          | 2.8          | \$6.39                 |
| <b>Q3</b>            | 1.2           | 0.7           | 1.1          | 3.0          | \$6.44                 |
| <b>Total</b>         | <b>2.9</b>    | <b>2.0</b>    | <b>3.6</b>   | <b>8.5</b>   | <b>\$6.21</b>          |

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

\*\* The price per MMBtu in dollars is rounded to two digits after the decimal point

Despite the War, and until the report approval date, production from the Leviathan reservoir is continuing as usual. During the period of shutdown of the Tamar platform and the EMG pipeline, which led to a reduction of the quantities allocated for export, transmission of gas to Egypt via the Jordanian transmission system (instead of the EMG pipeline), and the supply of gas to customers of the Tamar reservoir in the domestic market, until the report approval date the Partnership's revenues and profitability were not materially impacted. In the Partnership's estimation, in view of the Ministry of Energy's notice of 9 November 2023 regarding resumption of the piping from the Tamar reservoir and given resumption of transmission via the EMG pipeline on 14 November 2023, and assuming that the risk factors specified in Section 3 of the update to Chapter A (Description of the Partnership's Business) of this report do not materialize, the Partnership's revenues and profitability are not expected to be materially impacted in Q4/2023, and no material change is expected in the discounted cash flow figures as included in the Partnership's immediate report of 19 March 2023 (Ref. no.: 2023-01-023806), the information appearing in which is incorporated herein by reference.



**Cost of natural 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, environmental protection, insurance and the cost of transmission of natural gas to Egypt. The cost of gas and condensate production in the Report Period totaled approx. \$110 million, compared with approx. \$100 million in the same period last year, up around 10%.

The increase in the Report Period mainly derives from an increase in the shipping and transportation expenses and the costs of transmission of gas to Egypt which derives, *inter alia*, from an increase in the quantity of gas sold to Egypt, which was offset by a decrease in payroll and operations management and maintenance expenses.

Cost of natural gas and condensate production in Q3/2023 totaled approx. \$37 million compared with approx. \$29 million year-over-year. The increase mainly derived from the reasons stated above.

**Depreciation, depletion and amortization expenses** in the Report Period totaled approx. \$60 million, compared with approx. \$104 million in the same period last year, down around 42%. The decrease mainly derives from an update to the liability for asset abandonment in respect of the Yam Tethys project and from depreciation of the New Ofek project in the same period last year to the Statement of Comprehensive Income.

Depreciation, depletion and amortization expenses in Q3/2023 totaled approx. \$19 million compared with approx. \$45 million year-over-year. The decrease mainly derived from an update to a liability for asset abandonment in respect of the Yam Tethys project in the same quarter last year.

**Other direct expenses** in the Report Period totaled approx. \$3 million, similar 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, including business development expenses in the field of renewable energies.

Other direct expenses in Q3/2023 totaled approx. \$1 million, similar to the same quarter last year.

**G&A expenses** in the Report Period totaled approx. \$16 million, compared with approx. \$12 million in the same period last year, and include, *inter alia*, expenses for professional services, payroll expenses and D&O insurance. The increase in the said expenses mainly derived from revaluation of cost of unit-based payment to the Partnership's CEO following the rise of the price of participation units on TASE as well as from an increase in the expenses for professional services.

G&A expenses in Q3/2023 totaled approx. \$5 million, compared with approx. \$4 million year-over-year. The increase mainly derived from an increase in expenses for professional services.

**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, compared with approx. \$3 million year-over-year. The loss 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 decrease in the loss mainly derived from an increase in revenues of EMG

from the transmission of natural gas to Egypt.

The Partnership's share in the losses of a company accounted for at equity in Q3/2023 totaled approx. \$1 million, similarly to the same quarter last year.

**Financial expenses** in the Report Period totaled approx. \$100 million, compared with approx. \$113 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). The decrease in the financial expenses mainly derived from a decrease in the interest expenses for bonds of approx. \$12 million, which derived from a buyback and from repayment of the Leviathan Bond Bonds as stated in Sections C and E below, and from capitalization of financial costs for qualifying assets in the sum of approx. \$6 million, which were partially offset by revaluation of shekel balances.

Financial expenses in Q3/2023 totaled approx. \$30 million, compared with approx. \$36 million year-over-year. The said decrease mainly derived from a decrease in the interest expenses for Leviathan Bond Bonds which derived from the reasons stated above.

**Financial income** in the Report Period totaled approx. \$35 million, compared with approx. \$55 million year-over-year. The financial income in the Report Period mainly included income from revaluation of royalties and debt receivable for the Karish and Tanin leases in the sum of approx. \$17 million, interest revenues from deposits in the sum of approx. \$9 million and financial income in the joint ventures in the sum of approx. \$6 million. In the same period last year, the financial income included mainly revaluation of royalties and debt receivable for the Karish and Tanin leases in the sum of approx. \$51 million and approx. \$2 million of interest revenues from deposits. For further details regarding revaluation of royalties and debt receivable for the Karish and Tanin leases, see Note 6E to the Condensed Interim Financial Statements attached below.

Financial income in Q3/2023 totaled approx. \$8 million, compared with approx. \$23 million year-over-year. The decrease mainly derived from a decrease in income from revaluation of royalties and debt receivable for the Karish and Tanin leases, which was partially offset by an increase in interest revenues from deposits as aforesaid.

**Taxes on income** in the Report Period totaled approx. \$110 million, similarly to the same period last year.

Taxes on income in Q3/2023 totaled approx. \$40 million, compared with approx. \$43 million year-over-year. The decrease mainly derived from the decrease in profit before tax.

### **3. Financial position, liquidity and financing sources**

#### **A. Financial position**

The main changes in the items of the statement of financial position as of 30 September 2023, compared with the statement of financial position as of 31 December 2022, are specified below:

**Total assets** as of 30 September 2023 totaled approx. \$3,728 million, compared with approx. \$3,939 million as of 31 December 2022.

**Current assets** as of 30 September 2023 totaled approx. \$429 million compared with

approx. \$771 million as of 31 December 2022, as specified below:

- (1) **Cash and cash equivalents** as of 30 September 2023 totaled approx. \$17 million, compared with approx. \$22 million as of 31 December 2022. The decrease mainly derived from payments, during the Report Period, mainly for the distribution of profits to the holders of the participation units, investments in the A3 well in Cyprus, tax advances and oil and gas profit levy payments for the Partnership's holdings in the Tamar project in previous years, which was offset by net revenues from the sale of natural gas in the Leviathan project and revenues from Energean for royalties and debt from the Karish and Tanin project.
- (2) **Short-term investments and deposits** as of 30 September 2023 totaled approx. \$39 million, compared with approx. \$396 million as of 31 December 2022. The decrease mainly derived from use of the deposits which were used as a safety cushion for repayment of Series 2023 of the Leviathan Bond Bonds in May and June 2023.
- (3) **Trade receivables** as of 30 September 2023 totaled approx. \$228 million, compared with approx. \$199 million as of 31 December 2022. The increase mainly derived from an increase in natural gas sales to the regional market.
- (4) **Other receivables** as of 30 September 2023 totaled approx. \$141 million, compared with approx. \$134 million as of 31 December 2022. The increase mainly derived from an increase in royalties receivable from Energean in the Karish and Tanin venture which was offset by a decrease in the balance of the operator in the joint ventures.
- (5) **Current taxes receivable** as of 30 September 2023 totaled approx. \$4 million compared with approx. \$20 million as of 31 December 2022. The decrease derived from a refund from Income Tax received by the Partnership due to the filing of the Partnership's tax report for 2021.

**Non-current assets** as of 30 September 2023 totaled approx. \$3,299 million, compared with approx. \$3,168 million on 31 December 2022, as specified below:

- (1) **Investments in oil and gas assets** as of 30 September 2023 totaled approx. \$2,604 million, compared with approx. \$2,547 million as of 31 December 2022. The movement in the Report Period mainly derived from investments totaling approx. \$110 million (mostly in the Leviathan 8 and A3 wells in Cyprus). Conversely, the Partnership recorded depreciation, depletion, and amortization expenses in the Leviathan project in the sum of approx. \$53 million.
- (2) **Investment in a company accounted for at equity** as of 30 September 2023 totaled approx. \$58 million, compared with approx. \$60 million as of 31 December 2022, and is due to the investment in EMED shares. The decrease derived from registration of loss for investment in a company accounted for at equity in the Report Period, which was largely due to the impairment of the excess purchase cost.
- (3) **Long-term deposits in banks** as of 30 September 2023 totaled approx. \$101 million, compared with approx. \$0.5 million as of 31 December 2022. The increase mainly derived from the deposit of safety cushion balances for repayment of the Leviathan Bond Bonds which was performed in Q3.

- (4) **Other long-term assets** as of 30 September 2023 totaled approx. \$537 million, compared with approx. \$560 million as of 31 December 2022. The decrease mainly derived from classification of royalties and debt receivable for the Karish and Tanin leases as short-term, and was mainly offset by oil and gas profit levy advances for the Partnership's holdings in the Tamar project in previous years.

**The current liabilities** as of 30 September 2023 totaled approx. \$133 million, compared with approx. \$582 million as of 31 December 2022, as specified below:

- (1) **Current maturities of bonds** as of 31 December 2022 totaled approx. \$425 million and included the 2023 series of the Leviathan Bond Bonds which were partially prepaid in May 2023 and the balance was paid on maturity in June 2023. For details regarding repayment of the bonds, see Section C2 below.
- (2) **Short-term liability to a banking corporation** as of 30 September 2023 totaled approx. \$15 million. For details see Section C1 below.
- (3) **Declared profits for distribution** as of 31 December 2022 totaled approx. \$50 million, which were distributed in January 2023.
- (4) **Trade and other payables** as of 30 September 2023 totaled approx. \$116 million, compared with approx. \$97 million as of 31 December 2022. The increase mainly derived from the recording of interest expenses payable for Leviathan Bond Bonds, to be paid in December 2023.
- (5) **Other short-term liabilities** as of 30 September 2023 totaled approx. \$3 million, compared with approx. \$10 million as of 31 December 2022. The liabilities mainly include a liability for asset abandonment in respect of the Yam Tethys project. The decrease derived from the progress of the abandonment work.

**Non-current liabilities** as of 30 September 2023 totaled approx. \$2,134 million, compared with approx. \$2,070 million as of 31 December 2022, as specified below:

- (1) **Bonds** as of 30 September 2023 totaled approx. \$1,734 million compared with approx. \$1,731 million as of 31 December 2022, and include the Leviathan Bond Bonds net of issue expenses (for details, see Part Four below).
- (2) **Deferred taxes liability** as of 30 September 2023 totaled approx. \$330 million, compared with approx. \$270 million as of 31 December 2022. The increase mainly derived from an increase in the temporary differences between the measurement basis of oil and gas assets, as reported for tax purposes (ILS) and the measurement basis as reported in the financial statements (\$).
- (3) **Other long-term liabilities** as of 30 September 2023 totaled approx. \$69 million, similarly to the balance as of 31 December 2022. The balance mainly includes liabilities for asset abandonment in respect of the Leviathan and Yam Tethys projects.

**The capital of the limited partnership** as of 30 September 2023 totaled approx. \$1,460 million, compared with approx. \$1,287 million as of 31 December 2022. The change in capital mainly derived from the comprehensive income that was recorded in the Report Period in the sum of approx. \$332 million, which was partially offset by profits distributed in the Report Period in the sum of approx. \$160 million.



## **B. Cash flow**

- (1) The cash flows generated by the Partnership from operating activities totaled, in the Report Period, approx. \$414 million, compared with approx. \$361 million in the same period last year. The increase mainly derived from a decrease in trade and other receivables in the Report Period, as well as from a more moderate increase in the trade receivables balance, compared with the same period last year.

The cash flows generated by the Partnership from operating activities in Q3/2023 totaled approx. \$128 million, compared with approx. \$177 million in the same period last year. The decrease mainly derived from the decrease in the trade receivables balance and the decrease in the payables balance year-over-year.

- (2) The cash flows generated from investment activities totaled, in the Report Period, approx. \$185 million, compared with approx. \$140 million which was used for investment activities in the same period last year. In the Report Period, the Partnership invested approx. \$103 million in oil and gas assets, mainly in the Leviathan and Aphrodite projects, and also invested approx. \$100 million in long-term deposits. Conversely, a decrease was recorded of approx. \$357 million in short-term investments and deposits, which were used for payment of series 2023 of the Leviathan Bond Bonds, as stated below, and, in the Report Period, approx. \$40 million for royalties and debt repayment were received from Energean for the Karish and Tanin leases.

The cash flows used for investment activities totaled, in Q3/2023, approx. \$144 million, compared with approx. \$98 million in the same period last year. The increase mainly derived from investment in the Leviathan and Aphrodite assets and from a deposit in long-term deposits of the safety cushion of Leviathan Bond Bonds, which was offset by a decrease in investments in short-term deposits year-over-year.

- (3) The cash flows used for financing activities totaled, in the Report Period, approx. \$604 million, compared with approx. \$388 million in the same period last year. The cash flows in the Report Period were mainly used for the distribution of profits to the holders of the participation units and payment and buyback of Leviathan Bond Bonds as stated in Section E below, compared with the cash flows in the same period last year which were mainly used for the distribution of profits, balancing and tax payments, and payments on account of the tax for which the holders of the participation units are liable.

The cash flows used for financing activities totaled, in Q3/2023, approx. \$35 million, compared with approx. \$93 million used for financing activities in the same period last year. The decrease mainly derived due to a buyback of bonds that was performed in the same quarter last year and receipt of a loan from a banking corporation in Q3/2023 as part of the credit facility as stated in Section C.1 below.

## **C. Financing**

- (1) On 5 February 2023, the Partnership signed documents for bank credit facilities with an Israeli bank, intended to be used by the Partnership for its operating activities. As of the report approval date, the Partnership withdrew \$70 million from credit facility A. For further details, see Note 10D to the financial statements as of 31 December 2022.

- (2) On 30 June 2023, full and final repayment was made of the first series of the Leviathan Bond Bonds, following partial prepayment on 1 May 2023 of \$280 million plus accrued interest in the sum of approx. \$4.5 million, out of a total series in the sum of \$500 million. In accordance with the terms and conditions of the bonds, the repayment of the first series during the quarter prior to the original maturity date was not subject to the payment of a prepayment fee to the holders of the bonds. For further details see Part Four below and Note 6I to the financial statements attached below.
- (3) As a result of the War, the Leviathan Bond Bonds were placed on negative watch by the rating agencies Moody's and Fitch. In addition, the rating agency S&P downgraded the bonds' outlook to negative. In addition, although as a consequence of the War, there has been an increase in the yields of the bonds, this increase does not affect the nominal interest of the bonds, the Partnership's cash flow or the ability to repay the bonds, although it may have an adverse effect on the Partnership's ability to raise additional debt and increase the financing costs of raising additional debt as aforesaid.

**D. Profit Distributions:**

- (1) On 1 March 2023, the GP's board of directors approved a minimal 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.
- (2) On 27 March 2023, the GP's board of directors approved, after receiving the recommendation of the GP's Financial Statements Review Committee, a profit distribution in the sum total of \$60 million (\$0.05112 per participation unit), with the record date for the distribution being 9 April 2023, and the said profit distribution performed on 20 April 2023.
- (3) On 10 May 2023, the GP's board of directors approved, after receiving the recommendation of the GP's Financial Statements Review Committee, a profit distribution in the sum total of \$50 million (\$0.04260 per participation unit), with the record date for the distribution being 22 May 2023, and the said profit distribution was performed on 15 June 2023.
- (4) On 20 August 2023, the GP's board of directors approved, after adopting the recommendation of the GP's Financial Statements Review Committee, a profit distribution in the sum total of \$50 million (\$0.04260 per participation unit), with the record date for the distribution being 30 August 2023, and the said profit distribution was performed on 14 September 2023.
- (5) On 20 August 2023, the GP's board of directors authorized a minimal distribution to the limited partner in the sum of ILS 0.5 million (approx. \$0.1 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.
- (6) On 15 November 2023, the GP's board of directors approved, after adopting the

recommendation of the GP's Financial Statements Review Committee, a profit distribution in the sum total of \$50 million (\$ 0.04260 per participation unit), with the record date for the distribution being 27 November 2023. The said profit distribution will be performed on 21 December 2023.

- (7) On 15 November 2023, the GP's board of directors approved a minimal distribution to the limited partner in the sum of ILS 0.5 million (approx. \$0.1 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.

**E. Buyback of Leviathan Bond Bonds program:**

On 22 May 2022, the Board of Directors of the GP authorized a plan for the purchase of Leviathan Bond Bonds, in an aggregate amount of up to \$100 million for a period of two years. The Partnership carried out buybacks under the said purchase program in the sum of approx. \$100 million. Further thereto, on 22 January 2023, the Board of Directors of the GP approved for the Partnership to adopt another plan for the purchase of Leviathan Bond 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 "**Additional Purchase Plan**"). The Additional Purchase Plan took effect on 23 January 2023, and will end after two years, namely on 23 January 2025. As of the date of approval of the financial statements, the Partnership had performed approx. \$9 million in buybacks in accordance with the Additional Purchase Plan. It is noted that all of the above buybacks have been repaid within the framework of repayment of the bonds as provided in Section C2 above. On 15 November 2023, the GP's board authorized the continued performance of buybacks in accordance with the buyback plan, from the bond series maturing on 30 June 2025 and/or from the bond series maturing on 30 June 2027. It is clarified that the said decision does not obligate the Partnership and/or Leviathan Bond to perform a buyback of the bonds, and that the Partnership's management will be entitled to decide not to buy back bonds at all. For further details regarding the bonds, see Part Four below.

- F. On 30 April 2023, the Partnership released a temporary tax certificate for an entitled holder and a seller of participation units due to the holding of participation units of the Partnership for 2021.
- G. For details on the Covid pandemic and its impact on the Partnership's business, see Section 3F of Part One of the Report of the Board of Directors (Chapter B) in the Periodic Report of 31 December 2022.
- H. For details on the military conflict between Russia and Ukraine and its possible impact on the Partnership's business, see Section 3G of Part One of the Report of the Board of Directors (Chapter B) in the Periodic Report of 31 December 2022.
- I. For details on the possible impact of the inflation and the increase in interest on the Partnership's business, See Section 3H of Part One of the Report of the Board of Directors (Chapter B) of 31 December 2022.
- J. Starting from the beginning of 2023, the Israeli government is advancing a plan to implement changes in the Israeli judicial system. The proposed changes, the first of which passed in the third reading in the Knesset in July 2023, are causing disputes in the public and the political system. According to various reports, including of the Bank of Israel and international rating agencies, the influence of the changes promoted by the government and the controversy surrounding them could potentially have a negative impact on the

Israeli economy. Among other things, the changes could lead to a downgrade in Israel's credit rating, a continued weakening of the local currency, a reduction in the volume of investments in the Israeli economy, and a decline in the level of economic activity. As of the date of approval of the financial statements, the Partnership is unable to assess the implications of the developments on this issue on the Partnership's business.

## Part Two – Exposure to and Management of Market Risks

### Report on exposure to and management of market risks

#### 4. Sensitivity tests -

In accordance with Amendment 5767 to the provisions of the Second Schedule to the Securities Regulations (Immediate and Periodic Reports), 5730-1970, the Partnership carried out tests of sensitivity to changes in risk factors affecting the fair value of "sensitive instruments".

#### Description of parameters, assumptions and models

Parameters:

| Parameter                | Source/Method of Treatment                  |
|--------------------------|---|
| ILS/Dollar exchange rate | Representative rate as of 30 September 2023 |
| Dollar interest          | Capitalization interest / SOFR interest     |

- a. Analysis of sensitivity of the value of royalties and a loan to Energean from the sale of the Karish and Tanin leases to changes in the cap rate (\$ in millions):

| Sensitive instrument  | Profit/(loss) from the changes |               | Fair value   | Profit/(loss) from the changes |             |
|---|--------------------------------|---------------|--------------|--------------------------------|-------------|
|   | 2%                             | 1%            |              | -1%                            | -2%         |
| Royalties receivable from the Karish and Tanin leases               | (22.4)                         | (11.7)        | 307.5        | 12.8                           | 26.7        |
| Loan to Energean as part of the sale of the Karish and Tanin leases | (1.4)                          | (0.7)         | 41.7         | 0.7                            | 1.5         |
| <b>Total</b>  | <b>(23.8)</b>                  | <b>(12.4)</b> | <b>349.2</b> | <b>13.5</b>                    | <b>28.2</b> |

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



Below are extended sensitivity tests in respect of a change in the natural gas and condensate prices when the other variables remain fixed, and the effect thereof on revaluation of the royalties receivable from the Karish and Tanin leases:

| Sensitive instrument                                  | Profit/(loss) from the changes in the natural gas prices |      |      |     | Fair value | Profit/(loss) from the changes in the natural gas prices |                   |      |        |
|---|--|------|------|-----|------------|--|-------------------|------|--------|
|   | 30%  | 20%  | 10%  | 5%  |            | -5%  | -10%              | -20% | -30%   |
| Royalties receivable from the Karish and Tanin leases | 47.8   | 38.2 | 27.1 | 8.3 | 307.5      | (4.5)  | <sup>2</sup> 20.9 | 0.3  | (16.8) |

| Sensitive instrument                                  | Profit/(loss) from the changes in the condensate prices |      |      |     | Fair value | Profit/(loss) from the changes in the condensate prices |                   |      |      |
|---|---|------|------|-----|------------|---|-------------------|------|------|
|   | 30%   | 20%  | 10%  | 5%  |            | -5%   | -10%              | -20% | -30% |
| Royalties receivable from the Karish and Tanin leases | 29.6  | 21.2 | 19.1 | 4.5 | 307.5      | (4.5)   | 25.7 <sup>3</sup> | 19.1 | 2.7  |

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

| Sensitive instrument      | Profit/(loss) from the changes |       | Fair value | Profit/(loss) from the changes |       |
|---------------------------|--------------------------------|-------|------------|--------------------------------|-------|
|                           | 10%                            | 5%    |            | -5%                            | -10%  |
|                           | 4.417                          | 4.015 |            | 3.633                          | 3.442 |
| Cash and cash equivalents | -0.1                           | -0.1  | 1.3        | 0.1                            | 0.1   |
| Bank deposits             | *                              | *     | 0.2        | *                              | *     |
| Trade and other payables  | 0.1                            | 0.1   | -1.3       | -0.1                           | -0.1  |
| <b>Total</b>              | *                              | *     | 0.2        | *                              | *     |

\* Balance less than \$0.1 million

During the reported period there was no change in the Partnership's exposures and market risks, as were reported in the Board of Directors' Report for 2022. See also Section 3 of the update to Chapter A (Description of the Partnership's Business) of this report in connection with possible repercussions of the Iron Swords war for the Partnership's business.

<sup>2</sup> Certain ranges of decline in the price of natural gas would have a positive impact on the fair value, deriving from postponement of the date of commencement of payment of the oil and gas profit levy.

<sup>3</sup> See Footnote 2 above.

5. Report on linkage bases in Dollars in thousands, as of 30 September 2023:

|  | Financial Balances             |                  | Non-financial<br>balances | Total          |
|--|--------------------------------|------------------|---------------------------|----------------|
|  | In dollars or<br>dollar-linked | In ILS, unlinked |                           |                |
| <b>Assets</b>                                    |                                |                  |                           |                |
| Cash and cash equivalents                        | 16.0                           | 1.3              | -                         | 17.3           |
| Short-term investments                           | 38.5                           | 0.2              | -                         | 38.7           |
| Trade receivables                                | 227.9                          | -                | -                         | 227.9          |
| Other receivables                                | 134.3                          | -                | 6.6                       | 140.9          |
| Current taxes receivable                         | -                              | -                | 4.0                       | 4.0            |
| Investments in oil and gas<br>assets             | -                              | -                | 2,604.0                   | 2,604.0        |
| Investment in company<br>accounted for at equity | -                              | -                | 57.6                      | 57.6           |
| Long-term deposits                               | 100.7                          | -                | -                         | 100.7          |
| Other long-term assets                           | 281.2                          | -                | 255.4                     | 536.6          |
| <b>Total assets</b>                              | <b>798.6</b>                   | <b>1.5</b>       | <b>2,927.6</b>            | <b>3,727.7</b> |
| <b>Liabilities</b>                               |                                |                  |                           |                |
| Short-term liability to a<br>banking corporation | 15.0                           | -                | -                         | 15.0           |
| Trade and other payables                         | 87.0                           | 1.3              | 27.6                      | 115.9          |
| Other short-term liabilities                     | -                              | -                | 2.5                       | 2.5            |
| Bonds  | 1,734.1                        | -                | -                         | 1,734.1        |
| Deferred taxes                                   | -                              | -                | 330.5                     | 330.5          |
| Other long-term liabilities                      | -                              | -                | 69.3                      | 69.3           |
| <b>Total liabilities</b>                         | <b>1,836.1</b>                 | <b>1.3</b>       | <b>429.9</b>              | <b>2,267.3</b> |
| <b>Total net assets</b>                          | <b>(1,037.5)</b>               | <b>0.2</b>       | <b>2,497.7</b>            | <b>1,460.4</b> |

6. Report on linkage bases in Dollars in thousands, as of 31 December 2022:

| Financial Balances                               |                                |                     |                           |                |
|--|--------------------------------|---------------------|---------------------------|----------------|
|  | In dollars or<br>dollar-linked | In ILS,<br>unlinked | Non-financial<br>balances | Total          |
| <b>Assets</b>                                    |                                |                     |                           |                |
| Cash and cash equivalents                        | 19.8                           | 2.6                 | -                         | 22.4           |
| Short-term investments                           | 395.7                          | 0.2                 | -                         | 395.9          |
| Trade receivables                                | 199.0                          | -                   | -                         | 199.0          |
| Other receivables                                | 130.0                          | -                   | 4.1                       | 134.1          |
| Current taxes receivable                         | -                              | -                   | 19.9                      | 19.9           |
| Investments in oil and gas assets                | -                              | -                   | 2,547.2                   | 2,547.2        |
| Investment in company accounted<br>for at equity | -                              | -                   | 59.7                      | 59.7           |
| Long-term deposits                               | 0.5                            | -                   | -                         | 0.5            |
| Other long-term assets                           | 321.0                          | -                   | 239.3                     | 560.3          |
| <b>Total assets</b>                              | <b>1,066.0</b>                 | <b>2.8</b>          | <b>2,870.2</b>            | <b>3,939.0</b> |
| <b>Liabilities</b>                               |                                |                     |                           |                |
| Declared profits for distribution                | 50.0                           | -                   | -                         | 50.0           |
| Other short-term liabilities                     | -                              | -                   | 9.9                       | 9.9            |
| Trade and other payables                         | 61.9                           | 1.1                 | 33.9                      | 96.9           |
| Bonds  | 2,155.8                        | -                   | -                         | 2,155.8        |
| Deferred taxes                                   | -                              | -                   | 269.8                     | 269.8          |
| Other long-term liabilities                      | -                              | -                   | 69.2                      | 69.2           |
| <b>Total liabilities</b>                         | <b>2,267.7</b>                 | <b>1.1</b>          | <b>382.8</b>              | <b>2,651.6</b> |
| <b>Total net assets</b>                          | <b>(1,201.7)</b>               | <b>1.7</b>          | <b>2,487.4</b>            | <b>1,287.4</b> |

## **Part Three – Corporate Governance**

Further to Section 1 of Part Three of the Board of Directors' Report for 2022 regarding the resolution of the special general meeting of the unitholders of 21 September 2022 to approve an amendment to the partnership agreement, according to which the Partnership may donate reasonable amounts to worthy causes, even if the donation is not intended to maximize profits for the Partnership (for details see the Partnership's immediate reports of 15 August 2022 and 21 September 2022 (Ref. no.: 2022-01-103582 and 2022-01-120358, respectively)), on 15 November 2023, the GP's board resolved to adopt a detailed donation policy, under which, *inter alia*, the total annual donations shall not exceed 0.25% of the Partnership's annual pre-tax profit. The GP's board intends to allocate a significant portion of the donation budget to support the many communities impacted by the War.

## **Part Four – 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 8 to the financial statements as of 30 September 2023, which are attached below.

### **2. Critical accounting estimates**

No material change occurred in the Report Period compared with the report for 2022.

## Part Five – Details regarding bonds issued by Leviathan Bond Ltd.

| Leviathan Bond bond series  | 2025   | 2027  | 2030  |
|---|--|---|---|
| Par value on the issue date   | 600  | 600   | 550   |
| Issue date  | 18 August 2020   | 18 August 2020  | 18 August 2020  |
| Par value as of 30 September 2023                                     | 600  | 600   | 550   |
| Linked par value as of 30 September 2023                              | 600  | 600   | 550   |
| Value in the Partnership's books as of 30 September 2023 <sup>4</sup> | 606.5  | 604.4   | 551.2   |
| TASE value as of 30 September 2023 <sup>5</sup>                       | 594.1  | 581.9   | 516.4   |
| Fixed annual interest rate  | 6.125%   | 6.500%  | 6.750%  |
| Principal payment date  | 30 June 2025   | 30 June 2027  | 30 June 2030  |
| Interest payment dates  | Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2025                        | Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2027 | Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2030 |
| Linkage base: base index <sup>6</sup>                                 | None   |   |   |
| Conversion right  | None   |   |   |
| Right to prepayment or mandatory conversion <sup>7</sup>              | Right to prepayment  |   |   |
| Guarantee for payment of the liability                                | See Note 10B to the financial statements as of 31 December 2022.   |   |   |
| 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<br>452 5th Avenue, 8E6<br>New York, NY 10018<br>asma.x.alghofailey@us.hsbc.com |   |   |
| Rating as of the issue date <sup>8</sup>                              | Fitch Rating: BB stable<br>Moody's: Ba3 Stable<br>S&P: BB- Stable<br>Standard & Poor's Maalot: iIA+ stable                     |   |   |
| Rating as of the report date <sup>9</sup>                             | Fitch Rating: BB stable  |   |   |

<sup>4</sup> Includes accrued interest payable as of 30 September 2023.

<sup>5</sup> The bonds are traded in Israel on the "TACT-institutional" system on TASE

<sup>6</sup> The bonds' principal and interest are depicted in dollars.

<sup>7</sup> 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.

<sup>8</sup> See the Partnership's immediate reports of 19 August 2020 (Ref. No. 2020-01-090852 and 2020-01-091134), and of 23 August 2020 (Ref. No. 2020-01-092247), the information included in which is incorporated herein by reference.

<sup>9</sup> For updated rating reports, see the Partnership's immediate reports of 4 August 2022, 23 May 2023, 16 March 2023, and 16 March 2023 (Ref. no.: 2022-01-099352, 2023-01-054975, 2023-01-027774, and 2023-01-027771, respectively), the information appearing in which is incorporated herein by reference.

| <b>Leviathan Bond bond series</b>  | <b>2025</b>  | <b>2027</b> | <b>2030</b> |
|--|--|-------------|-------------|
|  | Moody's: Ba3 Stable<br>S&P: BB- Stable<br>Standard & Poor's Maalot: ilA+ stable  |             |             |
| <b>Rating as of the report approval date<sup>10</sup></b>  | Fitch Rating: BB Rating Watch Negative<br>Moody's: Ba3 Possible Downgrade (Under review)<br>S&P: BB- Negative<br>Standard & Poor's Maalot: ilA+ Negative |             |             |
| <b>Has the company fulfilled, by 30 September 2023 and during the report year, all of the conditions and obligations under the indenture</b> | Yes  |             |             |
| <b>Is the bond series material<sup>11</sup></b>  | Yes  |             |             |
| <b>Have any conditions establishing cause for acceleration of the bonds been fulfilled</b>   | No   |             |             |
| <b>Pledges to secure the bonds</b>   | See Note 10B to the financial statements as of 31 December 2022  |             |             |

<sup>10</sup> In view of the aforesaid regarding the events of the Iron Swords war, the rating agencies have updated the bonds' rating outlook and forecast - see immediate reports of 26 October 2023, 1 November 2023, 6 November 2023 and 6 November 2023 (Ref. no.: 2023-01-098338, 2023-01-100228, 2023-01-122076 and 2023-01-122103, respectively), the information appearing in which is incorporated herein by reference.

<sup>11</sup> 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 GP, the Partnership's management and its employees are committed to the war effort, express their deepest condolences to the families of those who have fallen and were murdered, hope for the safe return of the hostages and missing persons, and wish all the injured a swift recovery.

*May He who blessed our fathers Abraham, Isaac and Jacob, bless the soldiers of the Israel Defense Forces and members of the Security Agencies who keep guard over our country and cities of our Lord from the border with Lebanon to the Egyptian desert and from the Mediterranean Sea to the approach to the Arava, be they on land, air or sea. Amen.*

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

Sincerely,

**Yossi Abu**  
CEO

**Gabi Last**  
Chairman of the Board

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

**Annex A to the Board of Directors' Report**  
**Figures regarding Leviathan Bond Ltd.**

Further to Note 10B to the financial statements as of 31 December 2022 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)**

|                                | 30.9.2023 | 30.9.2022 | 31.12.2022 |
|--------------------------------|-----------|-----------|------------|
|                                | Unaudited |           | Audited    |
| <b>Assets:</b>                 |           |           |            |
| Current Assets:                |           |           |            |
| Short-term bank deposits       | 33        | 251,076   | 253,279    |
| Loans to shareholders          | -         | 499,661   | 499,603    |
| Interest receivable            | 28,219    | 35,406    | -          |
| Related parties                | *         | *         | *          |
|                                | 28,252    | 786,143   | 752,882    |
| <b>Non-current Assets:</b>     |           |           |            |
| Loans to shareholders          | 1,748,814 | 1,749,449 | 1,749,625  |
| Long-term bank deposits        | 100,177   | -         | -          |
|                                | 1,848,991 | 1,749,449 | 1,749,625  |
|                                | 1,877,243 | 2,535,592 | 2,502,507  |
| <b>Liabilities and Equity:</b> |           |           |            |
| Current Liabilities:           |           |           |            |
| Bonds                          | -         | 500,000   | 500,000    |
| Interest payable               | 28,219    | 35,406    | -          |
| Related parties                | 210       | 151,076   | 153,279    |
|                                | 28,429    | 686,482   | 653,279    |
| Non-current Liabilities:       |           |           |            |
| Bonds                          | 1,750,000 | 1,750,000 | 1,750,000  |
| Loans from shareholders        | 100,000   | 100,000   | 100,000    |
|                                | 1,850,000 | 1,850,000 | 1,850,000  |
| Equity (deficit)               | (1,186)   | (890)     | (772)      |
|                                | 1,877,243 | 2,535,592 | 2,502,507  |

\* Less than \$1,000

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

|  | For the Nine<br>Months<br>Ended<br>30.09.2023 | For the<br>Nine Months<br>Ended<br>30.09.2022 | For the<br>Three<br>Months<br>Ended<br>30.09.2023 | For the<br>Three<br>Months<br>Ended<br>30.09.2022 | For the<br>Year<br>Ended<br>31.12.2022 |
|--|---|---|---|---|--|
|  | Unaudited                                     |   |   |   | Audited                                |
| Financial expenses                       | 103,507                                       | 106,807                                       | 28,883  | 35,683  | 146,252                                |
| Financial income                         | (103,093)                                     | (107,853)                                     | (29,211)  | (36,317)  | (147,398)                              |
| Total comprehensive<br>expenses (income) | 414   | (1,046)                                       | (328)   | (634)   | (1,146)                                |

**SPONSOR FINANCIAL DATA REPORT<sup>12</sup>**

|    |   | QUARTER ENDED<br>30.9.2023                              |
|----|---|---|
|    | <u>ITEM</u>   | <u>QUANTITY/ACTUAL AMOUNT</u><br><u>(IN USD\$ ,000)</u> |
| A. | Total Offtake (BCM)   | <sup>13</sup> 2.9                                       |
| B. | Leviathan Revenues (100%)   | 641,879 <sup>14</sup>                                   |
| C. | Loss Proceeds, if any, paid to Revenue Account                              | -   |
| D. | Sponsor Deposits, if any, into Revenue Account                              | 13,100  |
| E. | Gross Revenues (before Royalties)   | 263,968   |
| F. | Overriding Royalties  |   |
|    | (a) Statutory Royalties   | (31,672)  |
|    | (b) Third Party Royalties   | (12,562)  |
| G. | Net Revenues  | 219,734   |
| H. | <u>Costs and Expenses:</u>  |   |
|    | (a) Interest Income (Fees Under the Financing Documents)                    | 848   |
|    | (b) Taxes   | (26,828)  |
|    | (c) Operation and Maintenance Expenses                                      | (44,852)  |
|    | (d) Capital Expenditures  | (33,393)  |
|    | (e) Insurance   | (7,830)   |
| I. | Total Costs and Expenses (sum of Items H(a), (b), (c), (d) and (e))         | (112,055)   |
| J. | Total Cash Flows Available for Debt Service<br>(Item G <u>minus</u> Item H) | 120,779   |
| K. | Total Cash Flow from operation (Item G minus Items H(c) and H(e))           | 167,052   |
| L. | Total Debt Service  | -   |
| M. | Total Distribution to the Sponsor   | -   |

<sup>12</sup> 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.

<sup>13</sup> Gas sales from 1.7.2023 until 30.9.2023 for 100% of the Leviathan partners on an accrual basis.

<sup>14</sup> Gas sales from 1.7.2023 until 30.9.2023 for 100% of the Leviathan partners on an accrual basis.

## **Annex B to the Board of Directors' Report**

### **Summary of Data of a Valuation of Royalties from the Karish and Tanin Leases**



Following are details of a highly material valuation with respect to the profit from the revaluation of royalties from the sale of the Partnership's interests in the Karish and Tanin leases (for further details, see Note 5C 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:  | 30 September 2023   |
| 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. \$307.5 million, which is included under other long-term assets of the Partnership and in the Partnership's short-term receivables.  |
| Identification of the valuator and his/its characteristics, including education, experience in the preparation of valuations for accounting purposes in reporting corporations and in scopes similar to or exceeding those of the reported valuation, and dependence on the party commissioning the valuation, including reference to indemnification agreements with the valuator: | <p>Giza Singer Even Economic and Financial Consulting 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, prominent privatizations and the most important transactions in the Israeli market, which experience was gained thereby over the course of its 30 years of activity. Giza Singer Even is active in three segments, through autonomous and independent business divisions: economic consulting; investment banking; analytical research and corporate governance.</p> <p>The work was performed by a team headed by CPA Gadi Beeri, Head of the Economics and Corporate Finance Department and Senior Partner at Giza Singer Even. Gadi Beeri is an expert with extensive experience in corporate finance and financial consulting. He holds a BA in Economics and an MBA from Tel Aviv University.</p> <p>The Valuator has no personal interest in and/or dependence on the Partnership and/or NewMed Energy Management Ltd., the general partner of the Partnership (the "GP"), other than the fact that it received a fee for the valuation. Furthermore, the Valuator has confirmed that its fee is not contingent on the results of the valuation.</p> <p>In addition, insofar as the Valuator shall be bound by a peremptory judgment to pay any sum to a third party in connection with the work, the Partnership shall pay the Valuator the sum charged to the Valuator in excess of</p> |

| 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 fee paid for the work multiplied by 3. It is noted that this indemnification undertaking shall not apply should it be ruled that the Valuator acted with negligence or intentional misconduct in connection with the performance of the work.   |
| The valuation model applied by the Valuator:   | Discounting expected cash flows while adjusting the discount rates to the risks entailed by the cash flow forecasts.  |
| The assumptions based on which the Valuator prepared the valuation according to the valuation model: | <p>The key assumptions underlying the valuation are as follows:</p> <ol style="list-style-type: none"> <li>1. Period of production from the Karish lease: 1 October 2022 to 31 December 2042;</li> <li>2. Average annual rate of natural gas production from the Karish lease: approx. 3.53 BCM; average annual rate of condensate production from the Karish lease: approx. 4.44 million barrels;</li> <li>3. Period of production of gas from the Tanin reservoir: 1 January 2030 to 31 December 2041;</li> <li>4. Average annual rate of natural gas production from the Tanin lease: approx. 2.17 BCM; average annual rate of condensate production from the Tanin lease: approx. 0.37 million barrels;</li> <li>5. Royalty component cap rate: 10.52%;</li> <li>6. Effective royalty rate to be paid to the State for the gas and the condensate: 11.25%;</li> <li>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;</li> <li>8. Condensate price: The condensate price forecast was estimated based on a long-term oil price forecast average of the World Bank<sup>15</sup> and the EIA<sup>16</sup> 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;</li> </ol> |

<sup>15</sup> A World Bank quarterly report: Commodity Markets Outlook, April 2023.

<sup>16</sup> U.S Energy Information Administration: Analysis & Projections, September 2023.

| Identification of the object of the valuation: | Royalties in respect of the sale of all of the interests in the Karish and Tanin leases.   |
|--|--|
|  | <p>9. On 23 March 2023, Energean released an updated resource report of D&amp;M (the “<b>Updated Report</b>”), a certified reserves and resources valuator, for the Karish and Tanin leases. According to the Updated Report, the gas quantity in the Karish reservoir is approx. 39.4 BCM and the quantity of the hydrocarbon liquids is approx. 54.2 MMBBL; the gas quantity in the Karish North reservoir is approx. 34.2 BCM and the quantity of the hydrocarbon liquids is approx. 36.9 MMBBL; and the gas quantity in the Tanin lease is approx. 26.1 BCM and the quantity of the hydrocarbon liquids is approx. 4.5 MMBBL.</p> <p>10. Petroleum profit levy: According to the Petroleum Profit Taxation Law, 5771-2011;</p> <p>11. Corporate tax rate: 23%.</p> |



# Financial statements



15 November 2023

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 15 November 2023 on the Partnership's condensed financial information  
as of 30 September 2023 and for the nine- 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 30 September 2023**

**in U.S. Dollars in Millions**

**Unaudited**

*This report is a translation of NewMed Energy - Limited Partnership's Hebrew-language Condensed Interim Financial Statements as of 30 September 2023. 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 30 September 2023**  
**in U.S. Dollars in Millions**  
**Unaudited**

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## **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 30 September 2023 and the Condensed Statements of Comprehensive Income, Changes in the Partnership's Equity and Cash Flows for the nine- 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 aforementioned 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 aforementioned 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, 15 November 2023

**Kost Forer Gabbay & Kasierer  
Certified Public Accountants**

**Ziv Haft  
Certified Public Accountants**

# NewMed Energy – Limited Partnership

## Condensed Interim Statements of Financial Position (Dollars in millions)

|   | 30.9.2023      | 30.9.2022      | 31.12.2022     |
|---|----------------|----------------|----------------|
|   | Unaudited      |                | Audited        |
| <b>Assets:</b>                                  |                |                |                |
| <b>Current assets:</b>                          |                |                |                |
| Cash and cash equivalents                       | 17.3           | 53.4           | 22.4           |
| Short-term deposits                             | 38.7           | 290.1          | 395.9          |
| Trade receivables                               | 227.9          | 220.2          | 199.0          |
| Trade and other receivables                     | 140.9          | 138.1          | 134.1          |
| Current taxes receivable                        | 4.0            | 17.8           | 19.9           |
|   | <b>428.8</b>   | <b>719.6</b>   | <b>771.3</b>   |
| <b>Non-current assets:</b>                      |                |                |                |
| Investments in oil and gas assets               | 2,604.0        | 2,551.2        | 2,547.2        |
| Investment in a company accounted for at equity | 57.6           | 59.4           | 59.7           |
| Long-term deposits                              | 100.7          | 0.5            | 0.5            |
| Other long-term assets                          | 536.6          | 561.0          | 560.3          |
|   | <b>3,298.9</b> | <b>3,172.1</b> | <b>3,167.7</b> |
|   | <b>3,727.7</b> | <b>3,891.7</b> | <b>3,939.0</b> |
| <b>Liabilities and equity:</b>                  |                |                |                |
| <b>Current liabilities:</b>                     |                |                |                |
| Current maturities of bonds                     | -              | 466.0          | 424.8          |
| Short-term liability to a banking corporation   | 15.0           | -              | -              |
| Declared profits for distribution               | -              | -              | 50.0           |
| Trade and other payables                        | 115.9          | 150.0          | 96.9           |
| Other short-term liabilities                    | 2.5            | 18.0           | 9.9            |
|   | <b>133.4</b>   | <b>634.0</b>   | <b>581.6</b>   |
| <b>Non-current liabilities:</b>                 |                |                |                |
| Bonds   | 1,734.1        | 1,729.9        | 1,731.0        |
| Deferred taxes                                  | 330.5          | 296.0          | 269.8          |
| Other long-term liabilities                     | 69.3           | 64.0           | 69.2           |
|   | <b>2,133.9</b> | <b>2,089.9</b> | <b>2,070.0</b> |
| <b>Equity:</b>                                  |                |                |                |
| Partners' equity                                | 154.8          | 154.8          | 154.8          |
| Capital reserves                                | (28.8)         | (30.4)         | (29.9)         |
| Retained earnings                               | 1,334.4        | 1,043.4        | 1,162.5        |
|   | <b>1,460.4</b> | <b>1,167.8</b> | <b>1,287.4</b> |
|   | <b>3,727.7</b> | <b>3,891.7</b> | <b>3,939.0</b> |

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

|  |                                    |                  |                              |
|--|------------------------------------|------------------|------------------------------|
| 15 November 2023                             |                                    |                  |                              |
| Date of approval of the Financial Statements | Gabi Last<br>Chairman of the Board | Yossi Abu<br>CEO | Tzachi Habusha<br>VP Finance |

**NewMed Energy – Limited Partnership**  
**Condensed Interim Statements of Comprehensive Income (Dollars in millions)**

|  | For the nine-month period |              | For the three-month period |              | For the year |
|--|---------------------------|--------------|----------------------------|--------------|--------------|
|  | ended                     |              | ended                      |              | ended        |
|  | 30.9.2023                 | 30.9.2022    | 30.9.2023                  | 30.9.2022    | 31.12.2022   |
|  | Unaudited                 |              |                            |              | Audited      |
| <b>Revenues:</b>   |                           |              |                            |              |              |
| From sale of natural gas   | 817.7                     | 855.7        | 285.8                      | 318.1        | 1,143.9      |
| Net of royalties   | 119.4                     | 130.9        | 41.9                       | 53.2         | 172.0        |
| <b>Revenues, net</b>   | <b>698.3</b>              | <b>724.8</b> | <b>243.9</b>               | <b>264.9</b> | <b>971.9</b> |
| <b>Expenses and costs:</b>   |                           |              |                            |              |              |
| Cost of production of natural gas and condensate   | 110.0                     | 99.6         | 37.0                       | 29.1         | 134.1        |
| Depreciation, depletion and amortization expenses  | 60.1                      | 104.4        | 19.3                       | 44.7         | 131.0        |
| Other direct expenses  | 2.8                       | 3.2          | 1.1                        | 1.5          | 5.2          |
| G&A  | 16.4                      | 11.9         | 5.0                        | 4.0          | 19.7         |
| <b>Total expenses and costs</b>  | <b>189.3</b>              | <b>219.1</b> | <b>62.4</b>                | <b>79.3</b>  | <b>290.0</b> |
| The Partnership's share in the losses of a company accounted for at equity                             | (2.1)                     | (3.4)        | (0.7)                      | (1.2)        | (3.1)        |
| <b>Operating profit</b>  | <b>506.9</b>              | <b>502.3</b> | <b>180.8</b>               | <b>184.4</b> | <b>678.8</b> |
| Financial expenses   | (99.6)                    | (112.6)      | (30.5)                     | (36.4)       | (155.3)      |
| Financial income   | 34.6                      | 55.3         | 7.8                        | 21.8         | 71.1         |
| Financial expenses, net  | (65.0)                    | (57.3)       | (22.7)                     | (14.6)       | (84.2)       |
| <b>Profit before income taxes</b>  | <b>441.9</b>              | <b>445.0</b> | <b>158.1</b>               | <b>169.8</b> | <b>594.6</b> |
| Taxes on income  | (110.4)                   | (110.3)      | (40.2)                     | (43.4)       | (116.0)      |
| <b>Profit from continuing operations</b>   | <b>331.5</b>              | <b>334.7</b> | <b>117.9</b>               | <b>126.4</b> | <b>478.6</b> |
| Loss from discontinued operations  | -                         | (10.8)       | -                          | (7.7)        | (13.2)       |
| Profit from the sale of natural gas and oil assets   | -                         | 4.3          | -                          | 4.3          | 4.3          |
| <b>Total loss from discontinued operations</b>   | <b>-</b>                  | <b>(6.5)</b> | <b>-</b>                   | <b>(3.4)</b> | <b>(8.9)</b> |
| <b>Comprehensive income</b>  | <b>315.3</b>              | <b>328.2</b> | <b>117.9</b>               | <b>123.0</b> | <b>469.7</b> |
| Basic and diluted profit (loss) per participation unit (in Dollars):                                   |                           |              |                            |              |              |
| from continuing operations   | 0.282                     | 0.285        | 0.100                      | 0.108        | 0.408        |
| from discontinued operations   | -                         | (0.005)      | -                          | (0.003)      | (0.008)      |
| <b>Profit per participation unit</b>   | <b>0.282</b>              | <b>0.280</b> | <b>0.100</b>               | <b>0.105</b> | <b>0.400</b> |
| 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 millions)

|   | The<br>Partnership's<br>equity | Capital reserve for<br>equity-based<br>financial<br>instruments at fair<br>value against<br>other<br>comprehensive<br>income | Other<br>capital<br>reserves | Retained<br>earnings | Total   |
|---|--------------------------------|--|------------------------------|----------------------|---------|
|   | Unaudited                      |  |                              |                      |         |
| For the nine-month period ended<br>30 September 2023: |                                |  |                              |                      |         |
| Balance as of 31 December 2022 (audited)              | 154.8                          | (57.0)   | 27.1                         | 1,162.5              | 1,287.4 |
| Comprehensive income                                  | -                              | -  | -                            | 331.5                | 331.5   |
| Distributed profits                                   | -                              | -  | -                            | (160.4)              | (160.4) |
| Tax advances receivable for previous years            | -                              | -  | -                            | 0.8                  | 0.8     |
| Participation unit-based payment                      | -                              | -  | 0.9                          | -                    | 1.1     |
| Balance as of 30 September 2023                       | 154.8                          | (57.0)   | 28.0                         | 1,334.4              | 1,460.4 |

|   | The<br>Partnership's<br>equity | Capital reserve for<br>equity-based<br>financial<br>instruments at fair<br>value against<br>other<br>comprehensive<br>income | Other<br>capital<br>reserves | Retained<br>earnings | Total   |
|---|--------------------------------|--|------------------------------|----------------------|---------|
|   | Unaudited                      |  |                              |                      |         |
| For the nine-month period ended<br>30 September 2022:               |                                |  |                              |                      |         |
| Balance as of 31 December 2021 (audited)                            | 154.8                          | (57.0)   | 26.3                         | 814.4                | 938.5   |
| Comprehensive income  | -                              | -  | -                            | 328.2                | 328.2   |
| Distributed profits   | -                              | -  | -                            | (100.3)              | (100.3) |
| Update of balancing payments  | -                              | -  | -                            | 2.1                  | 2.1     |
| Update of the tax owed by the holders of the<br>participation units | -                              | -  | -                            | (1.0)                | (1.0)   |
| Participation unit-based payment                                    | -                              | -  | 0.3                          | -                    | 0.3     |
| Balance as of 30 September 2022                                     | 154.8                          | (57.0)   | 26.6                         | 1,043.4              | 1,167.8 |

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 millions) (Cont.)

|  | The Partnership's equity | Capital reserve for equity-based financial instruments at fair value against other comprehensive income | Other capital reserves | Retained earnings | Total          |
|--|--------------------------|---|------------------------|-------------------|----------------|
|  |                          |   |                        |                   | Unaudited      |
| <b>For the three-month period ended 30 September 2023:</b> |                          |   |                        |                   |                |
| <b>Balance as of 30 June 2023</b>                          | <b>154.8</b>             | <b>(57.0)</b>   | <b>28.0</b>            | <b>1,266.6</b>    | <b>1,392.4</b> |
| Comprehensive income                                       | -                        | -   | -                      | 117.9             | 117.9          |
| Distributed profits  | -                        | -   | -                      | (50.1)            | (50.1)         |
| Participation unit-based payment                           | -                        | -   | 0.2                    | -                 | -              |
| <b>Balance as of 30 September 2023</b>                     | <b>154.8</b>             | <b>(57.0)</b>   | <b>28.2</b>            | <b>1,334.4</b>    | <b>1,460.4</b> |

|  | The Partnership's equity | Capital reserve for equity-based financial instruments at fair value against other comprehensive income | Other capital reserves | Retained earnings | Total          |
|--|--------------------------|---|------------------------|-------------------|----------------|
|  |                          |   |                        |                   | Unaudited      |
| <b>For the three-month period ended 30 September 2022:</b>       |                          |   |                        |                   |                |
| <b>Balance as of 30 June 2022</b>                                | <b>154.8</b>             | <b>(57.0)</b>   | <b>28.8</b>            | <b>971.4</b>      | <b>1,098.0</b> |
| Comprehensive income   | -                        | -   | -                      | 123.0             | 123.0          |
| Distributed profits  | -                        | -   | -                      | (50.0)            | (50.0)         |
| Update of the tax owed by the holders of the participation units | -                        | -   | -                      | (1.0)             | (1.0)          |
| Participation unit-based payment                                 | -                        | -   | 0.3                    | -                 | 0.3            |
| Capital reserve for benefits from a control holder               | -                        | -   | (2.5)                  | -                 | (2.5)          |
| <b>Balance as of 30 September 2022</b>                           | <b>154.8</b>             | <b>(57.0)</b>   | <b>26.6</b>            | <b>1,043.4</b>    | <b>1,167.8</b> |

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 millions) (Cont.)**

|   | The<br>Partnership's<br>equity | Capital reserve for<br>equity-based<br>financial<br>instruments at fair<br>value against<br>other<br>comprehensive<br>income | Other<br>capital<br>reserves | Retained<br>earnings | Total          |
|---|--------------------------------|--|------------------------------|----------------------|----------------|
|   | Unaudited                      |  |                              |                      |                |
| <b>For the year ended 31 December 2022:</b> |                                |  |                              |                      |                |
| <b>Balance as of 31 December 2021</b>       | <b>154.8</b>                   | <b>(57.0)</b>  | <b>26.3</b>                  | <b>814.4</b>         | <b>938.5</b>   |
| Comprehensive income                        | -                              | -  | -                            | 469.7                | 469.7          |
| Distributed profits                         | -                              | -  | -                            | (100.3)              | (100.3)        |
| Declared profits for distribution           | -                              | -  | -                            | (50.0)               | (50.0)         |
| Balancing payments for previous years       | -                              | -  | -                            | 2.1                  | 2.1            |
| Tax advances receivable for previous years  | -                              | -  | -                            | 26.6                 | 26.6           |
| Participation unit-based payment            | -                              | -  | 0.8                          | -                    | 0.8            |
| <b>Balance as of 31 December 2022</b>       | <b>154.8</b>                   | <b>(57.0)</b>  | <b>27.1</b>                  | <b>1,162.5</b>       | <b>1,287.4</b> |

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 millions)

|  | For the nine-month period ended |                | For the three-month period ended |               | For the year ended |
|--|---------------------------------|----------------|----------------------------------|---------------|--------------------|
|  | 30.9.2023                       | 30.9.2022      | 30.9.2023                        | 30.9.2022     | 31.12.2022         |
|  | Unaudited                       |                |                                  |               | Audited            |
| <b>Cash flows – operating activities:</b>  |                                 |                |                                  |               |                    |
| <b>Profit for the period</b>   | <b>331.5</b>                    | <b>328.2</b>   | <b>117.9</b>                     | <b>123.0</b>  | <b>469.7</b>       |
| <b>Adjustments for:</b>  |                                 |                |                                  |               |                    |
| Depreciation, depletion and amortization   | 64.0                            | 109.3          | 20.4                             | 46.4          | 137.6              |
| Taxes on income  | 60.2                            | 60.1           | 15.2                             | (6.8)         | 59.5               |
| Update of asset retirement obligations   | 1.5                             | (27.8)         | (3.5)                            | (17.4)        | (34.3)             |
| Revaluation of short-term and long-term investments and deposits, net  | -                               | 0.4            | -                                | (0.3)         | (0.2)              |
| Revaluation of liability for participation unit-based payment  | 0.9                             | 0.7            | 0.3                              | 0.7           | 1.0                |
| Benefit from a control holder included in expenses against a capital reserve                                 | -                               | -              | -                                | (2.5)         | -                  |
| Revaluation of other long-term assets  | (21.8)                          | (52.3)         | (6.7)                            | (21.2)        | (66.4)             |
| Partnership's share in losses of company accounted for at equity   | 2.1                             | 3.4            | 0.7                              | 1.2           | 3.1                |
| Profit from the sale of oil and gas assets   | -                               | (4.3)          | -                                | (4.3)         | (4.3)              |
| <b>Changes in assets and liabilities items:</b>  |                                 |                |                                  |               |                    |
| Decrease (increase) in trade receivables   | (28.9)                          | (67.6)         | (23.0)                           | 8.6           | (46.5)             |
| Decrease (increase) in trade and other receivables (including the operator of the joint ventures)            | 18.6                            | (21.0)         | (14.1)                           | (15.9)        | (4.6)              |
| Decrease (increase) in other long-term assets  | (2.9)                           | 4.3            | 2.3                              | 10.3          | 1.1                |
| Increase (decrease) in trade and other payables (including the operator of the joint ventures)               | 6.2                             | 33.5           | 18.8                             | 55.0          | (5.2)              |
| Decrease in liability for oil and gas profit levy  | (17.5)                          | (5.8)          | (0.5)                            | -             | (5.8)              |
|  | <b>82.4</b>                     | <b>32.9</b>    | <b>9.9</b>                       | <b>53.8</b>   | <b>35.0</b>        |
| <b>Net cash deriving from operating activities</b>   | <b>413.9</b>                    | <b>361.0</b>   | <b>127.8</b>                     | <b>176.8</b>  | <b>504.7</b>       |
| <b>Cash flows - investment activity:</b>   |                                 |                |                                  |               |                    |
| Investment in oil and gas assets   | (102.7)                         | (68.1)         | (40.8)                           | (18.3)        | (98.5)             |
| Proceeds from the sale of gas and oil assets   | -                               | 10.5           | -                                | -             | 14.9               |
| Investment in other long-term assets   | (5.7)                           | (26.6)         | (4.8)                            | (6.2)         | (28.8)             |
| Royalties received   | 26.5                            | -              | 10.8                             | -             | -                  |
| Repayment of loans granted   | 13.3                            | 12.5           | -                                | 12.5          | 12.5               |
| Deposit in long-term deposits  | (100.2)                         | -              | (100.2)                          | -             | -                  |
| Disposition of short-term investments, net   | -                               | 19.2           | -                                | 19.2          | 19.2               |
| Withdrawal (deposit) to short-term deposits, net   | 357.3                           | (88.9)         | (20.5)                           | (105.3)       | (194.1)            |
| Decrease (increase) in other receivables – due to operator of the joint ventures                             | (3.8)                           | 1.0            | 11.1                             | (0.1)         | 1.4                |
| <b>Net cash deriving from (used for) investment activity</b>   | <b>184.7</b>                    | <b>(140.4)</b> | <b>(144.4)</b>                   | <b>(98.2)</b> | <b>(273.4)</b>     |
| <b>Cash flows - financing activity:</b>  |                                 |                |                                  |               |                    |
| Profit distributed   | (210.4)                         | (100.3)        | (50.1)                           | (50.3)        | (100.3)            |
| Tax and balancing payments distributed for the period up to and including 2021                               | -                               | (99.1)         | -                                | (12.5)        | (99.1)             |
| Payments on account of the tax due by the participation unit holders for the period up to and including 2021 | -                               | (170.2)        | -                                | -             | (170.2)            |
| Returns received from income tax for previous years  | 17.1                            | 15.1           | -                                | -             | 15.1               |
| Receipt of a short-term loan from a banking corporation  | 15.0                            | -              | 15.0                             | -             | -                  |
| Repayment of bonds and buybacks of bonds   | (425.4)                         | (33.0)         | -                                | (30.2)        | (74.6)             |
| <b>Net cash used for financing activity</b>  | <b>(603.7)</b>                  | <b>(387.5)</b> | <b>(35.1)</b>                    | <b>(93.0)</b> | <b>(429.1)</b>     |
| <b>Decrease in cash and cash equivalents</b>   | <b>(5.1)</b>                    | <b>(166.8)</b> | <b>(51.7)</b>                    | <b>(14.4)</b> | <b>(197.8)</b>     |
| <b>Balance of cash and cash equivalents as of beginning of period</b>  | <b>22.4</b>                     | <b>220.2</b>   | <b>69.0</b>                      | <b>67.8</b>   | <b>220.2</b>       |
| <b>Balance of cash and cash equivalents as of end of period</b>  | <b>17.3</b>                     | <b>53.4</b>    | <b>17.3</b>                      | <b>53.4</b>   | <b>22.4</b>        |
| <b>Annex A – Non-cash flow financing and investment activity:</b>  |                                 |                |                                  |               |                    |
| Investments in oil and gas assets against liabilities  | 33.6                            | 20.3           | 33.6                             | 20.3          | 3.6                |
| Long-term investments in other assets against liabilities, net   | 3.9                             | (4.3)          | 3.9                              | (4.3)         | 5.3                |

|  | For the nine-month period ended |           | For the three-month period ended |           | For the year ended |
|--|---------------------------------|-----------|----------------------------------|-----------|--------------------|
|  | 30.9.2023                       | 30.9.2022 | 30.9.2023                        | 30.9.2022 | 31.12.2022         |
|  | Unaudited                       |           |                                  |           | Audited            |
| Declared profits for distribution                      | -                               | -         | -                                | -         | 50.0               |
| <b>Annex B – Additional information on cash flows:</b> |                                 |           |                                  |           |                    |
| Interest paid (including capitalized interest)         | 67.2                            | 78.0      | 0.6                              | 6.0       | 143.3              |
| Interest received                                      | 13.9                            | 4.3       | 1.2                              | 2.6       | 7.3                |
| Taxes and levy paid                                    | 69.3                            | 43.5      | 26.6                             | 43.5      | 81.6               |

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

**Note 1 – General:**

- A. NewMed Energy – Limited Partnership (the **"Partnership"**) was founded according to a partnership agreement signed on 1 July 1993 between NewMed Energy Management Ltd. as general partner of the first part (the **"GP"**), and NewMed Energy Trusts Ltd. as a limited partner of the second part (the **"LP"**), as amended from time to time (the **"Partnership Agreement"**).

The ongoing management of the Partnership is carried out by the GP under the supervision of the supervisors, Fahn Kanne & Co., Accountants, together with Keidar Supervision & Management (jointly: the **"Supervisors"** or the **"Supervisor"**). On 1 July 1993, the LP and the Supervisor signed a trust agreement, as amended from time to time (the **"Trust Agreement"**), which confers on the Supervisor powers of supervision over the Partnership's management by the GP, as well as powers of supervision over the fulfillment of the LP's obligations to the unit holders, see also Note 6F below.

The parent company of the GP is Delek Energy Systems Ltd. (the **"Parent Company"** and/or **"Delek Energy"**), a private company wholly owned by Delek Group Ltd. (**"Delek Group"**).

The participation units of the Partnership are listed on the Tel Aviv Stock Exchange (**"TASE"**) and trading therein commenced in 1993.

The address of the Partnership's registered office is 19 Abba Eban Boulevard, Herzliya.

- B. As of the date of approval of the financial statements, the Partnership's operates in the energy field and its primary business is exploration, development, production and marketing of natural gas, condensate and oil in Israel and in Cyprus, and promotion of various natural gas-based projects, with the aim of increasing the volume of the sales of natural gas produced by the Partnership. At the same time, the Partnership is exploring business opportunities in the field of exploration, development, production and marketing of natural gas, condensate and oil in additional countries, and is examining and promoting possibilities for investments in projects in the field of renewable energy, within the collaboration with Enlight Renewable Energy Ltd. (see Note 12N to the Annual Financial Statements as of 31 December 2022 (the **"Annual Financial Statements"**)), and is examining possible entry into the field of hydrogen, including blue hydrogen, which is produced from natural gas and can be a low-carbon substitute for energy consumers.
- C. The Partnership's main petroleum asset, as of the date of approval of the financial statements, is holdings of 45.34% (out of 100%) of the Leviathan reservoir, the piping of gas from which commenced in December 2019. The Leviathan reservoir currently supplies natural gas to a number of customers in the domestic and regional market. In addition, the Partnership holds rights in the Aphrodite reservoir that was discovered in the area of Block 12 in Cyprus (**"Aphrodite"** or **"Block 12"**), and in other petroleum assets.
- D. **The Iron Swords war and its impact on the Partnership's business:**  
Following the deadly attack perpetrated by the terrorist organization "Hamas" on 7 October 2023, targeting communities and military bases in the South of Israel, the Israeli Government declared the "Iron Swords" war against this terrorist organization (the **"War"**). As of the date of approval of the financial statements, the War is ongoing and it is impossible to predict how long it will last or its impact on the Partnership, its business and its assets.

**Note 1 – General (Cont.):**

- D. **The Iron Swords war and its impact on the Partnership's business (Cont.):**

1. Since the start of the War on 7 October 2023, thousands of rockets have been fired from the Gaza Strip mainly into the south and center of the State of Israel. At the same time, as the fighting has progressed, the terrorist organization 'Hezbollah' has escalated the tension on the Israel-Lebanon border and initiated combat operations against Israel. Consequently, and in view of the possibility of expansion of the War on the northern border and other fronts, the IDF mobilized hundreds of thousands of reservists, communities located close to the frontlines on the southern and northern borders were evacuated, and the Home Front Command is periodically issuing current instructions limiting the activity of workplaces and educational institutions.
2. As a result of the War, in October 2023, the credit rating agencies Moody's and Fitch announced that they were considering a possible downgrade of the credit rating of the State of Israel. The credit rating agency S&P Global Rating also announced a downgrade of the State of Israel's credit rating outlook from stable to negative, while leaving the existing credit rating unchanged.
3. Shortly after the outbreak of the War, gas production from the Tamar reservoir was discontinued according to the Government's order. No such order was given for the Leviathan and Karish reservoirs, and as of the date of approval of the financial statements, production from the Leviathan reservoir is continuing as usual. On 9 November 2023, the Ministry of Energy notified the operator in the Tamar reservoir that it may restart the Tamar reservoir. As a result of such discontinuation of production from the Tamar reservoir, the Leviathan partners supplied natural gas also to a number of customers of the Tamar reservoir in the domestic market, mainly to the Israel Electric Corporation Ltd., and as a result, the amount of natural gas allocated for export to Egypt was reduced. At the same time, due to the War and according to the government's order, the activity of the EMG pipeline, which is a main transmission infrastructure for the piping of gas from Israel to Egypt, was halted. Consequently, Eastern Mediterranean Gas Co. S.A.E ("**EMG**") informed Blue Ocean Energy (the gas consumer in Egypt) of the existence of 'force majeure' circumstances preventing the piping of gas to Egypt through the EMG pipeline. As a result, since the outbreak of the War, all gas supplies to Egypt was piped through the Jordanian transmission system, which entails additional transmission costs. On 14 November 2023, transmission of gas via the EMG pipeline was resumed. Further to the aforesaid, the gas quantity supplied to Egypt in October was ~82% of the monthly contract quantity of gas that the Leviathan partners are obligated to supply.
4. The natural gas platforms, the onshore and offshore production and transmission facilities, and other essential infrastructure systems in Israel and in the export countries may constitute targets for missile fire and sabotage operations, and damage thereto, if any, may cause extremely significant damage, and disrupt or disable the production and/or transmission activity for a period of time and to an extent that may be significant. In such cases, it is possible that the insurance policies purchased by Chevron Mediterranean Limited ("**Chevron**") and the Partnership will not suffice to cover the damage and losses caused to the Partnership. In this context it is noted that there is a risk that on the date of the insurance policies, mainly in connection with war and terrorism, it will not be possible to purchase appropriate policies under reasonable commercial terms and conditions or at all. Another risk deriving from the War is damage to the terminals for condensate, which is a by-product of natural gas production from the Leviathan project. The risk of such incidents may significantly increase in the event of escalation on the Northern front of the State of Israel or in the event of expansion of the War to additional fronts.

**Note 1 – General (Cont.):**

**D. The Iron Swords war and its impact on the Partnership's business (Cont.):**

4. (Cont.)

In the event of expansion of the War as aforesaid, there may also be greater risk that the Government will impose restrictions on regular production from the Leviathan reservoir and/or the Karish reservoir. Any limiting or halting of production from both the Tamar and Karish reservoirs, is expected to obligate the Leviathan partners to increase the quantities supplied to the domestic market at the expense of exports to Egypt.

5. In view of the continuance of the War, there is a greater geopolitical risk in connection with the export of natural gas from the Leviathan reservoir, which constituted most of the Partnership's total revenues in the first three quarters of 2023. However, since the outbreak of the War, export of gas from the Leviathan reservoir has continued.
6. As of the date of approval of the financial statements, the Leviathan partners continue to promote the Third Pipeline Project, as specified in Note 3B below, as well as the other activities in accordance with the work plans. In addition, due to the outbreak of the War, the work of Israel Natural Gas Lines Ltd. ("**INGL**") on the laying of the Ashdod-Ashkelon offshore pipeline has been suspended, leading to another expected postponement of the scheduled date of completion of this project. See Note 6D below. Furthermore, as a result of the War, a delay is expected in commencement of the piping of the condensate to Ashdod Refinery Ltd. via the pipeline of Energy Infrastructures Ltd. ("**PEI**"). For further details, see Note 6B below.
7. Should certain events materialize, such as premature termination of the export agreements and unrepaired physical damage to the Leviathan project, if they are reasonably expected to have a material adverse impact, and subject to grace periods, qualifications and conditions, there is a risk of violation of the terms of the bonds of Leviathan Bond Ltd., a wholly-owned subsidiary of the Partnership ("**Leviathan Bond**"), which are secured by the Partnership's interests in the Leviathan project and are traded in the TACT-Institutional system of TASE (the "**Bonds**"), which may give the bondholders grounds for acceleration and enforcement of the collateral. In addition, although as a consequence of the War, there has been an increase in the yields of the Bonds, this increase does not affect the nominal interest of the Bonds, the Partnership's cash flow or the ability to repay the Bonds, although it may have an adverse effect on the Partnership's ability to raise additional debt and increase the financing costs of raising additional debt as aforesaid.
8. As aforesaid, despite the War, and until the date of approval of the financial statements, production from the Leviathan reservoir is continuing as usual. During the period of shutdown of the Tamar reservoir and the EMG pipeline, which led to a reduction of the quantities allocated for export, transmission of gas to Egypt via the Jordanian transmission system (instead of the EMG pipeline), and the supply of gas to customers of the Tamar reservoir in the domestic market, as specified in Section 3 above, and until the date of approval of the financial statements, the Partnership's revenues and profitability were not materially impacted.

In the Partnership's estimation, given resumption of transmission via the EMG pipeline on 14 November 2023, and assuming that the risk factors specified above and below do not materialize, the Partnership's revenues and profitability are not expected to be materially impacted in Q4/2023.

Note 1 – General (Cont.):

D. The Iron Swords war and its impact on the Partnership's business (Cont.):

9. As of the date of approval of the financial statements, significant uncertainty exists, making it impossible to estimate how the War will develop and whether it will expand to additional fronts, how long the War will last, its results and its repercussions. Under these circumstances, it is impossible to estimate the chances of materialization of the risk factors arising from the War and their possible effect, including the specific risk factors detailed above, whose materialization could have a material adverse effect on the Partnership, its assets and its business.

The Partnership's aforesaid estimates, including in relation to the potential impact of the War on the Partnership, may not materialize, in whole or in part, or may materialize differently, including significantly differently than expected, mainly due to the considerable uncertainty at this time, including with respect to the War's duration, scope, and its repercussions for the Israeli economy, and also due to the occurrence of events beyond the Partnership's control.

- E. On 27 March 2023, the GP received a non-binding indicative offer (the "**Offer**") from Abu Dhabi National Oil Company (ADNOC) P.J.S.C. and BP Exploration Operating Company ("**BP**"), two international energy companies (collectively: the "**Consortium**"), regarding a possible transaction in which the Consortium will purchase for cash all of the issued unit capital held by the public (~45%) and will purchase approx. 5% of the issued unit capital from Delek Group, such that after the closing of the transaction, the Consortium and Delek Group will each hold 50% of the equity and controlling interests in the Partnership, by way of approval of an arrangement under Section 350 of the Companies Law, 5759-1999 (the "**Companies Law**"). The Consortium's Offer, which, as aforesaid, is non-binding and subject to conditions, is payment of ILS 12.05 per unit purchased. This price reflects a premium of approx. 72% relative to the closing price of the units on TASE on 26 March 2023 (ILS 6.996) or a premium of approx. 76% and approx. 60% relative to the average closing price of the units on TASE in the 30 and 90 trading days preceding the date of the Offer, respectively. The Offer included conditions which the Consortium wishes to agree on with Delek Group regarding the joint control of the Partnership after the closing of the transaction, as well as additional conditions for the transaction, including the completion of due diligence, obtaining detailed agreements with Delek Group on all relevant issues and obtaining all of the other required approvals and consents. It is clarified that the Consortium may withdraw and cancel the Offer at any time and for any reason.

On 27 March 2023, the GP's board held a discussion regarding the Consortium's Offer, and in view of Delek Group's personal interest in the transaction and the material nature of the transaction, decided to appoint the audit committee, comprised solely of 3 external directors (the "**Committee**"), to review and resolve any issue pertaining to the purchase in the offered transaction of the publicly-held units, and to take any and all actions required for the exercise of the Committee's powers, at the Committee's discretion, including engaging with outside and independent professional consultants for receipt of legal and economic advice on the price proposed for the units; determining the terms and conditions of such consultants' compensation at the Partnership's expense; conducting independent negotiations with the Consortium and with Delek Group, which shall be held, insofar as possible, at arm's length, all in accordance with the best interests of the Partnership and the unitholders; drafting the Transaction documents as the Committee shall deem fit, and determining the terms and conditions thereof, if and insofar as the Committee shall deem fit; and formulating the Committee's recommendation to the board with respect to the transaction.

Note 1 – General (Cont.):

E. (Cont.):

In addition, the Committee was authorized to decide also not to perform the transaction or to make its approval conditional or to request, obtain and review alternative offers, all as it shall deem fit.



There is no assurance that the transaction or the terms and conditions that the Consortium is seeking to agree with Delek Group in relation to the joint management of the Partnership after the closing of the transaction will be acceptable to and agreed by Delek Group, or whether the parties will be able to reach an agreement.

If the required agreements are reached with Delek Group and the Committee's recommendation is received to approve the transaction, then approval of the transaction by way of an arrangement under Section 350 of the Companies Law, and the closing of the transaction and performance thereof, will be subject to the approval of the court, which will supervise the arrangement, approval of the arrangement by the meeting of the unitholders by a majority of 75% of all of the unitholders (including Delek Group and affiliates thereof), and approval by an ordinary majority of the public unitholders (without Delek Group and affiliates thereof), and receipt of the other regulatory approvals, and consents from third parties, as required for the closing of a transaction of this type.

It is emphasized that, as of the date of approval of the financial statements, there is no certainty that it will be possible to obtain all of the said approvals and consents, and consequently the chances of the closing of the transaction are uncertain. As of the date of approval of the financial statements, the parties continue to hold negotiations for the purpose of promoting the transaction.

In this context it is noted that on 24 July 2023, the special meeting of the holders of participation units decided to approve fees for the Supervisor in addition to its monthly fees, in connection with supervision of the transaction, and support of the Committee that was appointed by the board of the Partnership's GP to review and resolve any issue pertaining to the purchase in the transaction of the publicly-held units, and to take any and all actions required for the exercise of the Committee's powers, and to further approve fees for the trustee in addition to his annual fees for the purpose of taking actions in the context of the closing of the transaction.

- F. The Partnership's Condensed Interim Financial Statements should be read together with 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.
- G. The Condensed Interim Financial Statements comply with the provisions of IAS 34.
- H. The Condensed Interim Financial Statements fulfill the disclosure provisions pursuant to Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.
- I. The Partnership's income in the report period from the sale of natural gas from the Leviathan project is affected mainly by the demand for natural gas in the domestic market and in the regional market (Egypt and Jordan), by the production and transmission capacity and by the gas price which is partially linked to the Brent oil barrel prices. 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 (in millions of dollars).



Note 1 – General (Cont.):

I. (Cont.):

|                         | For the nine-month period ended |              | For the three-month period ended |              | For the year ended |
|-------------------------|---------------------------------|--------------|----------------------------------|--------------|--------------------|
|                         | 30.9.2023                       | 30.9.2022    | 30.9.2023                        | 30.9.2022    | 31.12.2022         |
|                         | Unaudited                       |              | Unaudited                        |              | Audited            |
| <b>Revenues:</b>        |                                 |              |                                  |              |                    |
| Domestic market         | 106.4                           | 218.0        | 30.4                             | 95.0         | 284.7              |
| Regional market         | 711.3                           | 637.7        | 255.4                            | 223.0        | 859.2              |
|                         | <b>817.7</b>                    | <b>855.7</b> | <b>285.8</b>                     | <b>318.0</b> | <b>1,143.9</b>     |
| <b>Quantities (BCM)</b> |                                 |              |                                  |              |                    |
| Domestic market         | 0.59                            | 1.32         | 0.16                             | 0.53         | 1.71               |
| Regional market         | 3.14                            | 2.55         | 1.15                             | 0.84         | 3.45               |
|                         | <b>3.73</b>                     | <b>3.87</b>  | <b>1.31</b>                      | <b>1.37</b>  | <b>5.16</b>        |

Note 2 – Significant Accounting Policies:

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

B. Initial application of amendments to existing accounting standards

In May 2023, the IASB published an amendment to IAS 12, Income Taxes (in this section: the "Amendment"), following the OECD-BEPS international tax reform - Pillar Two ("Pillar 2" or the "International Tax Reform").

The Amendment introduces:

(a) A temporary exception from the application of the requirements in IAS 12 to recognize and disclose information about deferred tax assets and liabilities arising from the adoption of the Pillar 2 rules ("Temporary Exception"); and

(b) Targeted disclosure requirements for multinational entities affected by the international tax reform. The Temporary Exception stated in section (a) above applies immediately, and it is required to give a disclosure about the application thereof. The other targeted disclosure requirements, mentioned in section (b) above, apply to annual reporting periods beginning on or after 1 January 2024, but do not apply to periods ending on or before 31 December 2023.

The Company implements the Temporary Exception, and therefore, no disclosure has been made and no deferred tax assets and liabilities resulting from the adoption of the Pillar 2 rules have been recognized. Also, the Company is examining the consequences of the international tax reform on its financial statements.

Note 3 – Investments in Oil and Gas Assets:

A. Composition:

|  | 30.9.2023     | 30.9.2022      | 31.12.2022     |
|--|---------------|----------------|----------------|
|  | Unaudited     |                | Audited        |
| <b>Oil and gas assets:</b>               |               |                |                |
| Ratio Yam (Leviathan project)            | 2,447.6       | 2,427.8        | 2,419.6        |
| <b>Appraisal and exploration assets:</b> |               |                |                |
| Block 12 Cyprus                          | 156.4         | 123.4          | 127.6          |
| <b>Total</b>                             | <b>2604.0</b> | <b>2,551.2</b> | <b>2,547.2</b> |

B. Developments in investments in oil and gas assets:

1. Ratio-Yam Joint Venture

- a. Further to Note 7C2(c) to the Annual Financial Statements regarding the drilling of the development and production well "Leviathan-8" in the area of lease I/14 Leviathan South (in this section: the "**Well**"), and regarding the completion of the completion works at the Well, in June 2023, the Well has been connected to the Leviathan project's existing subsea production system and production from the Well has begun, according to the timetables and on budget. The cost of the drilling as of the date of the financial statements totaled approx. \$191.6 million (100%, the Partnership's share - approx. \$86.8 million).
- b. Further to Note 7C2(d) to the Annual Financial Statements regarding a project which mainly involves laying a third subsea transmission pipeline from the production wells in the Leviathan field to the platform (the "**Third Pipeline Project**"), which will make it possible to increase the maximum capacity for gas supply from the Leviathan project to the INGL transmission system, on 29 June 2023, the partners in the Leviathan project adopted an FID (Final investment Decision) to perform the Third Pipeline Project with a total budget of approx. \$568 million (100%, the Partnership's share – approx. \$258 million).
- c. Further to Note 7C2(d) to the Annual Financial Statements regarding Phase I – Second Stage of the Leviathan project development plan, on 21 June 2023, the partners in the Leviathan project submitted to the Petroleum Commissioner (the "**Commissioner**") an application for approval of the export of natural gas from the Leviathan project via an existing and future regional pipeline. As of the date of approval of the financial statements, the Pre-FEED stage for expansion of the Leviathan reservoir's production system has been completed, including the planning of subsea infrastructures and of required facilities on the production platform, and the Leviathan partners intend to proceed to performance of the FEED for purposes of increasing the natural gas quantities for export via existing and future infrastructures (as specified in Note 6C below) to the domestic and regional markets.  
During the performance of Pre-FEED for the floating liquefied natural gas (FLNG) facility (the "**Facility**"), indications emerged of a material change in the cost estimation for building the Facility, and therefore the Leviathan partners intend to review the economic implications of the decision on the FEED stage.

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

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

2. Block 12 Cyprus

- a. Further to Note 7C3 to the Annual Financial Statements, regarding the drilling of the A-3 appraisal/development well (Aphrodite 3) (in this section: the "**Well**") in the Aphrodite reservoir in the area of Block 12, in the EEZ of the Cypriot Republic (the "**Aphrodite Reservoir**"), such drilling work was completed in July 2023, according to the timetables and on budget. The cost of the drilling as of the date of the financial statements totaled approx. \$102.8 million (100%, the Partnership's share – approx. \$30.8 million).
- b. Further to Note 7C3 to the annual financial statements regarding the development plan for the Aphrodite reservoir, on 31 May 2023, the Partnership reported that as recommended by Chevron Cyprus Limited (in this section: the "**Operator**"), the partners in the Aphrodite Reservoir submitted an updated plan for the development of the reservoir for approval by the Cypriot government, which includes a change in the fundamental outline of the approved development and production plan (the "**Updated Development Plan**"). According to the Updated Development Plan, the production and processing of natural gas from the Aphrodite Reservoir will be made through the construction of a subsea pipeline and connection thereof to existing offshore and onshore infrastructure in Egypt, without establishing a floating production and processing facility within the area of the reservoir, as included in the approved plan. According to an updated estimation of the Operator, as given to the Partnership and the Cypriot government, even before completion of technical-commercial feasibility studies, including FEED, the Updated Development Plan may decrease the development costs compared to the approved development and production plan, and shorten the time frame for commencement of production of natural gas from the Aphrodite Reservoir.

On 27 August 2023, the Partnership updated that according to a letter of reply of 25 August 2023 delivered to the Operator, the government of Cyprus has decided not to approve the Updated Development Plan. The letter of reply states several reasons for the decision of the Cypriot government not to approve the Updated Development Plan, including the claim that the Updated Development Plan is expected to increase the technical and commercial complexity of the project, and is not expected to produce the advantages put forward in the request.

Regarding the milestone for the start of the front-end engineering design (FEED) stipulated in the Production Sharing Contract (PSC) for 7 November 2023 (the "**Milestone**"), the Partnership announced that on 5 November 2023, the Operator received a letter from the Minister of Energy in the Government of Cyprus approving the grant of an extension to the partners to act in accordance with the approved plan, such that the date of the final and binding decision of the Cypriot government regarding the partners' request shall be postponed to 20 November 2023, and the date for compliance with the Milestone for the start of the FEED as set in the PSC, will be postponed until 7 January 2024, provided that the partners in the Aphrodite Reservoir confirm their consent to the aforesaid and sign an amendment to the PSC. As of the date of approval of the financial statements, the partners in the Aphrodite Reservoir have not yet made a decision regarding the aforesaid, and the Operator intends to continue its efforts to reach agreements with representatives of the Cypriot government regarding the reservoir's development plan.

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

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

2. Block 12 Cyprus (Cont.):

b. (Cont.):

It is clarified that insofar as no other agreement is reached with the Cypriot government and the aforesaid Milestone is not timely fulfilled, the Cypriot government may impose sanctions on the partners in the Aphrodite Reservoir, claiming a violation of the terms and conditions of the PSC.

- c. According to a report prepared in September 2023 by Netherland Sewell & Associates Inc. ("NSAI") according to the rules of the Petroleum Resource Management System (SPE-PRMS), the amount of contingent resources of natural gas classified under the "Development Pending" stage at the Aphrodite Reservoir, as of 31 August 2023, ranges between ~126 BCM (the high estimate) and ~74 BCM (the low estimate). According to the aforesaid report, the amount of contingent resources of condensate in the Aphrodite Reservoir, classified under the "Development Pending" stage as of 31 August 2023, range between approx. 10.6 million barrels (the high estimate) and approx. 5.1 million barrels (the low estimate).

The above estimates regarding the natural gas reserves, condensate and the contingent resources of natural gas and oil are based, among other things, on geological, geophysical, engineering and other information received from the drilling and by the Operator in the aforesaid rights. The above estimates are NSAI's professional estimates and assumptions, regarding which there is no certainty. The quantities of natural gas and/or condensate that will actually be produced may differ from the above estimates and assumptions, among other things, as a result of operational and technical conditions and/or regulatory changes and/or from supply and demand conditions in the natural gas and/or condensate market and/or from commercial conditions and/or as a result of the actual performance of the reservoirs. The above estimates and assumptions may be updated as more information is accumulated and/or as a result of a gamut of factors related to oil and natural gas exploration and production projects.

3. On 13 December 2022, the Ministry of Energy announced the launch of a fourth competitive process for gas and oil exploration in the EEZ of the State of Israel (the **Competitive Process**). According to this announcement, the purpose of the Competitive Process is to increase the certainty of supply of natural gas to the Israeli market and to increase the competition between the natural gas providers and in its context, 4 clusters of exploration licenses will be offered. The terms and conditions of the Competitive Process encourage and prioritize companies that are not currently active in Israel to participate in the Competitive Process over companies that hold producing reservoirs.

On 16 July 2023, the Partnership submitted, together with the companies State Oil Company of Azerbaijan Republic ("**SOCAR**") which was defined as an operator and BP, an offer in the Competitive Process (the "**Offer**"). The Offer was submitted in the framework of a joint venture (the "**Joint Venture**"). The Joint Venture will operate according to principles set forth by the venture partners in an agreement which regulates, *inter alia*, the terms and conditions of the Offer.

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

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

3. (Cont.)

On 29 October 2023, the Partnership received a notice from the Commissioner, in which, among other things, it was stated that it was decided to grant the Partnership together with SOCAR and BP 6 exploration licenses (blocks) in one cluster (licenses 4, 5, 6, 7, 8, and 11 in the cluster I) (the "**Notice**" and the "**Licenses**", respectively). It was also stated within the Notice that, in order to complete the process of granting the licenses, a number of actions must be completed, including the registration of SOCAR and BP in the Registrar of Companies and the Tax Authority, the payment of the signing bonus, and the transfer of guarantees for the Licenses to the Ministry of Energy. The Partnership and BP hold 33.33% each and SOCAR holds 33.34% in the Joint Venture.

The Partnership intends to call a special general meeting of the unit holders, on the agenda of which is the amendment to the Partnership agreement and the adding of the licenses to the list of the petroleum assets specified therein.

4. Further to Note 7C7 to the Annual Financial Statements, regarding the abandonment of the well in the 405/New Ofek onshore license (the "**Ofek License**"), to the best of the Partnership's knowledge, as informed by the operator in the Ofek License, the work for the abandonment of the well and the site has not yet begun. On 15 August 2023, the partners in the said license received a letter from the Commissioner, whereby they are required to complete the abandonment of the well and the site by the end of 2023.

**Note 4 – Legal Proceedings:**

- A. Further to Note 12L1 to the Annual Financial Statements, regarding a claim filed by the Partnership and Chevron (in this section: the "**Plaintiffs**") with the Jerusalem District Court against the State of Israel (the "**Defendant**"), which mainly includes a demand for restitution of royalties which were overpaid by the Plaintiffs to the Defendant, 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 and regarding the appeal filed by the Plaintiffs from the judgment received under such claim, it is noted that a hearing of the appeal was scheduled for 27 December 2023.

- B. Further to Note 12L3 to the Annual Financial Statements, regarding the dismissal of a motion for class certification in connection with the merger transaction between the Partnership and Avner Oil Exploration - Limited Partnership ("**Avner**"), that was filed by the holders of participation units in Avner (in this section: the "**Petitioners**" and the "**Certification Motion**", respectively), against Avner, the general partner of Avner and its board members, Delek Group as (indirect) control holder of Avner, and Price Waterhouse Coopers Consulting Ltd. (PwC) (in this section: the "**Respondents**"), on 6 July 2023, the Petitioners filed with the Supreme Court an appeal from the judgment denying the Certification Motion. Furthermore, according to the court's decision, the Respondents are required to file their response to the appeal by 7 January 2024, and a hearing of the appeal was scheduled for 15 April 2024.

**Note 4 – Legal Proceedings (Cont.):**

- C. Further to Note 12L4 to the Annual Financial Statements, regarding a motion for class certification that was filed with the Tel Aviv District Court (Economic Department) by a shareholder of Tamar Petroleum Ltd. ("**Tamar Petroleum**") and the Public Representatives Association, against the Partnership, Tamar Petroleum, officers therein and Leader Issues (1993) Ltd. ("**Leader**", and jointly in this section: the "**Respondents**"), in connection with the issue of the shares of Tamar Petroleum in July 2017 (in this section: the "**Certification Motion**"), on 17 July 2023 the court denied the motion for discovery with respect to all of the Respondents other than Leader, for which the motion was partially granted. In addition, on 16 August 2023, the court approved an agreed stipulation between the parties whereby the cross examination of witnesses in the Certification Motion will be held in March-April 2024.
- D. Further to Note 12L8 to the Annual Financial Statements, regarding a motion for class certification which was filed by a unit holder (in this section: the "**Petitioner**") with the Tel Aviv District Court (Economic Department) against the Partnership, the GP, Delek Group, Yitzhak Sharon (Tshuva), the directors of the GP, including the former chairman of the board, and the CEO of the GP (in this section, collectively: 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), note that following the notice of the Minister of Justice regarding the special state of emergency, the date for filing the Petitioner's summations will be rescheduled until after the end of the special state of emergency as mentioned.
- E. Further to Note 12L11 to the Annual Financial Statements, regarding a claim filed by Haifa Port Company Ltd. ("**Haifa Port**") against Chevron, Coral Maritime Services Ltd. and Gold-Line Shipping Ltd., and regarding a counterclaim filed by Chevron against Haifa Port, note that on 8 July 2023 and 18 July 2023, the court denied the motions filed by the parties with respect to the preliminary proceedings, and also scheduled the last pretrial hearing for 21 January 2024. Furthermore, on 21 June 2023, the court dismissed the motion for summary dismissal of the counterclaim filed by Haifa Port, and charged it with costs.
- F. Further to Note 12L6 to the Annual Financial Statements, regarding a complaint filed by the Supervisor on behalf of the holders of the Participation Units with the Tel Aviv District Court (Economic Department) against the Partnership, the GP and the royalty interest owners which include Delek Group, Delek Energy Systems Ltd. and Tomer Energy Royalties (2012) Ltd. (formerly Delek Royalties (2012) Ltd.), and a counterclaim filed by the royalty interest owners, all in connection with the investment recovery date in the Tamar project, on 11 May 2023, the parties filed with the court an agreed notice whereby they had received a proposal from the mediator and needed time to consider it. Accordingly, the scheduled pretrial session was cancelled.
- G. Further to the hearing that was held for Chevron before the MoEP on 6 January 2022, on 2 August 2023 Chevron received a notice from the MoEP of its intention to impose a financial penalty in the sum of approx. ILS 2.9 million (approx. \$0.8 million) (100%, the Partnership's share – approx. ILS 1.3 million (approx. \$0.4 million)), for an alleged violation of the Leviathan project's sea discharge permit, and pursuant to the Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988 (the "**Sea Pollution Prevention Law**"). On 3 September 2023, Chevron submitted its response.



**Note 4 – Legal Proceedings (Cont.):**

- H. On 6 August 2023, Chevron received a letter of notice and summons to a hearing before the MoEP for alleged violations of the Leviathan project's sea discharge permit and toxins permit, and pursuant to the Sea Pollution Prevention Law and the Hazardous Substances Law, 5753-1993. Due to the War, the hearing that was scheduled for 8 October 2023 was postponed and an alternative date has not yet been set.
- I. Further to Note 12L12 to the Annual Financial Statements, regarding a class certification motion which was filed by a resident of the Dor Beach area on behalf of "anyone who was exposed to the air, marine and coastal pollution due to prohibited emissions from the gas platform which is operated by the respondents in the sea, located offshore Dor Beach, and treats the Leviathan natural gas reservoir, in the period from commencement of the platform's activity in December 2019 until a judgment is issued in the claim", following the notice by the Minister of Justice regarding the application of the Courts and Execution Offices Regulations (Procedure in a Special State of Emergency), 5751-1991 (the **"Notice of the Minister of Justice Regarding the Special State of Emergency"**), the date of filing of Chevron's summaries has been postponed until after the end of the special state of emergency as mentioned.

**Note 5 – Oil and Gas Profit Levy and Taxes:**

- A. Further to Note 20C6 to the Annual Financial Statements, regarding disputes with respect to the levy reports of the Tamar venture, on 25 January 2023, a levy assessment order for 2020 was received, and on 8 February 2023, the Partnership paid 75% of the ordered levy liability in the sum of approx. ILS 62.7 million (the amount includes interest and linkage) (approx. \$17.5 million), which were included under the 'other long-term assets' item.  
In the Partnership's assessment, based on the opinion of its legal counsel, the Partnership's claims on the issues in dispute (including the issue of notional revenues) have a greater chance of acceptance than dismissal, considering the judgement described in Note 4A above.
- B. Further to Note 20B2 to the Annual Financial Statements, regarding the disputes that have arisen between the Partnership and the Tax Authority with respect to the amount of the Partnership's and Avner's taxable income for 2016, the additional pretrial hearing that was scheduled for 17 July 2023 was postponed and an alternative date has not yet been set.
- C. Further to Note 20B9 to the Annual Financial Statements in connection with the tax report for 2021, on 30 April 2023, the Partnership published a temporary tax certificate for an entitled holder and seller of participation units for the holding of participation units of the Partnership for 2021.
- D. Further to Note 20A5(a) to the Annual Financial Statements with respect to past balancing payments to corporate holders for the tax years 2015 and 2016, the distribution was made in September 2023 by the trustee. Nevertheless, due to difficulties experienced by the trustee in locating some of the entitled holders, the court approved the extension of the deadline for filing the summary report by the trustee regarding the making of the distribution until 16 January 2024.

**Note 6 – Additional Information:**

- A. Further to Note 12C(b) to the Annual Financial Statements, regarding an agreement for the sale of natural gas to the National Electric Power Company of Jordan ("**NEPCO**"), on 3 July 2023, the parties agreed on an increase in the natural gas quantities to be supplied to NEPCO on a firm basis, temporarily, in relation to several months in 2023-2024, and that the minimum annual quantity that NEPCO undertook to take or pay for (Take or Pay) during 2023-2024 will increase accordingly. For the avoidance of doubt, it is clarified that the aforesaid does not change the total supply volume under the said export agreement (approx. 45 BCM).
- B. Further to Note 12E to the Annual Financial Statements regarding an agreement signed between Chevron and PEI to arrange for an alternative mechanism to transport condensate from the Leviathan project through an existing pipeline of PEI and its related systems, note that due to the War, the date of commencement of the flow of condensate in such pipeline is expected to be postponed to Q1/2024.
- C. Further to Notes 12P5(b) and 12M13 to the Annual Financial Statements, regarding the Leviathan partners' consideration of further possibilities for increasing the natural gas export quantities, as of the date of approval of the financial statements, the Leviathan partners approved additional preliminary budgets, prior to making final investments decisions (FID), if adopted, as detailed below:
1. An additional sum of approx. \$11 million, such that the total budget is approx. \$14.5 million (100%, the Partnership's share – approx. \$6.6 million) in connection with the construction of a new onshore connection between the Israeli transmission system and the Egyptian transmission system in the area of Nitzana, which is expected to increase the total capacity for export of natural gas to Egypt by approx. 6 BCM more (the "**Nitzana Pipeline**"). The Nitzana Pipeline will be built and operated by INGL and will include, *inter alia*, the construction of a compressor station in the Ramat Hovav area.
  2. An additional sum of approx. \$24 million, such that the total budget is approx. \$37.5 million (100%, the Partnership's share – approx. \$17 million) in connection with the construction of a compressor station and further related work in the transmission system for export, that is operated by FAJR and is used for the piping of natural gas to Jordan, and to Egypt via Jordan, which is expected to increase the natural gas transmission capacity from approx. 6.5 BCM to approx. 10.5 BCM.
- D. Further to Note 12M12 to the Annual Financial Statements, regarding INGL's construction of the Ashdod-Ashkelon transmission system section (the "**Combined Section**"), on 26 February 2023, Chevron received a letter from INGL, whereby – according to a preliminary assessment given to INGL by the project's construction contractor – a delay of at least 6 months is expected in completion of the project, due to a malfunction on a vessel carrying out infrastructure work for the laying of the subsea pipeline for INGL. In October 2023, Chevron updated the Partnership that it had received a notice from INGL, whereby, due to the War, work on such project had been suspended and that the expected date for flow commencement is about four months from the date of resumption of work.



**Note 6 – Additional Information (Cont.):**

- E. Further to Note 8B to the Annual Financial Statements, regarding an agreement for sale of interests in the I/17 Karish and I/16 Tanin leases (jointly: the "**Leases**"), the Partnership has engaged an external independent appraiser to assess the fair value of the royalties. Below are main parameters out of the valuations that were used to measure the royalties: the cap rate is estimated at 10.5%; 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. 99.6 BCM and approx. 95.6 MMBBL, respectively; average annual production rate from the Karish lease: approx. 3.53 BCM natural gas; average annual rate of condensate production from the Karish lease of approx. 4.44 million barrels of condensate; average annual production rate from the Tanin lease: approx. 2.17 BCM natural gas; average annual rate of condensate production from the Tanin lease of approx. 0.37 million barrels of condensate.

In the matter of the remaining annual payments on the loan given to Energean, the receivables cap rate is estimated at 8.2%.

The financial income recorded in the report period includes a sum of approx. \$17.4 million deriving from an update of the revaluation of the royalties from the Leases of approx. \$16.0 million and financial income from an update of receivables in connection with the loan to Energean in the sum of approx. \$1.4 million.

Further to Note 8B to the Annual Financial Statements, regarding the claim filed by the Partnership against Energean in connection with the payment of the balance of the consideration according to the agreement for the sale of the interests in the Karish and Tanin leases, on 19 April 2023, a pretrial hearing was held in the claim, and according to the decision issued in the context thereof, on 10 May 2023, the parties filed a joint notice with the court regarding their consent to refer to mediation, without thereby delaying the hearing of the claim. On 13 August 2023, the court approved an agreed stipulation between the parties. On 5 November 2023, the court entered a judgment on the agreements reached between the parties (the "**Agreement**").

Pursuant to the Agreement, Energean shall pay the Partnership, in two installments in 2024, a total sum of \$47.4 million, which constitutes the entire balance of the consideration plus agreed annual interest. This constitutes the full and final dismissal of the parties' claims regarding the disputes which are the subject matter of the legal proceedings.

- F. On 29 May 2023, the special and general meeting of the holders of the Partnership's participation units approved, *inter alia*, to reappoint Fahn Kanne & Co., Accountants, together with Keidar Supervision & Management as a supervisor for the Partnership, from the date of the general meeting's approval and for a period of 18 months or until the date of the closing of the transaction for the acquisition of all of the units held by the public and some of the units held by Delek Group (as specified in Note 1E above), whichever is earlier, and to approve their fee.
- G. Further to Note 10D to the Annual Financial Statement, regarding bank credit facilities that the Partnership received from an Israeli bank in the sum total of \$150 million, which are intended to be used by the Partnership in its ongoing operation, as of the date of approval of the financial statements, the Partnership has drawn down \$70 million out of such credit facilities.

**Note 6 – Additional Information (Cont.):**

- H. On 22 May 2022, the GP's board approved a plan to purchase the bonds of Leviathan Bond, in an aggregate amount of up to \$100 million for a period of two years. The Partnership made buybacks pursuant to said buyback plan in the sum of approx. \$100 million. Further thereto, on 22 January 2023, the board of the Partnership's GP authorized to adopt an additional plan to purchase the bonds of Leviathan Bond, in an aggregate amount of up to \$100 million, by way of an off-exchange, TACT-Institutional or any other purchase method (the "**Additional Buyback Plan**"). The Additional Buyback Plan took effect on 23 January 2023 and shall end after two years, i.e., on 23 January 2025. As of the date of approval of the financial statements, the Partnership made buybacks pursuant to the Additional Buyback Plan in the sum of approx. \$9 million. The aforesaid buybacks were made from the first Leviathan Bond bond series, which has been fully repaid as detailed in Section I below.

On 15 November 2023, the GP's board authorized the continued performance of buybacks in accordance with the buyback plan, from the bond series maturing on 30 June 2025 and/or from the bond series maturing on 30 June 2027. It is clarified that the said decision does not obligate the Partnership and/or Leviathan Bond to perform a buyback of the bonds, and that the Partnership's management will be entitled to decide not to buy back bonds at all.

- I. Further to Note 10B to the Annual Financial Statements in connection with the Leviathan Bond bonds, on 30 June 2023, the first bond series of Leviathan Bond was fully and finally repaid, following a partial prepayment on 1 May 2023 of \$280 million plus accrued interest of approx. \$4.5 million, out of a total series amount of \$500 million. According to the terms of the bonds, the payment of the first series during the quarter preceding the original maturity date was not subject to prepayment fees to the bondholders.

- J. On 27 March 2023, the GP's board approved, after adopting the recommendation of the Financial Statements Review Committee of the GP of the Partnership, the distribution of profits in the sum of \$60 million (\$0.05112 per participation unit of the Partnership), with the record date for distribution being 9 April 2022. Such distribution of profits was performed on 20 April 2023.

On 10 May 2023, the GP's board approved, after adopting the recommendation of the Financial Statements Review Committee of the GP of the Partnership, the distribution of profits in the sum of \$50 million (\$0.04260 per participation unit of the Partnership), with the record date for distribution being 22 May 2023. Such distribution of profits was performed on 15 June 2023.

On 20 August 2023, the GP's board approved, after adopting the recommendation of the Financial Statements Review Committee of the GP of the Partnership, the distribution of profits in the sum of \$50 million (\$0.04260 per participation unit of the Partnership), with the record date for distribution being 30 August 2023. Such distribution of profits was performed on 14 September 2023.

On 20 August 2023, the GP's board approved a distribution to the LP in the sum of approx. ILS 0.5 million (approx. \$0.1 million), designated for the payment of the Supervisor's fees and the trustee's fees and expenses, in accordance with the provisions of the Trust Agreement.

On 15 November 2023, the GP's board approved, after adopting the recommendation of the Financial Statements Review Committee of the GP of the Partnership, the distribution of profits in the sum of \$50 million (\$0.04260 per participation unit of the Partnership), with the record date for the distribution being 27 November 2023. Such distribution of profits will be performed on 21 December 2023.

**Note 6 – Additional Information (Cont.):**

**J. (Cont.)**

On 15 November 2023, the GP's board approved a distribution to the LP in the sum of approx. ILS 0.5 million (approx. \$0.1 million), designated for the payment of the Supervisor's fees and the trustee's fees and expenses, in accordance with the provisions of the Trust Agreement.

- K.** On 2 May 2023, the Ministry of Energy published for public comment a draft policy document on decommissioning of offshore oil and natural gas exploration and production infrastructures (the "**Draft Policy Document**"). The purpose of the Draft Policy Document is to outline the general principles with regard to decommissioning of offshore oil and natural gas exploration and production infrastructures, without derogating from the provisions of the law applicable in this regard and the provisions of the lease deeds and operation permits. The Draft Policy Document offers, among other things, rules, standards and time frames for the decommissioning of drilling and production facilities as well as the abandonment of subsea infrastructures and pipelines that are no longer in use, according to, *inter alia*, the location of said facilities in the deep sea or on the bottom of or below the seabed.

The Leviathan partners transferred their comments on the Draft Policy Document to the Ministry of Energy. Approval of the strict requirements in the Draft Policy Document is expected to increase the decommissioning costs for the Partnership's assets. As of the date of approval of the financial statements, the Partnership is still examining the provisions of the Draft Policy Document and its implications on the increase of the decommissioning costs as aforesaid, if applied, and will consider its actions on the matter accordingly.

- L.** Further to Note 15B1 to the Annual Financial Statements, regarding advances on account of the State's royalties on revenues from the Leviathan project, on 29 October 2023, a notice was received from the Ministry of Energy, according to which the rate of the advances on account of the State's royalties on revenues from the Leviathan project for 2023 will be reduced from 11.26% to 11.06%.

**Note 7 – 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 Leviathan Bond bonds issued as stated in Note 10B to the Annual Financial Statements:

|                                     | Fair value | Book value |
|-------------------------------------|------------|------------|
| As of 30 September 2023 (Unaudited) | 1,692.4    | 1,762.3    |
| As of 30 September 2022 (Unaudited) | 2,112.1    | 2,231.4    |
| As of 31 December 2022 (Audited)    | 2,115.7    | 2,155.8    |

Note 7 – Financial Instruments (Cont.):

- B. 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 September 2023 |             |              |              |
|--|-------------------|-------------|--------------|--------------|
|  | Level 1           | Level 2     | Level 3      | Total        |
|  | Unaudited         |             |              |              |
| <b>Financial assets at fair value through profit or loss:</b>  |                   |             |              |              |
| - Royalties receivable from the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)         | -                 | -           | 307.5        | 307.5        |
| - Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements) | -                 | 41.7        | -            | 41.7         |
| <b>Total Financial assets at fair value through profit or loss</b>   | <b>-</b>          | <b>41.7</b> | <b>307.5</b> | <b>349.2</b> |

|  | 30 September 2022 |             |              |              |
|--|-------------------|-------------|--------------|--------------|
|  | Level 1           | Level 2     | Level 3      | Total        |
|  | Unaudited         |             |              |              |
| <b>Financial assets at fair value through profit or loss:</b>  |                   |             |              |              |
| - Royalties receivable from the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)         | -                 | -           | 310.6        | 310.6        |
| - Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements) | -                 | 54.5        | -            | 54.5         |
| <b>Total Financial assets at fair value through profit or loss</b>   | <b>-</b>          | <b>54.5</b> | <b>310.6</b> | <b>365.1</b> |

|  | 31 December 2022 |             |              |              |
|--|------------------|-------------|--------------|--------------|
|  | Level 1          | Level 2     | Level 3      | Total        |
|  | Audited          |             |              |              |
| <b>Financial assets at fair value through profit or loss:</b>  |                  |             |              |              |
| - Royalties receivable from the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)         | -                | -           | 320.8        | 320.8        |
| - Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements) | -                | 53.6        | -            | 53.6         |
| <b>Total Financial assets at fair value through profit or loss</b>   | <b>-</b>         | <b>53.6</b> | <b>320.8</b> | <b>374.4</b> |

Note 7 – Financial Instruments (Cont.):

- C. An adjustment due to fair value measurements classified at level 3 in the fair value scale of financial instruments:

|  | For the nine-month period<br>ended<br>30 September 2023 |        |
|--|---|--------|
|  | Future<br>production-<br>based<br>royalties             | Total  |
|  | Unaudited   |        |
| Balance as of 31 December 2022 (audited)   | 320.8   | 320.8  |
| Revenues                                   | (29.3)  | (29.3) |
| Remeasurement recognized in profit or loss | 16.0  | 16.0   |
| Balance as of 30 September 2023            | 307.5   | 307.5  |

|  | For the nine-month period<br>ended<br>30 September 2022 |       |
|--|---|-------|
|  | Future<br>production-<br>based<br>royalties             | Total |
|  | Unaudited   |       |
| Balance as of 31 December 2021 (audited)   | 262.2   | 262.2 |
| Remeasurement recognized in profit or loss | 48.4  | 48.4  |
| Balance as of 30 September 2022            | 310.6   | 310.6 |

Note 7 – Financial Instruments (Cont.):

- C. An adjustment due to fair value measurements classified at level 3 in the fair value scale of financial instruments (Cont.):

|  | For the three-month period<br>ended<br>30 September 2023 |        |
|--|--|--------|
|  | Future<br>production-<br>based<br>royalties              | Total  |
|  | Unaudited  |        |
| Balance as of 30 June 2023                 | 315.8  | 315.8  |
| Revenues                                   | (13.3)   | (13.3) |
| Remeasurement recognized in profit or loss | 5.0  | 5.0    |
| Balance as of 30 September 2023            | 307.5  | 307.5  |

|  | For the three-month period<br>ended<br>30 September 2022 |       |
|--|--|-------|
|  | Future<br>production-<br>based<br>royalties              | Total |
|  | Unaudited  |       |
| Balance as of 30 June 2022                 | 291.6  | 291.6 |
| Remeasurement recognized in profit or loss | 19.0   | 19.0  |
| Balance as of 30 September 2022            | 310.6  | 310.6 |

**Note 7 – Financial Instruments (Cont.):**

- C. An adjustment due to fair value measurements classified at level 3 in the fair value scale of financial instruments (Cont.):

|  | For the year ended<br>31 December 2022      |              |
|--|---|--------------|
|  | Future<br>production-<br>based<br>royalties |              |
|  | Total                                       |              |
|  | Audited                                     |              |
| <b>Balance as of 31 December 2021</b>      | <b>262.2</b>                                | <b>262.2</b> |
| Revenues                                   | (2.3)                                       | (2.3)        |
| Remeasurement recognized in profit or loss | 60.9  | 60.9         |
| <b>Balance as of 31 December 2022</b>      | <b>320.8</b>                                | <b>320.8</b> |

**Note 8 – Subsequent Events**

1. See Note 1D for details regarding the Iron Swords war and its impact on the Partnership's business.
2. See Note 3B3 for details regarding the submission of licenses in the context of a fourth competitive process for natural gas exploration in the EEZ of Israel.
3. See Note 3B2 for details regarding an extension received by the Aphrodite partners from the Cypriot government to act in accordance with the development plan approved thereby.
4. See Note 6E for details regarding an agreed stipulation reached by the Partnership and Energean in connection with the claim filed by the Partnership against Energean in connection with the payment of the balance of the consideration according to the agreement for the sale of the interests in the Karish and Tanin leases.
5. See Note 6L for details regarding an update to the rate of the advances on account of the State's royalties in respect of the revenues from the Leviathan project.
6. See Note 5J for details regarding the approval of the board of the GP of the Partnership for the distribution of profits in the sum of approx. \$50 million.

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



*This report is a convenience translation of NewMed Energy – Limited Partnership's Hebrew-language Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure pursuant to Section 38C(a) of the Securities Regulations (Immediate and Periodic Reports), 5730-1970. The original Hebrew-language version is the only binding version and shall prevail in any event of discrepancy.*

**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 NewMed Energy Management Ltd., 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 Partnership;
3. Tzachi Habusha, VP Finance and Market Risk Manager of the Partnership.

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 Partnership, 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 June 30, 2023 (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 of directors of the GP and the management of the Partnership, 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 of the Partnership and the board of directors of the GP as aforesaid, the internal control is effective.


Statement of CEO pursuant to Section 38C(d)(1) of the Regulations:

## Statement of Managers

### Statement of CEO

I, Yossi Abu, state that:

- (1) I have reviewed the quarterly report of NewMed Energy - Limited Partnership (the "**Partnership**") for Q3/2023 (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 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 latest report (the quarterly report as of June 30, 2023) and the date hereof, which can change the conclusion of the board of directors of the GP of the Partnership and management of the Partnership 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.

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November 15, 2023

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Yossi Abu, CEO

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

### Statement of Managers

#### Statement of the most senior financial officer

I, Tzachi Habusha, state 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 Q3/2023 (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 Partnership:
- (a) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, which are designed to ensure that material information in reference to the Partnership is brought to my knowledge by others at the Partnership, particularly during the preparation of the Reports; and -
  - (b) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, which are designed to reasonably ensure reliability of financial reporting and preparation of the financial statements in conformity with the provisions of the law, including in conformity with GAAP;
  - (c) No occurrence or issue have been brought to my attention, that occurred during the period between the date of the latest report (the quarterly report as of June 30, 2023) 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 of directors of the GP of the Partnership and management of the Partnership 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.

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November 15, 2023

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Tzachi Habusha, CPA, VP Finance





# Valuation



## **NewMed Energy - Limited Partnership**

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

**\*\*\*\***

**November 2023**

*This document is a translation of the original Hebrew-language document of Giza Singer Even Ltd. of November 2023. 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.*



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## 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<sup>1,2</sup> (“**NewMed Energy**” and/or the “**Partnership**”) is entitled for the sale of its interests in the leases I/16 “**Tanin**” (the “**Tanin Royalties**”) and I/17 “**Karish**” (the “**Karish Royalties**”, and collectively: the “**Royalties**”) as of 30 September 2023 (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.

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<sup>1</sup> On 17 May 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.

<sup>2</sup> On 22 February 2022, the Partnership changed its name from “Delek Drilling – Limited Partnership” to “NewMed Energy – Limited Partnership”.



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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.

**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

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

- Information regarding the terms of the transaction for the sale of the Partnership's interests in the I/16 Tanin and I/17 Karish leases.
- Reports and publications released by Energean plc<sup>3</sup> (the parent company of Energean Israel Limited<sup>4</sup>), including a resources and reserves report as of 31 December 31 2022 prepared by DeGolyer and MacNaughton and released on 23 March 2023 ("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.

## 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 prepared by a team headed by Gadi Beer, Head of the Economic Department and Corporate Finance and a senior partner at Giza Singer Even. Gadi Beer has expertise and vast experience in corporate finance and financial and financing advice. He holds a BA in Economics and an MBA from the Tel Aviv University.

Sincerely,

*Giza Singer Even Financial Advisory Ltd.*

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Giza Singer Even Financial Advisory Ltd.  
15 November 2023

<sup>3</sup> Formerly, Energean Oil & Gas plc.

<sup>4</sup> Formerly, Ocean Energean Oil and Gas Ltd.



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## 2. Executive Summary

### 2.1 Background

NewMed Energy – Limited Partnership (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**”) and Chevron Energy Mediterranean<sup>5</sup> (“**Chevron**”) 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 (17 December 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 16 August 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,<sup>6</sup> by which the Partnerships are charged regarding the original share of NewMed Energy and Avner in the leases (the “**Royalties**”).

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<sup>5</sup> As of the decision date, NewMed Energy and Avner jointly held 52.941% of the reservoirs (in equal shares) and Chevron Energy Mediterranean held 47.059% of the reservoirs.

<sup>6</sup> As defined in the reports of NewMed Energy and Avner to the TASE on 25 December 2016.

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 the D&M CPR<sup>7</sup>:

| Reservoir    | Reserves and Resources |                             |
|--------------|------------------------|-----------------------------|
|              | Natural Gas (BCM)      | Hydrocarbon Liquids (MMBBL) |
|              | <b>2P</b>              | <b>2P</b>                   |
| Karish       | 39.4                   | 54.2                        |
| Karish North | 34.2                   | 36.9                        |
| Tanin        | 26.1                   | 4.5                         |
| <b>Total</b> | <b>99.6</b>            | <b>95.6</b>                 |

Based on Energean's financial statements as of 30 June 2023 and the conversion rate derived from the above table between the quantity of natural gas and the quantity of the hydrocarbon liquids in the Karish reservoir, during H1/2023 Energean produced ~1.6 BCM of natural gas and ~1.6 million barrels of hydrocarbon liquids. In the context of the royalties received from Energean, it does not provide the Partnership with details regarding the production quantities and therefore it is difficult to estimate these quantities. In addition, it transpires from Energean's financial statements that it intends to reach an annual production rate of ~0.8 BCM of natural gas and of ~4.1 million barrels of hydrocarbon liquids from the Karish reservoir by the end of 2023. According to these reports, we reduced the remaining reserves and resources in the Karish reservoir, as specified in the D&M CPR.

On 7 October 2023, the terrorist organization "Hamas" launched a deadly attack on Israel, targeting in particular communities in the Gaza Envelope ("Otef Aza"). As of this writing, as a result of this attack, ~1,400 people were murdered and ~240 more were abducted into Gaza. Following the attack, the Israeli government declared war against the terrorist organization.

Due to the inherent risk to the assets located in the South of Israel, the Government of Israel decided to completely stop the production of gas from the Tamar platform and to close the compressor station located at the EAPC site in Ashkelon, which is used for the export of gas to Egypt through the EMG pipeline. Concurrently, the Government of Israel authorized the Minister of Energy to declare an energy emergency, if required. As of this writing, no such emergency situation has yet been declared, but the Leviathan and Karish reservoirs supply the full consumption of the domestic market. Accordingly, the export of gas to Egypt from the Leviathan reservoir was reduced during such period.

<sup>7</sup> <https://www.energean.com/media/5400/dm-final-report-energean-israel-2022ye.pdf>.

Further to the above, on 24 October 2023, rating agency Moody's reported that it is considering downgrading the rating of the Partnership, Energean and the IEC. This report joins Moody's previous report according to which it places the credit rating of the State of Israel on review for possible downgrade.

At this stage it is impossible to estimate the effect of the war on the business of the Partnership and/or Energean.

## 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. According to the assumptions specified in the Paper itself, the total value of the Royalties as of 30 September 2023 is estimated at approx. \$307.5 million (the value of the Karish Royalties (including Karish North) and the Tanin Royalties are estimated at approx. \$262.1 million and approx. \$45.4 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 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 | 254.6  | 275.3 | 296.4 | 280.0        | 301.7 | 318.8 | 333.8 |
|                                      | +150 bp | 263.9  | 285.3 | 306.9 | 290.3        | 312.7 | 330.5 | 345.9 |
|                                      | +50 bp  | 274.0  | 296.1 | 318.3 | 301.5        | 324.8 | 343.2 | 359.0 |
|                                      | -       | 279.3  | 301.8 | 324.3 | <b>307.5</b> | 331.2 | 350.0 | 366.0 |
|                                      | -50 bp  | 284.9  | 307.8 | 330.7 | 313.7        | 337.9 | 357.1 | 373.3 |
|                                      | -150 bp | 297.0  | 320.7 | 344.2 | 327.1        | 352.3 | 372.3 | 389.0 |
|                                      | -250 bp | 310.1  | 334.7 | 359.0 | 341.7        | 368.0 | 389.0 | 406.2 |

### **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<br>(0.794% of the total revenues of the reservoir) | 6%<br>(1.588% of the total revenues of the reservoir)    |
| 13% after the Investment Recovery Date<br>(3.441% of the total revenues of the reservoir) |  |

#### **3.2 The sold interests**

On 7 February 2012, and on 22 May 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. In May 2017, NewMed Energy merged with Avner and consequently the Avner partnership was stricken off without dissolution.

On 16 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 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.





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On 14 November 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 17 December 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 16 August 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 Plc. 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 27 December 2016, the Partnerships announced that the closing conditions for the transaction were fulfilled. On 27 March 2018, Energean notified the Partnerships of the adoption of an investment decision for the development of the Karish reservoir. In addition, on 14 January 2021, Energean reported the adoption of a Final Investment Decision (FID) in the "Karish North" reservoir.

On 25 October 2022, the Ministry of Energy approved for Energean commencement of production of gas from the Karish reservoir, and the following day Energean reported on initial gas production from the reservoir.

In November 2022, Energean transferred to the Partnership the first payment due to overriding royalties from its revenues in the Karish reservoir.

### 3.3 The consideration

Following is a description of the consideration components in the purchase agreement:

- a. The Buyer will purchase from NewMed Energy and Avner (the “**Sellers**”) all of the interests of the Sellers and of Chevron in the Karish and Tanin leases (the “**Sold Interests**”).
- b. In consideration for the Sold Interests, the Buyer will pay the Sellers a total amount of \$148.5 million which will be received in the following manner:
  - i. Cash payment of \$10 million which was paid to the Sellers on the transaction closing date;
  - ii. An additional payment of \$30 million which was paid to the Sellers on the transaction closing date;
  - iii. The consideration balance, in an amount of \$108.5 million, will be paid to the Sellers in ten annual equal installments plus interest according to the mechanism set in the agreement. These payments will be made immediately after the date 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<sup>8</sup>;
  - 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<sup>9</sup> 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.

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<sup>8</sup> On 27 March 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.

<sup>9</sup> As defined in the reports of NewMed Energy and Avner to TASE on 25 December 2016.



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## **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,<sup>10</sup> shorter construction time, smaller areas of land<sup>11</sup> and many operational advantages. In addition to the relatively low price, power plants operated by natural gas are more efficient than plants which are operated by other fuels and therefore power plants and enterprises operate with a high energetic efficiency level which is also ultimately reflected in cost saving<sup>12</sup>. According to the estimates of the Natural Gas Authority for 2022<sup>13</sup>, most of the domestic demand for natural gas derived from the electricity sector, total consumption by which in 2022 amounted to approx. 10.1 BCM, which represents ~80% of the demand for natural gas. The rest of demand for natural gas is attributed to the industrial sector, total consumption by which in 2022 amounted to approx. 2.56 BCM.

- **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.

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<sup>10</sup> 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.

<sup>11</sup> 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.

<sup>12</sup> 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%.

<sup>13</sup> [Review of Developments in the Natural Gas Sector, Summary as of 2022 – Natural Gas Authority](#)



- **Natural gas as a governmental source of income through taxation** - The Israeli natural gas market is directly benefiting and is expected to continue to directly benefit the domestic economy through governmental revenues from the taxation of the companies and from the VAT from sales to the ultimate consumer. Moreover, the Israeli market has a few unique taxation systems which apply to the natural gas sector, in addition to excise tax, which apply to natural gas, similarly to all of the other fuel products<sup>14</sup>. 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 approx. 50% (deriving, *inter alia*, from 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 13 June 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 (the “PUA-E”), *inter alia*, regarding the costs of inputs for electricity production, and in particular, the costs of natural gas. In 2022, the IEC purchased approx. 4.95 BCM of natural gas from the Tamar and Leviathan partners and from the Karish reservoir and also imported and consumed another approx. 0.1 BCM of LNG, compared to 2021 in which it purchased approx. 4.5 ton BCM of natural gas from the Tamar and Leviathan partners and also imported and consumed another approx. 0.2 BCM of LNG. In such context it is noted that according to the decision of the Minister of Energy by the end of 2022 the IEC should have ended the engagement with the regasification vessel used for reception and regasification of imported LNG. Accordingly, on 8 December 2022, the IEC

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<sup>14</sup> Other than the electricity and industrial sectors in which consumers do not pay excise tax for the gas.

ended its engagement with the regasification vessel and the remaining LNG that was then on the vessel was sold to Hadera Gateway<sup>15</sup>. The IEC is currently working on the construction of two more natural gas-fired power plants, which will replace units 1 and 4 of the Orot Rabin Power Plant, with a total capacity of approx. 1,200 MW/h. These plants are expected to increase the demand for gas in the Israeli market, in parallel with the discontinuation of coal use scheduled for 2025. As part of the IEC's preparations for the discontinuation of coal usage, the IEC is working on the conversion to gas of the 4 production units at the Rutenberg Station in Ashkelon. The conversion of the first of such four units has been completed and that unit has been gas-fired (for running-in purposes prior to commercial operation) since July 2023. The estimated projection for stable operation of the first unit has been postponed to December 2023, and the estimated projection for stable operation of CCGT 80 has been postponed to June 2024. The gas consumption of each of these units is estimated at more than 1 BCM per year. In 2022, the IEC's natural gas-fired production amounted to ~4.9 GW, which constitute ~43% of the total power produced using natural gas.

- **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<sup>16</sup>, and large enterprises that constructed power plants for themselves for which they received a self-production license. Section 93 of the Natural Gas Sector Law defines that natural gas sold to an independent power producer is a product subject to control under the Control of Prices of Commodities and Services Law, 5756-1996. In 2022, the natural gas consumption of the IPPs and cogeneration facilities amounted to approx. 5.3 BCM, which represents approx. 42% of the overall consumption of natural gas in that year in the entire market. The IPPs' natural gas-fired production in 2022 amounted to ~6.4 GW, which constitute ~59% of the total power produced using natural gas.
- **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 or through gas-heated boilers for the production of steam), constituting

<sup>15</sup> Source: IEC's financial statement for 2022.

<sup>16</sup> In this technology, power is not produced but the energy is stored for use during peak hours or hours where it is not possible to produce power from renewable energies.



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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 2022, natural gas consumption by the industrial sector amounted to approx. 2.61 BCM, which figure is identical to the gas consumption in 2021.

- **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. 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<sup>17</sup>. 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. Further to the aforesaid, on 6 September 2020, the Ministry of Energy published specific instructions for the Tamar reservoir<sup>18</sup> and on 24 July 2022, the Ministry of Energy published specific instructions for the Leviathan reservoir.

According to the H1/2023 Revenues Report of the Natural Resources Administration at the Ministry of Energy<sup>19</sup>, revenues of about ILS 1 billion from the natural gas royalties were recorded, reflecting an increase of ~22.8% year-over-year. The increase in revenues from royalties derived from an increase in the quantities of production of natural gas for export, an increase in the quantities of production of hydrocarbon liquids, and from an increase in the dollar exchange rate. The total revenues originating from export amounted to approx. ILS 590 million. The total royalties collected from the Leviathan reservoir amounted to approx. ILS 482 million from the production of ~5.44 BCM, an increase of ~6.4% compared to the revenues from the Leviathan royalties year-over-year. Most of the revenues from royalties from the Leviathan reservoir originated from export sales (~86.12%), and the balance of ~13.88% from domestic sales. The total royalties collected from the Tamar reservoir amounted to approx. ILS 379 million from the production of ~4.91 BCM, an increase of ~3.4% compared to the revenues from the Tamar royalties year-over-year. The increase in revenues from the Tamar and Leviathan royalties was mainly due to an increase in the quantities of export to Egypt year-over-year, as well as an increase in the dollar exchange rate. The total royalties collected from the Karish reservoir (which began producing natural gas in October 2022) amounted to approx. ILS

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<sup>17</sup> 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.

<sup>18</sup> [https://www.gov.il/BlobFolder/policy/oil\\_search\\_publications/he/tamar\\_royalty.pdf](https://www.gov.il/BlobFolder/policy/oil_search_publications/he/tamar_royalty.pdf)

<sup>19</sup> Revenues Report of the Natural Resources Administration– Royalties, Accounting and Economics Division, the Ministry of Energy and Infrastructure.



145 million from the production of ~1.97 BCM of natural gas and ~947 thousand barrels of hydrocarbon liquids.

- **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 10 November 2021, the Knesset approved in the second and third reading a bill which prescribes, *inter alia*, rules on payment of disputed assessments.<sup>20</sup>
- **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 17 December 2015 upon the grant of an exemption from several provisions of the Economic Competition Law, 5748-1988. The Gas Framework grants an exemption to NewMed Energy, Chevron and Ratio Oil Exploration (1992), Limited Partnership (jointly below, the “**Parties**”), from the restrictive arrangements pertaining to the Leviathan reservoir. Furthermore, The Gas Framework grants an exemption with respect to specific powers of the Commissioner (power to regulate acts of a monopoly through directives, power to order a holder of a monopoly to sell an asset, and power to order the separation of a monopoly), in connection with NewMed Energy and Chevron being holders of a monopoly by virtue of the declaration thereon by the Commissioner in 2012 (the “**Exemption**”)<sup>21</sup>. 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

<sup>20</sup> 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>

<sup>21</sup> 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 (13 November 2012) Restrictive Trade Practices 500249.

Petroleum Commissioner pertaining to the qualifying conditions for an operator, whichever is later. On 16 August 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 5 May 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 9 December 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 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 16 August 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 IPPs. 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. However, starting from Q1/2023, the Gas Authority resumed publication of the weighted price of natural gas in the Israeli market, without thereby imposing a duty on the partners in the gas reservoirs to offer such price to their customers.

On 1 June 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 PUA-E 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. 8.2% and approx. 9.8% of actual power production in the State of Israel in 2021 and H1/2022, respectively, 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<sup>22</sup>. 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

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<sup>22</sup> “Status Report – Renewable Energy Targets in the Electricity Sector” – the Electricity Authority, June 2022: [Files\\_netunei\\_hasmal\\_doch\\_yaad\\_mithadshot\\_06\\_2022\\_f.pdf \(www.gov.il\)](https://www.gov.il/files_netunei_hasmal_doch_yaad_mithadshot_06_2022_f.pdf)



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 25 October 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 6 January 2019, the Government approved the recommendations of the Adiri Committee in Government Resolution 4442<sup>23</sup>. On 13 October 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.

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<sup>23</sup> Website of the Ministry of Energy, Spokesman's Notice of 10 January 2019:  
[https://www.gov.il/he/departments/news/ng\\_060119](https://www.gov.il/he/departments/news/ng_060119)



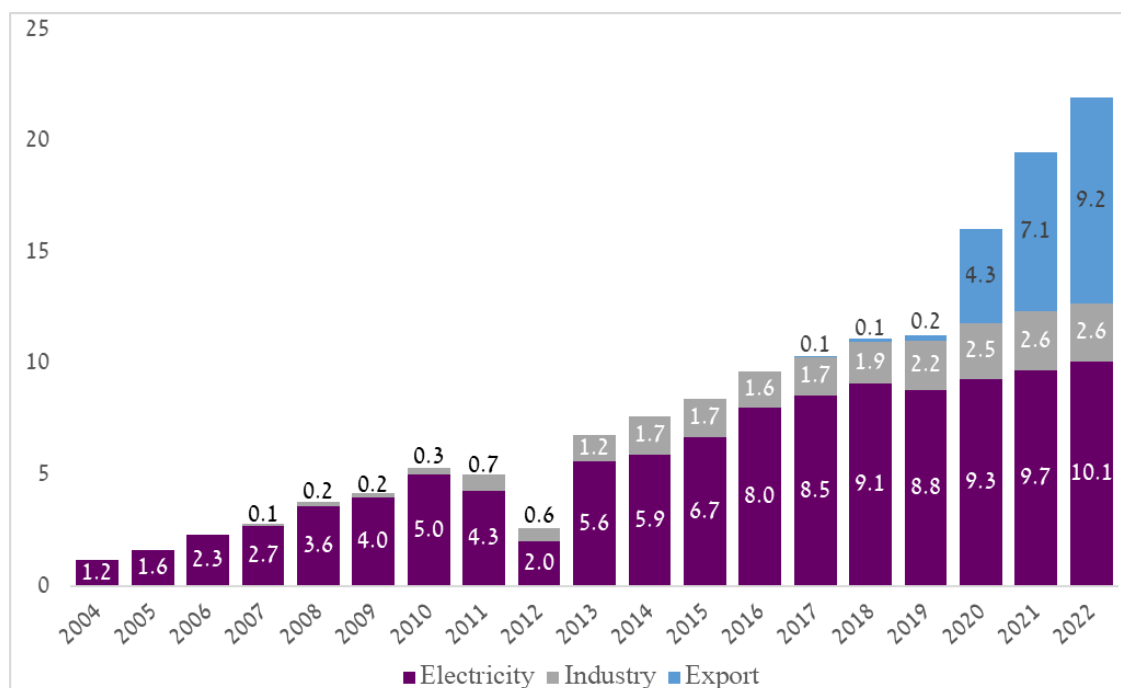
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- **Solely estimated costs and timetables and the option of lack of means** – Estimated costs for the performance of exploration and development activities and estimated timetables for the performance thereof are based solely on general estimates and could deviate significantly. The exploration plans could significantly change, *inter alia*, following failures and/or findings which will be obtained during the performance of such actions and lead to significant gaps in the timetables and the estimated costs of such activities. In certain cases, the holder of the lease may waive the performance of certain activities required according to the work plan of the reservoirs and lose the rights therein as a result.
- **Regulatory changes** – The operating segment requires many regulatory approvals, mainly by the entities authorized under the Petroleum Law and the Natural Gas Sector Law, as well as related approvals of the State's authorities (including the Ministry of Energy, the Ministry of Defense, the Ministry of Environmental Protection, the tax authorities, the Competition Authority and the various planning authorities). In recent years several proposals were made for amendments of laws and/or regulations and/or directives relevant to the operating segment and several resolutions, laws and directives were released, the implementation of which could have a negative effect on the companies operating in the field.
- **Applicable environmental regulation** – The companies that operate in the natural gas sector are subject to a range of laws, regulations and directives on the issue of environmental protection, which relate to various matters such as: leaking of oil, natural gas or of other pollutants into the marine environment, the release into the sea of polluting substances and waste of various types (wastewater, residues of drilling equipment, drilling mud, slurry, etc.), chemical substances used at the various work stages, emission of pollutants into the air, light and noise nuisances, construction of piping infrastructures on the seabed and related facilities. In addition, the companies are required, through the operators of the projects, to obtain approvals from entities authorized under the Petroleum Law, the Natural Gas Sector Law and other laws (such as environmental protection laws) for the purpose of their activity.

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

#### 4.5 Demand

**Chart 1 – Natural gas consumption in the domestic market in 2004-2022 in BCM per year<sup>24</sup>**



The consumption of natural gas in the Israeli market in 2022 (including export of Israeli gas to neighboring countries) amounted to approx. 21.9 BCM, an increase of approx. 12.6% compared with the consumption in 2021. Approx. 52% of the amount was supplied from the Leviathan reservoir, approx. 46.5% of the amount was supplied from the Tamar reservoir, approx. 1.4% of the amount was supplied from the Karish-Tanin reservoir, and the balance (less than 1%) from the import of LNG via the offshore LNG buoy. The consumption in the domestic market (which consumption is comprised of industry and electricity) increased to 12.71 BCM, reflecting an annual increase of 3%, and the export increased to 9.21 BCM, reflecting an annual increase of 26% compared with 2021. From 2004 until the end of 2021, a total quantity of approx. 151 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.

<sup>24</sup> Source: Review of the developments in the natural gas sector, 2022 summary, Natural Gas Authority  
<https://www.gov.il/BlobFolder/news/news-140523/he/ng-2022.pdf>



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<sup>25</sup>, 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 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, in parallel with the privatization of some of the IEC production plants, the construction of two gas plants and granting licenses for the construction of new plants by private producers. 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 1 June 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

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<sup>25</sup> 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](https://www.gov.il/BlobFolder/rfp/ng_210621/he/ng_report_2_draft.pdf)

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, followed by the plenum of the Knesset approved the orders, which prescribed, *inter alia*, that the excise tax on coal will be increased as of 15 March 2019 by approx. 125% in view of the government's policy to reflect external costs of fuels and encourage the expansion of use of natural gas. On 20 February 2019, the Minister of Finance signed an order postponing the expected rise in excise on coal, and it took effect on 1 January 2021. On 10 January 2023, the Minister of Finance issued an order postponing the increase of excise tax on coal until the end of 2023. In addition, it was decided that from 1 January 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 1 May 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 8 June 2020, a joint notice was released by the Ministry of Energy and the Ministry of Environmental Protection<sup>26</sup> 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 24 June 2020, the Minister of Energy<sup>27</sup> 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 25 October 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 8 February 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.<sup>28</sup>
- On 18 April 2021, the Ministry of Energy released a Road Map<sup>29</sup> 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

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<sup>26</sup> Website of the Ministry of Energy, Spokesman's Notice of 8 June 2020:

[https://www.gov.il/he/departments/news/press\\_080620](https://www.gov.il/he/departments/news/press_080620)

<sup>27</sup> Website of the Ministry of Energy, Spokesman's Notice of 24 June 2020:

[https://www.gov.il/he/departments/news/press\\_240620](https://www.gov.il/he/departments/news/press_240620)

<sup>28</sup> <https://www.calcalist.co.il/local/articles/0,7340,L-3892470,00.html>

<sup>29</sup> [https://www.gov.il/he/departments/publications/reports/energy\\_180421](https://www.gov.il/he/departments/publications/reports/energy_180421)

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 13 August 2023, following the policy to discontinue the use of coal, the Ministry of Energy and Infrastructure announced that the Natural Gas Authority at the Ministry of Energy and Infrastructure approved the conversion to gas of the two new electricity production units at the Orot Rabin Power Plant (CCGT 70 and CCGT 80) which are expected to be the first two units to be powered by gas at the Plant.<sup>30</sup>
- According to the IEC's quarterly report for Q2/2023, the estimated projection for stable operation of CCGT 70 has been postponed to December 2023, after the unit has been operated in June 2023 for the purpose of running-in and operation tests before the commercial operation. The estimated projection for stable operation of CCGT 80 has been postponed to June 2024. The introduction of the new production units will enable the shutdown of the four coal-fired production units in the Orot Rabin Power Plant and their inclusion in a conservation plan.<sup>31</sup>
- According to the PUA-E's Electricity Sector Status Report for 2022, the total Installed capacity of the IEC's natural gas-fired production facilities in 2022 was ~47%. This figure is expected to increase significantly to approx. ~84% of the IEC's total capacity in 2025.<sup>32</sup>

#### **4.5.2 Transition to use of natural gas in industry**

- Natural gas is a central component of the industry's energy consumption (approx. 32.5% of the total use of fuels in Israeli industry in 2020)<sup>33</sup>. 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 2022, approx. 628 km of distribution pipelines have been laid out to date throughout Israel (approx. 53 km of which in 2022) and approx. 900 km of transmission pipelines (approx. 70 km of which in 2022). An

<sup>30</sup> Source: <https://www.gov.il/he/departments/news/news-130823>

<sup>31</sup> Source: [https://iecontent.iec.co.il/media/hinjaffd/meshulav0623\\_isa.pdf](https://iecontent.iec.co.il/media/hinjaffd/meshulav0623_isa.pdf)

<sup>32</sup> Source: Electricity Sector Status Report, September 2023 – Electricity Authority: [https://www.gov.il/BlobFolder/generalpage/dochmeshek/he/Files\\_Netunei\\_hashmal\\_doch\\_s\\_2022\\_nnn.pdf](https://www.gov.il/BlobFolder/generalpage/dochmeshek/he/Files_Netunei_hashmal_doch_s_2022_nnn.pdf)

<sup>33</sup> Source: 2020 Israeli Energy Sector Review – the Ministry of Energy: [energy\\_sector\\_review\\_2020.pdf \(www.gov.il\)](https://www.gov.il/energy_sector_review_2020.pdf)

expansion of the natural gas distribution network may enable the connection to the network, by 2030, of hundreds of potential industrial consumers whose consumption may amount to approx. 0.72 BCM per year, representing approx. 80% of the light industrial consumption potential.

- According to the Natural Gas Authority's estimations, without additional policy steps, until 2025, approx. 150 consumers with a total consumption of approx. 0.45 BCM, which represents approx. one half of the overall connection potential of the light industry 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 10 July 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.



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- On 26 September 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 31 December 2019, flow of natural gas has begun from the Leviathan reservoir to the customers with which gas agreements were signed, and from 1 January 2020 also to NEPCO.
- On 19 February 2018, agreements were signed between NewMed Energy and Chevron, and Dolphinus, an Egyptian company, which were assigned on 26 September 2018 to the Tamar partners and the Leviathan partners. On 26 September 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 15 January 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 6 November 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<sup>34</sup>. 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 26 March 2020, the Natural Gas Commission released an addendum to the decision of 7 September 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.

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<sup>34</sup> EMED is a company held by NewMed Energy (25%), Chevron (25%) and the East Gas Company (50%).



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- On 15 February 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 13 October 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 16 February 2022, the Ministry of Energy approved<sup>35</sup>, in view of the increasing demand for natural gas in Egypt, piping of natural gas through the Kingdom of Jordan. Actual piping of the natural gas began on 1 March 2022<sup>36</sup> and increased the volume of natural gas exported to neighboring countries in a manner that secured supply of the annual contract quantity required under the export agreements and beyond in 2022-2023.
- Natural gas export in 2022 amounted to approx. 9.21 BCM (an increase of about 29% from 2021) which constitute ~42% of the total natural gas supply. Approx. 83% of the exported gas was produced from the Leviathan reservoir, and the rest from the Tamar reservoir.
- On 8 May 2023, the Government of Israel, led by the Ministry of Energy and Infrastructure and INGL, approved a plan to increase the infrastructure for the export of natural gas to Egypt. The approved plan includes the establishment of an integrated infrastructure strip and infrastructure facilities in the route between Ramat Hovav and the border with Egypt in the Nitzana area, in addition to the existing maritime pipeline (EMG), and it is expected to increase the potential quantities of natural gas export to Egypt. The length of the segment (Ramat Hovav-Ashalim-Nitzana) is ~65 km, and it will allow the piping of another 6 BCM per annum to Egypt. The value of the State revenues from exports on this scale is estimated at hundreds of millions of shekels per year from taxes and royalties. Further to the aforesaid, the Ministry of Energy published designated regulation for the allocation of the capacity and the costs associated with the construction of this pipeline among the various gas exporters.

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<sup>35</sup> "New route for the export of natural gas to Egypt – North Jordan!" – Ministry of Energy, 16 February 2022  
[https://www.gov.il/he/departments/news/ng\\_160222](https://www.gov.il/he/departments/news/ng_160222)

<sup>36</sup> <https://mayafiles.tase.co.il/rpdf/1433001-1434000/P1433795-00.pdf>





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- On 23 August 2023, the Minister of Energy and Infrastructure announced the approval of the increase of the gas export quota from the Tamar reservoir to Egypt. According to the approval outline, the volume of the gas production will increase by 6 BCM per year (an increase of ~60% compared to the current production volume) starting in 2026, 3.5 BCM of which will be earmarked for Egypt.

#### 4.5.4 Energy prices globally and in Israel

- As a result of the global decrease in coal prices in the first few months of 2023 (as of 31 March 2023, a ton of coal is traded for approx. \$137.8 compared with approx. \$190.5 on 31 December 2022<sup>37</sup>), the Electricity Authority decreased the electricity tariff for 2023 in January and March by approx. 1.5% and 2.4% for the domestic consumer, respectively (after it increased the tariff by approx. 8.2% for the domestic consumer at the beginning of 2023).<sup>38</sup> Following the outbreak of the war between Russia and Ukraine at the beginning of 2022, global energy prices skyrocketed, further to the increases in energy prices in 2021 (compared with the Covid period). Despite the slight downward trend in energy prices in H2/2022, the current global oil and gas prices also continue to be higher than on the eve of the war's outbreak. So, for example, the average price of a Brent barrel in September 2023 was approx. \$94, compared with an average price of approx. \$70.4 per Brent barrel in 2021, and the gas price index in September 2023 was approx. 95.43 points, compared with a level of approx. 130.7 points in 2021<sup>39</sup>. The State of Israel does not depend on the import of natural gas, and it supplies the principal part of the demand itself. Furthermore, the gas prices in Israel are fixed in long-term agreements and are therefore not directly impacted by changes in global energy prices. Nevertheless, natural gas prices in Israel are indirectly affected due to the linkage components under the contracts for the purchase of natural gas in Israel, mainly to the dollar and to the production component in the electricity tariff.

According to a forecast prepared for the Partnership by an outside consultant, the domestic demand for natural gas in 2023 is expected to total approx. 13.6 BCM and gradually increase to approx. 17 BCM in 2025, and to approx. 21.5 BCM in 2030. The increase in domestic demand between 2020-2030 is expected to derive mainly from an addition of approx. 4.3 BCM as a result of discontinuance of the use of coal for electricity production, an addition of approx. 4.7 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 an addition of approx. 2.3 BCM as a result of the use of electric transportation. Conversely, the demand

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<sup>37</sup> <https://markets.businessinsider.com/commodities/coal-price>

<sup>38</sup> Decision No. 65203 – Update of the Electricity Tariff for IEC Consumers

<sup>39</sup> A World Bank Monthly Commodity Price Data (The Pink Sheet):

<https://thedocs.worldbank.org/en/doc/5d903e848db1d1b83e0ec8f744e55570-0350012021/related/CMO-Pink-Sheet-October-2023.pdf>.

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.

## **4.6 Market developments**

### **4.6.1 The "Tamar" and "Leviathan" leases**

- On 31 December 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. Further thereto, it was reported that on 1 January 2020 and on 15 January 2020, the gas flow from the Leviathan reservoir began to Jordan and to Egypt, respectively.
- On 2 October 2020, Noble Energy, 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 this company by American company Chevron in consideration for approx. \$5 billion.
- On 13 September 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 23 September 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 28 October 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 19 January 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 the company's transmission license. The report further clarified that the Partnership does not expect any difficulty extending the agreement upon its expiry. On 15 February 2021, INGL reported the fulfillment of the closing conditions determined in the agreement. However, due to the fact that INGL has not yet completed the pipeline section between Ashdod and Ashkelon, the agreement has not yet taken effect. According to INGL's estimations, the section will be completed at the beginning of 2024. The said pipeline is expected to increase the export capacity by ~2.5 BCM per year.

- On 23 February 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 26 May 2021, the Partnership reported that on 11 May 2021, the Separate Marketing Agreement took effect. To the best of the Partnership's knowledge, up to this date no sale was made separately by the Tamar partners.
- On 9 December 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 17 December 2015.
- On 4 July 2021, The IEC entered into a SPOT agreement with the Leviathan partners for the purchase of natural gas from the Leviathan reservoir, which is valid for one year, in which framework it was agreed that the gas price will be determined every month and the parties have no commitment regarding the quantities purchased. On 28 June 2023,

the SPOT agreement for the purchase of natural gas from the Leviathan reservoir was extended by another year until 4 July 2024.

- On 20 December 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 8 July 2035 (rather than 8 July 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<sup>40</sup>. On 28 February 2022, the partners reported the satisfaction of the condition precedent of the Remaining Tamar Partners joining the amendment to the agreement<sup>41</sup>. On 24 July 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).
- On 24 January 2022, the partners in the Tamar reservoir reported the signing of an amendment to the 2012 IEC-Tamar Agreement<sup>42</sup>, 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 1 January 2025 (instead of 1 July 2024 in the 2012 IEC-Tamar Agreement)<sup>43</sup>. In addition, the term of the 2012 IEC-Tamar Agreement was extended by another 2.5 years, such that this agreement will end on 31 December 2030 (the “**Date of Conclusion of the Amended Agreement**”). The gas price in the 2012 IEC-Tamar

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<sup>40</sup> <https://maya.tase.co.il/reports/details/1419083/2/0>.

<sup>41</sup> <https://maya.tase.co.il/reports/details/1433483/2/0>.

<sup>42</sup> <https://maya.tase.co.il/reports/details/1427402/2/0>.

<sup>43</sup> In the IEC-Tamar agreement of 2012, the Parties determined two dates on which each party may request adjustment of the purchase price, 1 July 2021 and 31 December 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.

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 24 July 2022, the agreement took effect after the satisfaction of all conditions precedent.

- On 1 May 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.
- On 21 December 2022, Mr. Aaron Frenkel, through a company he owns, bought Tamar Investment 2, which had been owned by a group from Abu Dhabi and holds approx. 11% of the Tamar reservoir, in consideration for approx. \$0.5 billion.



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- On 19 January 2023, Tomer Energy Royalties (2012) Ltd. ("**Tomer Energy**") reported that its controlling shareholder, Essence Partners Ltd. ("**Essence**"), had entered a transaction with the Noy Fund for joint control of Alon Gas and conversion thereof into a private company. In consideration for joint control and a post-transaction holding rate of approx. 29.4% in Alon Gas, Essence will pay approx. ILS 47.2 million and transfer its holdings in Tomer Energy (approx. 50.8%) to Alon Gas. On 9 February 2023, Alon Gas became a private company and was delisted from the trade on TASE. On 8 March 2023, Tomer Energy reported that the transaction received the approval of the Competition Commissioner. As of the date of the Paper, the conditions precedent for the closing of the transaction are yet to be fully satisfied.
- On 27 February 2023, INGL informed Chevron that due to a malfunction in a ship carrying out infrastructure work for the laying of a subsea pipeline for INGL in the Ashdod-Ashkelon subsea transmission system segment, a delay of at least 6 months in the completion of the project is expected, such that the time frame during which commencement of the gas flow is possible has been postponed to the period from 1 October 2023 to 1 April 2024. According to the said INGL notice, the said event constitutes *force majeure* as defined in the transmission agreement between the parties. In response to the notice, Chevron approached INGL with a request for additional details and stated that according to the details held thereby, the said event should not be deemed as *force majeure*.

#### 4.6.2 "Karish" and "Tanin" leases

- **Adoption of an investment decision** – On 27 March 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 29 October 2018, trading of Energean Israel's parent company, Energean 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 27 November 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.



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- **Signing of an agreement for the construction and delivery of the eastern section of the infrastructure for gas transmission from the leases** – On 25 June 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 21 November 2019, Rapac Energy Ltd. reported that MRC Group, the winner of IEC's tender for the purchase of the Alon Tavor power plant, engaged in an agreement with Energean for the supply of natural gas in an annual amount of approx. 0.5 BCM for a period of 15 years (and in total up to 8 BCM). On 17 December 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 2 January 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 right to receive royalties from the reservoirs** – Further to Energean's report of 9 April 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.





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- **Sale of the overriding royalties of Delek Group and Delek Energy to the Noy Fund** – On 25 May 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 16 September 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 30 December 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 25 February 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 14 January 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 14 January 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 24 March 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 28 June 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 3 November 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 15 May 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 11 November 2021, Energean announced its intention to issue, on 18 November 2021, several series of secured senior bonds in a total sum of \$450 million, due to mature on 30 April 2027. The annual interest rate of these series is 6.50%, to be paid in semi-annual installments on 30 April and 30 October of each year. Starting from 7 January 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 13 December 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 an 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 H2/2023.



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- **A natural gas sale SPOT agreement signed with IEC** – On 14 March 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 the first gas from the Karish reservoir, with extension options subject to both parties’ consent.
- **Signing of an agreement for the sale of natural gas with Hagit East Power Plant partnership** – On 3 May 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 subject to the closing of the acquisition of the plant by Edeltech and Shikun & Binui Energy. On 1 June 2022, IEC reported that the process for sale of the plant to Edeltech and Shikun & Binui Energy had been closed.
- On 3 May 2022, Energean reported that the FPSO had departed and was sailing from Singapore towards Israel. On 6 June 2022, Energean reported that the FPSO had reached its destination.
- **The dispute between Energean and NewMed Energy in connection with the right to receive the balance of the debt component** - on 31 May 2022, the Partnership filed a financial claim against Energean, in the total amount of \$65.1 million, plus linkage differences and interest. As part of the claim, the Partnership claims that according to the provisions of the agreement for the sale of the interests in Tanin and Karish leases to Energean, in the event that Energean obtains the financial financing for the costs of the first phase of the approved development plan in the Tanin and Karish leases, plus the full financial consideration for the debt component, Energean would be obliged to immediately pay the balance of the debt component. Therefore, according to the Partnership's position, Energean's announcement of 30 April 2020 regarding the issuance of bonds in the total amount of \$2.5 billion and the release of the proceeds of the issuance to its accounts, constitute grounds for immediate payment of the remaining proceeds. Further to the above, on 19 April 2023, a pretrial hearing was held in the claim, and according to the decision issued in the context thereof, on 10 May 2023, the parties filed a joint notice with the court regarding their consent to refer to mediation, without thereby

delaying the hearing of the claim. On 13 August 2023, the court approved an agreed stipulation between the parties, according to which, among other things, a pretrial hearing was scheduled for 7 December 2023.

- On 9 October 2022, Energean reported the piping of natural gas from the shore to the FPSO platform via the gas transmission systems as part of the tests and the trial run of the systems conducted by the company in preparation for the commencement of natural gas production from the Karish reservoir.
- On 26 October 2022, Energean reported initial natural gas production from the Karish reservoir and on 28 October 2022, it began selling natural gas to its customers. The gas production system has an annual production capacity of up to approx. 6.5 BCM, while at the end of 2023, Energean is expected to complete the installation of additional system components which will make it possible to increase the production capacity from the reservoir to up to approx. 8.0 BCM per annum. In Energean's estimation, commercial gas sales are expected to reach an annual production level of approx. 6.5 BCM within around four to six months from the date of the initial gas production.
- On 17 November 2022, Energean reported that it had signed a sale agreement with Vitol SA for initial marketing of deliveries of hydrocarbon liquids. On 14 February 2023, the company supplied the first delivery of hydrocarbon liquids from the Karish reservoir according to the aforementioned agreement. Energean also reported that commencement of production from the Karish North reservoir is expected at the end of 2023 (in lieu of H2/2023 in previous reports).
- On 19 January 2023, Energean reported that in 2022 it produced approx. 0.28 BCM of natural gas from the Karish reservoir and that the production rate in 2023 will be between approx. 4.5 BCM based on take-or-pay contracts, and 5.5 BCM based on total annual contract quantity. The company mentioned that these quantities do not take into consideration sales based on the SPOT agreement with IEC in 2023. However, in March 2023, the company updated that the production rate in 2023 will be between approx. 4.5 BCM and 5 BCM.
- **Update of the volume of resources attributable to the Karish, Karish North and Tanin reservoirs** – On 23 March 2023, Energean released a resource and reserve report as of 31 December 2022, 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. 99.6 BCM and approx. 95.6 million barrels, respectively<sup>44</sup>. Energean has postponed the estimated date of commencement of production from the Tanin reservoir to 2030 (rather than 2028).

<sup>44</sup> <https://www.energean.com/media/5400/dm-final-report-energean-israel-2022ye.pdf>

Furthermore, Energean released its forecasts with respect to the rate of production of the natural gas and hydrocarbon liquids from each one of the Reservoirs, as well as forecasts pertaining to the amounts of the capital investments, royalties, taxes and operating costs of the Reservoirs.

- On 18 June 2023, Energean announced that Energean Israel Finance Ltd.<sup>45</sup> intends to issue a secured senior bond series in the total amount of \$750 million which is due to mature on 30 September 2033. The annual interest rate of this series is 8.50% and it will be paid in semi-annual installments on 30 March and 30 September of each year. According to the report, the bond is expected to be issued in July 2023 and traded on TASE-UP<sup>46</sup>. Energean intends to use the aforesaid amount, to: (1) pay the company's bonds that are due to mature in 2024; (2) pay the final deferred consideration to Kerogen Fund for the acquisition of Energean Israel; (3) finance interest expenses; and (4) pay fees, accrued interest and other expenses due to the payment of the bonds mentioned in Section 1 above and the issuance of the bond. On 11 July 2023 such bond was issued on TACT-Institutional.
- On 26 July 2023, the S&P Maalot rating agency gave an il.A rating for the issuance of the secured senior bond with stable outlook.<sup>47</sup>

#### 4.6.3 Additional leases

- On 13 December 2022, the Ministry of Energy published the fourth competitive process for receipt of licenses for natural gas explorations in Israeli waters<sup>48</sup>. In the context of the process, 4 zones of exploration licenses were offered, designed to enable a more accurate match between the exploration areas and the geological structures in the sea that may contain natural resources and which will enable a more professional and efficient performance of geological and geophysical surveys. In some of the zones, exploration licenses have already been given in the past, and seismic surveys and other exploration activities have already been performed in them, attesting to a possible potential for discovery of hydrocarbon reservoirs. According to the process principles, the exploration license will be given for a 3-year period, after which the license holder may request an extension of two additional years and thereafter, of two more years (7 years in total), when specific conditions are met. In addition, in the context of the process, exploration

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<sup>45</sup> An Israel-based SPV. The SPV is held by Energean Israel.

<sup>46</sup> TASE-UP is a platform for raising of capital or debt for private entities from institutional investors and/or other (including private) qualified clients from Israel and overseas. In addition, the private entities may use the platform for trade without being obligated to release a prospectus and without being subject to current reporting obligations or disclosure requirements.

<sup>47</sup> Source: <https://mayafiles.tase.co.il/rpdf/1537001-1538000/P1537511-00.pdf>

<sup>48</sup> [https://www.gov.il/he/departments/news/press\\_131222](https://www.gov.il/he/departments/news/press_131222)

licenses will only be given in areas that are far from the coast, at a distance greater than at least 40 km.

- On 16 July 2023, the bidding phase of the above-mentioned competitive procedure ended, during which 6 gas exploration bids were received. The bids were submitted by 4 different groups comprised of 9 companies in total, 5 of which are new companies operating in Israel. According to the terms and conditions of the process, the new companies will be given priority over the existing companies in receiving the exploration licenses.

#### 4.6.4 Subsequent Events

- On 7 October 2023, the terrorist organization "Hamas" launched a deadly attack on Israel, targeting in particular communities in the Gaza Envelope ("Otef Aza"). As of this writing, as a result of this attack, ~1,400 people were murdered and ~240 more were abducted into Gaza. Following the attack, the Israeli government declared war against the terrorist organization.

On 9 October 2023, due to the inherent risk to the assets located in the South of Israel, the Government of Israel, through the Ministry of Energy, decided to completely stop the production of gas from the Tamar platform and to close the compressor station located at the EAPC site in Ashkelon, which is used for the export of gas to Egypt through the EMG pipeline. In addition, in view of the security situation and the uncertainty created by the war, INGL delivered a force majeure notice whereby work on the Ashdod-Ashkelon section has for the time being been discontinued.

Concurrently, the Government of Israel authorized the Minister of Energy to declare an energy emergency, if required. As of this writing, no such emergency situation has yet been declared, but the Leviathan and Karish reservoirs supply the full consumption of the domestic market. Accordingly, the export of gas to Egypt from the Leviathan reservoir was reduced during such period.

Further to the above, on 24 October 2023, rating agency Moody's reported that it is considering downgrading the rating of the Partnership, Energean and the IEC. This report joins Moody's previous report according to which it places the credit rating of the State of Israel on review for possible downgrade.

Following the report regarding the discontinuation of natural gas production from the Tamar reservoir, in view of the security situation in Israel, on 12 November 2023, the Israeli government, through the Ministry of Energy, informed Chevron, the operator of the Tamar project, that operation of the Tamar platform may be resumed. Accordingly, Chevron is working to resume operation of the platform and regular production from the reservoir within a few days.

At this stage it is impossible to estimate the effect of the war on the business of the Partnership and/or Energean.

- Further to Section 4.6.2, regarding the dispute between Energean and NewMed Energy in connection with the right to receive the balance of the debt component, on 5 November 2023, the Partnership reported on a mediation agreement that was signed between it and Energean, and on which the court had entered a judgment. According to the agreements, Energean shall pay the Partnership, in two installments in 2024, a total sum of approx. \$47.4 million, which constitutes the entire balance of the consideration plus agreed annual interest. Upon completion of such payment, the parties' claims in connection with the legal proceeding in this matter will be settled.





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## 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 27 March 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.
- ii. Royalties from revenues (net of existing royalties<sup>49</sup>) 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.

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<sup>49</sup> 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 31 December 2022, prepared by the consulting firm DeGolyer and MacNaughton, a competent resource appraiser (“**D&M CPR**”), released by Energean on 23 March 2023, 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 from Karish reservoir began in Q4/2022. It was further reported that the production well in the Karish North reservoir was drilled and completed during Q3/2022, and first gas from the reservoir is expected at the end of 2023. According to these reports, production from the Tanin lease is expected to begin in 2030.

In the context of the valuation, it was assumed that the production of gas from the Karish North and Tanin reservoirs will begin in Q1/2024 and Q1/2030, respectively. It was further assumed that the natural gas reserves in the Karish, Karish North and Tanin reservoirs would be depleted in 2042, 2042 and 2041, respectively, based on assumptions presented in the D&M CPR.

### 5.2.3 Quantity forecast and annual production rate

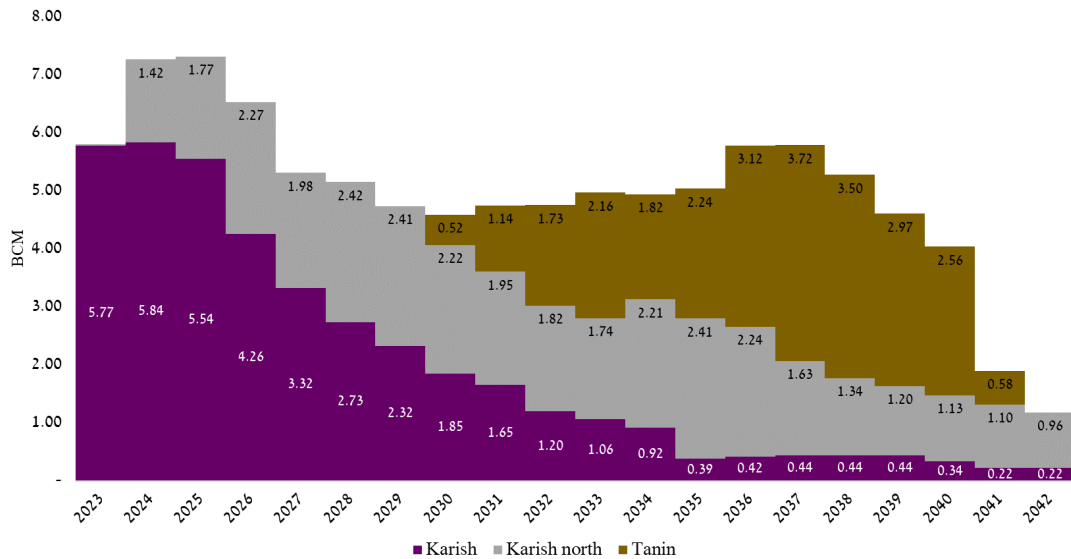
Below is a specification of the quantities of natural gas and hydrocarbon liquids (condensate and natural gas liquids) in the Karish and Tanin leases (100%) as published in the D&M CPR:

| Reservoir    | Reserves and Resources |                             |
|--------------|------------------------|-----------------------------|
|              | Natural Gas (BCM)      | Hydrocarbon Liquids (MMBBL) |
|              | <b>2P</b>              | <b>2P</b>                   |
| Karish       | 39.4                   | 54.2                        |
| Karish North | 34.2                   | 36.9                        |
| Tanin        | 26.1                   | 4.5                         |
| <b>Total</b> | <b>99.6</b>            | <b>95.6</b>                 |

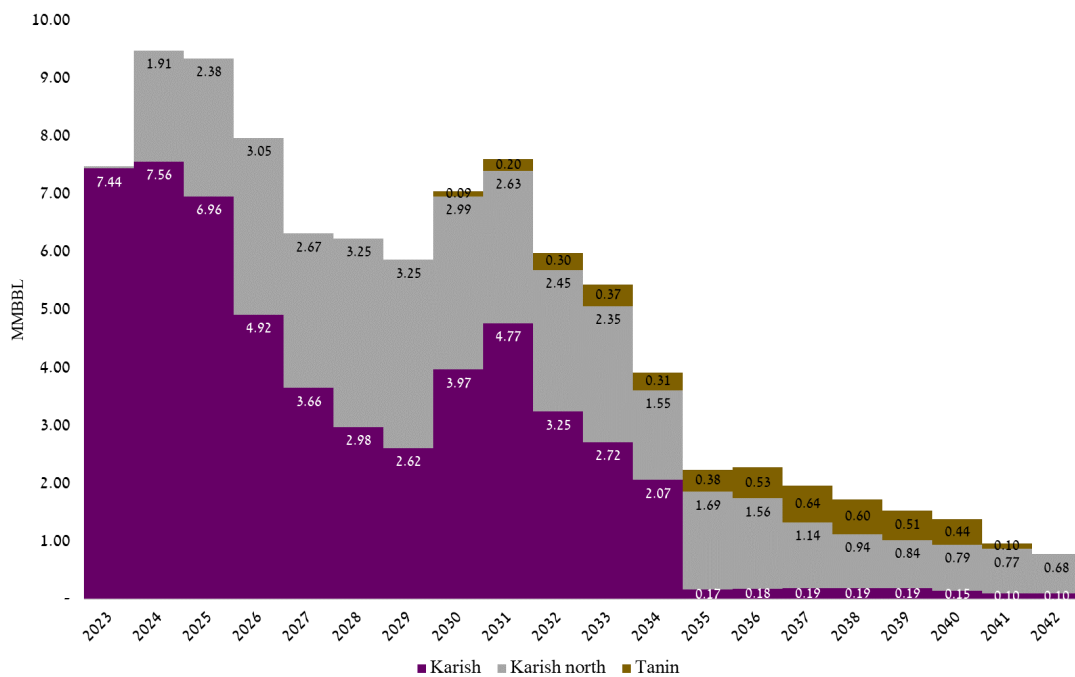
Based on Energean's financial statements as of 30 June 2023 and the conversion rate derived from the above table between the quantity of natural gas and the quantity of the hydrocarbon liquids in the Karish reservoir, during H1/2023 Energean produced ~1.6 BCM of natural gas and ~1.6 million barrels of hydrocarbon liquids. In the context of the royalties received from Energean, it does not provide the Partnership with details regarding the production quantities and therefore it is difficult to estimate these quantities. In addition, it transpires from Energean's financial statements that it intends to reach an annual production rate of ~0.8 BCM of natural gas and of ~4.1 million barrels of hydrocarbon liquids from the Karish reservoir by the end of 2023. According to these reports, we reduced the remaining reserves and resources in the Karish reservoir, as specified in the D&M CPR.

According to the D&M CPR, Energean estimates that it is expected to sell gas at a rate of up to ~7.3 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 (2P reserves):



The chart below describes the production rate of hydrocarbon liquids (condensate and natural gas liquids) from the reservoirs according to the D&M CPR (2P reserves):





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The forecasted annual rate of production of natural gas and condensate used in the valuation was based on the rate of production specified in the D&M CPR, 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, in accordance with the various reports of Energean that pertain to the actual rate of production and the forecasted rate of production from the reservoirs, which were released after the publication of the D&M CPR, adjustments were made to the rate of production of the natural gas and condensate in 2023. These reports include, *inter alia*, an actual production rate that is lower than the forecasted rate of production in the D&M CPR and forecasts based on a ramp-up in the rate of production, the feasibility and likelihood of occurrence of which we cannot assess in the absence of further publicly-available information. As of the date of this Paper, such reports are the only source for Energean's forecasts of the rate of production from the reservoirs. Due to these adjustments to the production rate, the balance of the quantity deducted in the 2023 production rate has been postponed to the last years in the production profile.

In addition, according to the D&M CPR, a factor of approx. 37.2 million was taken into account for the conversion from an MMBTU unit to a BCM unit.

#### 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 30.39 Agorot (September 2023). 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, construction of additional natural gas-fired power plants by the IEC, the sale of power plants to IPPs and other production costs. According to our forecasts, the production component tariff is expected to range between approx. 26.57-31.1 Agorot throughout 2023-2037.
  - 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 IPPs (such as the contract with OPC) and industrial producers (such as the contracts with ICL and ORL).

The base scenario and the low scenario, the D&M CPR assumed natural gas price of approx. U.S. \$4.34 per MMBTU for 2023, and a fixed natural gas price of approx. U.S. \$4.04 per MMBTU starting from 2024 and throughout all the years of the forecast.

### 5.2.5 Condensate price forecast

The condensate price forecast was estimated based on the average long-term petroleum prices forecast by the World Bank<sup>50</sup>, the EAI<sup>51</sup>, and the forward Brent prices according to Bloomberg.

### 5.2.6 Royalty 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<sup>52</sup>. 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 clarifications, the effective royalty rate which will be paid to the State for the gas and condensate is 11.25%. Furthermore, the rate of the existing royalties in the leases, borne by each of the Partnerships, were similarly adjusted.

### 5.2.7 Petroleum profit 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

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<sup>50</sup> A World Bank Semi-Annual Report: Commodity Markets Outlook, April 2023.

<sup>51</sup> U.S Energy Information Administration: Analysis & Projections, September 2023.

<sup>52</sup> On 9 February 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](https://www.gov.il/he/departments/publications/Call_for_bids/os_090220)

to a rate of approx. 46.8% (according to the corporate tax rate<sup>53</sup>) with the Investment Coverage Ratio reaching 2.3. The levy will be calculated and imposed for every lease 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 (before tax) was estimated at approx. 10.5% based on a weighted average of the required return on equity which was estimated using the CAPM model, the normative debt price and net of the operational risk, as specified in the table below:

| Parameter  | Value        | Note |
|--|--------------|------|
| Risk-free interest                                   | 4.66%        | A    |
| Beta   | 1.45         | B    |
| Market premium                                       | 6.07%        | C    |
| Specific risk premium                                | 4.1%         | D    |
| <b>The company's equity price</b>                    | <b>17.5%</b> |      |
| The debt price                                       | 8.7%         | E    |
| Tax rate   | 0.0%         | F    |
| Leverage ratio                                       | 60%          | G    |
| <b>Weighted equity price</b>                         | <b>12.2%</b> |      |
| Net of operational risk                              | -1.70%       | H    |
| <b>Weighted equity price net of operational risk</b> | <b>10.5%</b> |      |

Below are the working assumptions that were used in the calculation of the cap rate:

- U.S. government bond yield for the average duration of the cash flow (4.36 years).
- Based on an average of unleveraged betas of benchmark companies, as specified in the table below:

| Company                              | Unleveraged Beta |
|--------------------------------------|------------------|
| Isramco Negev 2, Limited Partnership | 0.53             |
| Ratio Energies Limited Partnership   | 0.97             |
| Tamar Petroleum Ltd.                 | 0.19             |
| Tomer Energy Royalties (2012) Ltd.   | 0.25             |
| NewMed Energy Limited Partnership    | 0.97             |
| <b>Benchmark company average</b>     | <b>0.58</b>      |

<sup>53</sup> Corporate tax of 23% was assumed according to the statutory tax rate known as of the Valuation Date.



The leveraged beta was estimated based on the average beta of the benchmark companies above and the normative leverage ratio, without tax (see Note F).

- c. The market risk premium in Israel (Damodaran June 2023).
- d. Size risk premium according to Duff & Phelps International Valuation Handbook 2022 in addition to a specific risk premium due to the volatility in the oil prices and the competition in the domestic market.
- e. The debt price was estimated based on the yield-to-maturity rate derived from the bond issuance carried out by the company in July 2023<sup>54</sup>.
- f. The valuation model is a pre-tax model and therefore no tax was taken into account in the cap rate.
- g. The average leverage ratio of the benchmark companies (in Section (b) above), as of 30 September 2023, was estimated at approx. 38.0%. In our estimation, the normative leverage ratio for the long-term is 60.0%
- h. The cap rate of 12.2%, which was estimated using the CAPM model (the “**Operating Cap Rate**”), includes many operational risks to which the recipient of the overriding royalties is not exposed. In our experience, the Operating Cap Rate is 1.5% to 2.0% higher than the cap rate for the royalties. Consequently, a reduction was made at the rate of ~1.7% from the risk rate produced by the model.

### 5.3 Results of the valuation

According to the assumptions specified in the Paper itself, the value of the Royalties as of 30 September 2023 is estimated at approx. \$307.5 million (the value of the Karish Royalties (including Karish North) and the Tanin Royalties are estimated at approx. \$262.1 million and approx. \$45.4 million, respectively). **To clarify, the valuation does not address the disputes, if any, between Energean and the Partnership, and the implications thereof** (for further details, see Section 4.6.2 above).

<sup>54</sup> For further details, see Section 4.6.2.

## 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 | 254.6  | 275.3 | 296.4 | 280.0 | 301.7 | 318.8 | 333.8 |
|                                      | +150 bp | 263.9  | 285.3 | 306.9 | 290.3 | 312.7 | 330.5 | 345.9 |
|                                      | +50 bp  | 274.0  | 296.1 | 318.3 | 301.5 | 324.8 | 343.2 | 359.0 |
|                                      | -       | 279.3  | 301.8 | 324.3 | 307.5 | 331.2 | 350.0 | 366.0 |
|                                      | -50 bp  | 284.9  | 307.8 | 330.7 | 313.7 | 337.9 | 357.1 | 373.3 |
|                                      | -150 bp | 297.0  | 320.7 | 344.2 | 327.1 | 352.3 | 372.3 | 389.0 |
|                                      | -250 bp | 310.1  | 334.7 | 359.0 | 341.7 | 368.0 | 389.0 | 406.2 |

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 | 282.3   | 300.8 | 309.0 | 280.0 | 287.4 | 297.9 | 310.7 |
|                                      | +150 bp | 293.2   | 311.9 | 320.2 | 290.3 | 297.8 | 308.3 | 321.2 |
|                                      | +50 bp  | 305.1   | 324.0 | 332.4 | 301.5 | 309.0 | 319.6 | 332.5 |
|                                      | -       | 311.5   | 330.5 | 338.9 | 307.5 | 315.0 | 325.7 | 338.5 |
|                                      | -50 bp  | 318.2   | 337.2 | 345.7 | 313.7 | 321.2 | 331.9 | 344.8 |
|                                      | -150 bp | 332.6   | 351.7 | 360.2 | 327.1 | 334.5 | 345.3 | 358.1 |
|                                      | -250 bp | 348.4   | 367.6 | 376.1 | 341.7 | 349.1 | 360.0 | 372.6 |

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 | 277.9   | 292.2  | 302.2  | 280.0 | 300.5 | 304.4 | 314.8 |
|                                      | +150 bp | 288.1   | 302.7  | 312.8  | 290.3 | 311.3 | 315.3 | 326.0 |
|                                      | +50 bp  | 299.2   | 314.2  | 324.3  | 301.5 | 323.1 | 327.2 | 338.2 |
|                                      | -       | 305.1   | 320.3  | 330.4  | 307.5 | 329.4 | 333.5 | 344.7 |
|                                      | -50 bp  | 311.2   | 326.7  | 336.8  | 313.7 | 335.9 | 340.1 | 351.4 |
|                                      | -150 bp | 324.4   | 340.4  | 350.4  | 327.1 | 349.9 | 354.3 | 366.0 |
|                                      | -250 bp | 338.9   | 355.3  | 365.3  | 341.7 | 365.3 | 369.8 | 381.8 |



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## Annex A – Cash Flow Forecast

| Year   | Unit           | 2023        | 2024        | 2025        | 2026        | 2027        | 2028        | 2029        | 2030        | 2031        | 2032        |
|--|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>Production</u>                            |                |             |             |             |             |             |             |             |             |             |             |
| Gas production - Karish*                     | bcm/y          | 1.40        | 7.26        | 7.31        | 6.52        | 5.30        | 5.15        | 4.74        | 4.07        | 3.61        | 3.02        |
| Gas production - Tanin                       | bcm/y          | -           | -           | -           | -           | -           | -           | -           | 0.52        | 1.14        | 1.73        |
| Condensate production - Karish*              | bbl/y m        | 1.81        | 9.48        | 9.35        | 7.97        | 6.32        | 6.24        | 5.87        | 6.96        | 7.40        | 5.69        |
| Condensate production - Tanin                | bbl/y m        | -           | -           | -           | -           | -           | -           | -           | 0.09        | 0.20        | 0.30        |
| <u>Prices</u>                                |                |             |             |             |             |             |             |             |             |             |             |
| Natural gas price                            | US\$           | 4.19        | 4.00        | 4.30        | 4.16        | 4.18        | 4.22        | 4.21        | 4.09        | 4.07        | 4.04        |
| Condensate Price                             | US\$           | 87.41       | 86.58       | 80.02       | 76.56       | 73.80       | 71.53       | 69.65       | 68.71       | 67.78       | 66.86       |
| <u>Revenues</u>                              |                |             |             |             |             |             |             |             |             |             |             |
| Karish - Revenues*                           |                |             |             |             |             |             |             |             |             |             |             |
| Natural Gas Revenues                         | US\$ MM        | 217.9       | 1,078.4     | 1,168.7     | 1,007.9     | 823.4       | 807.2       | 740.8       | 618.5       | 545.9       | 453.9       |
| Condensate Revenues                          | US\$ MM        | 157.8       | 820.5       | 747.8       | 610.2       | 466.5       | 446.0       | 408.7       | 478.2       | 501.8       | 380.7       |
| Total Gross Revenues                         | US\$ MM        | 375.7       | 1,898.9     | 1,916.5     | 1,618.1     | 1,289.9     | 1,253.2     | 1,149.4     | 1,096.7     | 1,047.7     | 834.5       |
| Tanin - Revenues                             |                |             |             |             |             |             |             |             |             |             |             |
| Natural Gas Revenues                         | US\$ MM        | -           | -           | -           | -           | -           | -           | -           | 79.4        | 172.9       | 260.0       |
| Condensate Revenues                          | US\$ MM        | -           | -           | -           | -           | -           | -           | -           | 6.1         | 13.4        | 19.7        |
| Total Gross Revenues                         | US\$ MM        | -           | -           | -           | -           | -           | -           | -           | 85.5        | 186.3       | 279.7       |
| K&T - Total Gross Revenues                   | US\$ MM        | 375.7       | 1,898.9     | 1,916.5     | 1,618.1     | 1,289.9     | 1,253.2     | 1,149.4     | 1,182.2     | 1,234.1     | 1,114.2     |
| <u>New-Med Energy - Transaction Revenues</u> |                |             |             |             |             |             |             |             |             |             |             |
| Karish ORRI, Net*                            | US\$ MM        | 17.3        | 87.5        | 54.0        | 36.0        | 32.2        | 24.6        | 20.2        | 17.7        | 16.2        | 12.9        |
| Tanin ORRI Net                               | US\$ MM        | -           | -           | -           | -           | -           | -           | -           | 4.5         | 9.8         | 14.8        |
| <b>Transaction ORRI, Net**</b>               | <b>US\$ MM</b> | <b>17.3</b> | <b>87.5</b> | <b>54.0</b> | <b>36.0</b> | <b>32.2</b> | <b>24.6</b> | <b>20.2</b> | <b>22.2</b> | <b>26.0</b> | <b>27.6</b> |

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| Year  | Unit                  | 2023               | 2024               | 2025               | 2026               | 2027               | 2028               | 2029               | 2030               | 2031               | 2032               |
|---|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <i>Karish Discounted Transaction Revenues*</i>      | <i>US\$ MM</i>        | <i>17.1</i>        | <i>81.2</i>        | <i>45.7</i>        | <i>27.3</i>        | <i>22.2</i>        | <i>15.3</i>        | <i>11.4</i>        | <i>9.0</i>         | <i>7.4</i>         | <i>5.4</i>         |
| <i>Tanin Discounted Transaction Revenues</i>        | <i>US\$ MM</i>        | <i>-</i>           | <i>-</i>           | <i>-</i>           | <i>-</i>           | <i>-</i>           | <i>-</i>           | <i>-</i>           | <i>2.3</i>         | <i>4.5</i>         | <i>6.2</i>         |
| <b><i>Total Discounted Transaction Revenues</i></b> | <b><i>US\$ MM</i></b> | <b><i>17.1</i></b> | <b><i>81.2</i></b> | <b><i>45.7</i></b> | <b><i>27.3</i></b> | <b><i>22.2</i></b> | <b><i>15.3</i></b> | <b><i>11.4</i></b> | <b><i>11.3</i></b> | <b><i>12.0</i></b> | <b><i>11.5</i></b> |

\*Including Karish North

\*\*Net of Existing ORRI net of Petroleum Tax

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| Year   | Unit    | 2033    | 2034    | 2035    | 2036    | 2037    | 2038  | 2039  | 2040  | 2041  | 2042  |
|--|---------|---------|---------|---------|---------|---------|-------|-------|-------|-------|-------|
| <u>Production</u>                            |         |         |         |         |         |         |       |       |       |       |       |
| Gas production - Karish*                     | bcm/y   | 2.80    | 3.13    | 3.21    | 2.93    | 2.27    | 1.91  | 1.70  | 1.54  | 1.46  | 1.27  |
| Gas production - Tanin                       | bcm/y   | 2.16    | 1.82    | 2.24    | 3.12    | 3.72    | 3.50  | 2.97  | 2.56  | 0.58  | -     |
| Condensate production - Karish*              | bbl/y m | 5.07    | 3.61    | 2.84    | 2.24    | 1.66    | 1.45  | 1.36  | 1.27  | 1.20  | 0.98  |
| Condensate production - Tanin                | bbl/y m | 0.37    | 0.31    | 0.38    | 0.53    | 0.64    | 0.60  | 0.51  | 0.44  | 0.10  | -     |
| <u>Prices</u>                                |         |         |         |         |         |         |       |       |       |       |       |
| Natural gas price                            | US\$    | 4.04    | 4.07    | 3.98    | 3.97    | 3.97    | 3.97  | 3.98  | 3.98  | 3.98  | 3.98  |
| Condensate Price                             | US\$    | 65.96   | 65.07   | 64.19   | 63.32   | 62.46   | 61.61 | 60.78 | 59.96 | 59.15 | 58.35 |
| <u>Revenues</u>                              |         |         |         |         |         |         |       |       |       |       |       |
| Karish - Revenues*                           |         |         |         |         |         |         |       |       |       |       |       |
| Natural Gas Revenues                         | US\$ MM | 421.7   | 473.2   | 474.7   | 432.7   | 335.3   | 281.9 | 251.5 | 227.9 | 215.2 | 188.2 |
| Condensate Revenues                          | US\$ MM | 334.1   | 235.1   | 182.1   | 141.6   | 103.6   | 89.5  | 82.4  | 76.1  | 70.9  | 57.0  |
| Total Gross Revenues                         | US\$ MM | 755.7   | 708.3   | 656.8   | 574.3   | 438.8   | 371.4 | 333.9 | 304.0 | 286.1 | 245.2 |
| Tanin - Revenues                             |         |         |         |         |         |         |       |       |       |       |       |
| Natural Gas Revenues                         | US\$ MM | 325.0   | 274.9   | 330.9   | 460.6   | 548.6   | 516.7 | 438.5 | 378.7 | 85.6  | -     |
| Condensate Revenues                          | US\$ MM | 24.3    | 20.2    | 24.5    | 33.7    | 39.7    | 36.8  | 30.8  | 26.3  | 5.9   | -     |
| Total Gross Revenues                         | US\$ MM | 349.3   | 295.0   | 355.4   | 494.3   | 588.3   | 553.5 | 469.3 | 404.9 | 91.5  | -     |
| K&T - Total Gross Revenues                   | US\$ MM | 1,105.0 | 1,003.3 | 1,012.2 | 1,068.6 | 1,027.1 | 924.9 | 803.2 | 708.9 | 377.6 | 245.2 |
| <u>New-Med Energy - Transaction Revenues</u> |         |         |         |         |         |         |       |       |       |       |       |

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| Year  | Unit                  | 2033        | 2034        | 2035        | 2036        | 2037        | 2038        | 2039        | 2040        | 2041       | 2042       |
|---|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|
| <i>Karish ORRI, Net*</i>                            | <i>US\$ MM</i>        | 11.7        | 10.9        | 10.1        | 8.9         | 6.8         | 5.7         | 5.1         | 4.7         | 4.4        | 3.8        |
| <i>Tanin ORRI Net</i>                               | <i>US\$ MM</i>        | 18.4        | 15.6        | 18.8        | 17.3        | 15.2        | 11.3        | 7.9         | 6.2         | 1.4        | -          |
| <b><i>Transaction ORRI, Net**</i></b>               | <b><i>US\$ MM</i></b> | <b>30.1</b> | <b>26.5</b> | <b>28.9</b> | <b>26.1</b> | <b>21.9</b> | <b>17.1</b> | <b>13.1</b> | <b>10.9</b> | <b>5.8</b> | <b>3.8</b> |
| <i>Karish Discounted Transaction Revenues*</i>      | <i>US\$ MM</i>        | 4.4         | 3.7         | 3.1         | 2.5         | 1.7         | 1.3         | 1.1         | 0.9         | 0.7        | 0.6        |
| <i>Tanin Discounted Transaction Revenues</i>        | <i>US\$ MM</i>        | 7.0         | 5.3         | 5.8         | 4.9         | 3.8         | 2.6         | 1.6         | 1.2         | 0.2        | -          |
| <b><i>Total Discounted Transaction Revenues</i></b> | <b><i>US\$ MM</i></b> | <b>11.4</b> | <b>9.0</b>  | <b>8.9</b>  | <b>7.3</b>  | <b>5.6</b>  | <b>3.9</b>  | <b>2.7</b>  | <b>2.0</b>  | <b>1.0</b> | <b>0.6</b> |

\*Including Karish North

\*\*Net of Existing ORRI net of Petroleum Tax

|  |                  |  |
|--|------------------|--|
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## **Annex B – Definitions**

|   |   |
|---|---|
| <b>NewMed Energy/the Partnership</b>      | NewMed Energy Limited Partnership   |
| <b>Avner</b>                              | Avner Oil Exploration - Limited Partnership   |
| <b>Natural Gas</b>                        | A gas mixture containing mainly Methane, used mainly for the production of electricity and as a source of energy for industry   |
| <b>The Buyer/Energean</b>                 | Energean Plc. through Energean Israel Limited (Formerly Ocean Energean Oil and Gas Ltd.)  |
| <b>The Partnerships/Sellers</b>           | NewMed Energy and Avner   |
| <b>The Petroleum Law</b>                  | The Petroleum Law, 5712-1952  |
| <b>The Gas Framework or the Framework</b> | 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 |
| <b>Chevron</b>                            | Chevron Energy Mediterranean Ltd.   |
| <b>Condensate</b>                         | Hydrocarbon liquid created during the production of natural gas, used as raw material for the production of fuels and constitutes a petroleum substitute  |
| <b>Petroleum Asset</b>                    | 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  |
| <b>BCM</b>                                | Billion Cubic Meters  |
| <b>DCF</b>                                | Discounted Cash Flows   |
| <b>FID</b>                                | The adoption of a decision to invest in the development of the Karish and Tanin natural gas reservoirs  |
| <b>LNG</b>                                | Liquid Natural Gas  |
| <b>MMBTU</b>                              | A Million BTU – an energy unit used as a basis for the determination of natural gas prices  |