



Leviathan Bond

LEVIATHAN BOND LTD

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2023

EXPRESSED IN US\$ THOUSANDS.

AUDITED

LEVIATHAN BOND LTD

FINANCIAL STATEMENTS AS OF DECEMBER 31 2023, EXPRESSED IN US\$ THOUSANDS

AUDITED

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Auditors' Report to the Shareholders of Leviathan Bond Ltd

We have audited the accompanying statements of financial position of Leviathan Bond Limited ("**Company**") as of December 31, 2023 and 2022 the Statements of Comprehensive Income and the statement of changes in equity for the year ended then. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed under Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements presents fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations, for the year ended then, in accordance with International Financial Reporting Standards (IFRS).

Tel Aviv, March 18, 2024

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

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

Leviathan Bond Ltd**Statements of Financial Position (Expressed in US\$ Thousands)**

	31.12.20 23	31.12.20 22
Assets:		
Current Assets:		
Short term Bank deposits	33	253,279
Loans to shareholders	-	499,603
Related parties	**	**
	33	752,882
Noncurrent Assets:		
Loans to shareholders	1,749,034	1,749,625
Long term bank deposits	101,411	-
	1,850,445	1,749,625
	1,850,478	2,502,507
Liabilities and Equity:		
Current Liabilities:		
Bonds	-	500,000
Related parties	1,444	153,279
	1,444	653,279
Noncurrent Liabilities:		
Bonds	1,750,000	1,750,000
Loans from shareholders	100,000	100,000
	1,850,000	1,850,000
Equity (Deficit)	(966)	(772)
	1,850,478	2,502,507

* Less than \$1,000

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

March 18, 2024

**Date of Financial
Statement Approval**

**Tzachi Habusha
Director**

**Yossi Abu,
Director**

Leviathan Bond Ltd

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

	For year ended on	
	31.12.2023	31.12.2022
Financial expenses	134,437	146,252
Financial income	(134,243)	(147,398)
Total comprehensive expenses (income)	194	(1,146)

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

Leviathan Bond Ltd**Statements of Changes in Equity (Deficit) (Expressed in US\$ thousands)**

	The Company equity	Retained earnings	Total
Changes for the year ended December 31, 2022:			
Balance as of December 31, 2021	<u>*</u>	<u>(1,918)</u>	<u>(1,918)</u>
Total comprehensive Income	-	1,146	1,146
Balance as of December 31, 2022	<u>*</u>	<u>(772)</u>	<u>(772)</u>
Changes for the year ended December 31, 2023:			
Total comprehensive Income	-	(194)	(194)
Balance as of December 31, 2023	<u>*</u>	<u>(966)</u>	<u>(966)</u>

* Less than \$1,000

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

Note 1 - General:

A. NewMed Energy – Limited Partnership (the “**Partnership**” or “**NewMed**”)¹, incorporated Leviathan Bond Limited (“**the Company**”) on July 15, 2020. NewMed holds 100% of the shares of the Company. The sole purpose of the Company is to issue bonds under Rule 144A to qualified investors and to provide the funds raised as loans, under the same conditions (“back-to-back”), to NewMed (see also note 3 below).

B. 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 “**Iron Swords War**” or 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.

1. Since the outbreak 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 has been periodically issuing current instructions limiting the activity of workplaces and educational institutions. As of the date of approval of the financial statements, the Israeli economy has resumed normal operations under the shadow of war, most of the restrictions imposed by the Homefront Command upon the breakout of war have been lifted, and most of the people called for reserve duty by emergency decrees have been discharged and gone back to their homes.
2. Shortly after the War broke out, the Houthi rebel movement, which controls parts of Yemen and is supported by Iran, began attacking and launching missiles and UAVs at Israel and at vessels and tankers sailing near the shores of Yemen in the Red Sea. The Houthi rebels’ said hostile activity is causing disruptions to the maritime trade routes to Israel and other countries, and is impacting maritime shipping prices and may also impact energy product prices.
3. 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. S&P Global Ratings also announced the downgrade of the credit rating of the State of Israel from stable to negative, while keeping the existing credit rating unchanged. Further thereto, on 10 February 2024, the credit rating agency Moody’s announced a downgrade of the State of Israel’s credit rating by one notch to A2, stating that Israel’s credit rating had been placed on an additional Negative Rating Watch, and that the main motive for the downgrade is Moody's estimations that the continued war, its extensive effects and ramifications, materially increase the political risk in Israel and weaken the executive branch and the legislature, and the financial robustness in the foreseeable future, adding that the negative forecast

¹ The Partnership’s previous name was Delek Drilling – Limited Partnership. On February 21, 2022, the Partnership’s name was changed to its current name.

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derives from the additional existing risks, particularly the risk of escalation vis-à-vis the Hezbollah terrorist organization in the north which could potentially harm the economy much more significantly than now. Further thereto, other rating agencies may also make negative rating announcements about the Israeli economy in the near future.

Note 1 – General (Cont.):

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

4. With the outbreak of the War on 7 October 2023, as aforesaid, the Tamar partners halted gas production from the Tamar reservoir following an order received by Chevron from the Ministry of Energy. Gas production from the Tamar reservoir was resumed on 13 November 2023. Production from the Leviathan and Karish reservoirs continued as usual, without interruption. However, as a result of the halting of production from the Tamar reservoir as aforesaid, 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 Corp. Ltd. (“**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 flow of gas through the EMG pipeline was halted, and was resumed on 14 November 2023. During this period, the entire gas supply to Egypt was piped via the Jordan-North Export Pipeline and the Jordanian transmission system. Transmission of the gas to Egypt in this manner entails additional transmission costs. As a consequence of the aforesaid, the total gas quantity supplied to Egypt in October and November 2023 was around 84% of the contract quantity of gas that the Leviathan Partners were obligated to supply according to the export agreement.
5. Since the outbreak of the War, and until the date of approval of the financial statements, production from the Leviathan reservoir has continued as usual, such that the Partnership’s revenues and profitability have not been materially impacted. However, as a result of the War, the operating expenses entailed by gas production have increased by an immaterial rate, mainly due to the difficulty experienced by foreign companies in sending work teams to the region, which has led to a rise in the rates paid and to a need for additional logistics to transport manpower and equipment. In addition, scheduled maintenance actions have been delayed, changed and adapted.
6. In addition, as a result of the War, there has been a delay in several projects being promoted by the Leviathan Partners, as follows:
 - (a) Work on the laying of the Ashdod-Ashkelon offshore pipeline, part of the Combined Section project. For further details, see Note 5M1 below.
 - (b) Commencement of the piping of the condensate to Ashdod Refinery Ltd. (“**ARF**”) via the pipeline of Energy Infrastructures Ltd. (PEI). For further details, see Note 5E below.
7. Natural gas platforms, the offshore and onshore production and transmission facilities, and other essential infrastructure systems in Israel and in the export countries may constitute targets for missile firing and acts of sabotage, and impact they suffer, if any, may cause extremely significant damage and disrupt or shut down the production and/or transmission activities for such amount of time and to such extent that may prove to be considerable. In such cases, the insurance policies that Chevron and the Partnership have acquired may possibly prove insufficient to cover the damage and loss suffered by the Partnership. In this context, it is noted that there is risk that at the renewal date of the insurance policies, chiefly in connection with war and terrorism, it will be impossible to acquire appropriate policies on reasonable commercial terms or at all. Another risk that arises from the War is for impact on the facilities for intake of condensate, a byproduct of the natural gas production from the Leviathan project. The risk of events of this type may increase significantly in the event of escalation on the northern front of the State of Israel or

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in case of expansion of the War to additional fronts. In such case of escalation of the War, the risk of imposition by the Government of restrictions on the regular production operations of the Leviathan reservoir and/or the Tamar or Karish reservoirs may increase as well. Restriction or discontinuation of the production from the Tamar and/or Karish reservoirs is expected to compel the Leviathan Partners to increase the quantities of supply to the domestic market at the expense of the export to Egypt.

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Notes to the Financial Statements as of December 31, 2023 (Expressed in US \$ Thousands)

Note 1 – General (Cont.):

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

(7) (Cont.)

Moreover, against the backdrop of the ongoing War, there is an increase in the geopolitical risk related to the export of natural gas from the Leviathan reservoir pursuant to the export agreements, which accounted for most of the Partnership’s revenues in 2023. In addition to the foregoing, in the event of significant escalation of the security situation, which leads to the early termination of the export agreements or which results in physical damage to the Leviathan project which is not remedied or in other events that are reasonably expected to cause a material adverse effect, and subject to remedying periods, qualifications and conditions, there is a risk of breach of the terms and conditions of the bonds of Leviathan Bond, which are secured by the Partnership’s interests in the Leviathan project and are traded on the TACT-Institutional system of Tel Aviv Stock Exchange Ltd. (in this section: the “**Bonds**”), which may provide the holders of the Bonds with a cause for acceleration and enforcement of the collateral. For further details with respect to the Bonds, see Note 3 below. It is further noted that an increase in the returns on the Bonds due to the development of the War may adversely affect the Partnership’s ability to raise additional debt and increase the finance costs in respect of such additional debt raising.

8. 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, whose materialization could have a material adverse effect on the Partnership, its assets and its business.

C. The Statements of Cash Flows have not been presented, as those statements do not add any significant information.

D. As of December 31st, 2023 the partnership had Approx. \$141.6 Million U.S Dollars in the Revenue account.

Note 2 - Significant Accounting Principles:

The accounting policy specified below was consistently applied in the financial statements of the Company, throughout the presented periods, unless stated otherwise. The description of the accounting policy in these financial statements has been reduced and adjusted for the first time in accordance with the requirements of the amendment to IAS 1 "Presentation of Financial Statements". See Section E below regarding the initial application of this amendment and other amendments to new IFRS standards.

A. Declaration regarding compliance with the International Financial Reporting Standards (IFRS):

The financial statements comply with the provisions of the International Financial Reporting Standards (“**IFRS**”).

B. Functional currency:

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The functional currency which best and most faithfully represents the economic effects of transactions, events and circumstances on the Partnership's business is the U.S. Dollar. Any transaction that is not in the Partnership's functional currency is a foreign currency transaction.

Note 2 - Significant Accounting Principles (Cont.):

C. Financial instruments:

1. Financial assets:

Financial assets were recognized when the Partnership became a party to the contractual provisions of the instrument using transaction settlement date accounting.

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

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

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

The Partnership measures debt instruments at fair value through profit or loss where:

A financial asset which constitutes a debt instrument does not meet the criteria for measurement thereof at amortized cost or at fair value through other comprehensive income. After the initial recognition, the financial asset is measured at fair value where profits or losses as a result of fair value adjustments are carried to profit or loss.

2. Financial liabilities:

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

Subsequently to the date of initial recognition, the Partnership measures all of the financial liabilities at amortized cost method.

D. Recognition of Income

Interest income in respect of financial assets, which are measured at amortized cost, are recognized on accrual basis using the effective interest method.

E. Initial implementation of new financial reporting standards and amendments to existing accounting standards

Amendment to IAS 1 regarding disclosure on accounting policy

In these financial statements, the Partnership is applying for the first time the amendment to IAS 1: "Presentation of Financial Statements". According to the amendment, the Partnership includes a disclosure on material accounting policies in lieu of the previously-required disclosure on significant accounting policies.

The amendment defines an accounting policy as material when it can reasonably be expected that a disclosure on this policy, combined with the additional information contained in the financial statements, would influence the decisions made by the principal users of the financial statements based thereon. The amendment also

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clarifies that information about the accounting policy is expected to be material if without it, the users of the financial statements would be denied the possibility of understanding other material information in the financial statements. The amendment further clarifies that there is no need to disclose information about non-material accounting policies. This amendment was implemented in these financial statements.

Note 3 - Bonds:

	Amount (\$ in millions)	Interest	Stated Maturity
Leviathan Bond-2025	600	6.125%	June 2025
Leviathan Bond-2027	600	6.500%	June 2027
Leviathan Bond-2030	550	6.750%	June 2030
Total	1,750		

On 18 August 2020, the issuance of bonds that were offered by Delek Leviathan Bond Ltd. (the "**Issuer**"), an SPC that is wholly held by the Partnership, pursuant to which bonds were issued in the total amount of \$2.25 billion, was completed.

The bonds were issued in four series. The bond principal and interest are in dollars. The interest on each one of the bond series is paid twice a year, on 30 June and on 30 December.

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

The full Issue proceeds were provided by the Issuer as a loan to the Partnership on terms and conditions identical to those of the bonds (back-to-back), and according to a loan agreement that was signed between the Issuer and the Partnership (the "**Loan**"). The Loan money was used by the Partnership for repayment of loans from banking corporations in the sum of approx. \$2 billion, for the deposit of a safety cushion in the sum of \$100 million in accordance with the terms and conditions of the bonds, for the payment of the issue costs in the sum of approx. \$33 million, and the balance of the proceeds was used for other uses according to the terms and conditions of the Commissioner's approval as described below (the "**Commissioner's Approval**").

To secure the bonds and the Loan, in the context of the indenture for the bonds and the other documents according to which the bonds will be issued (collectively: the "**Financing Documents**"), the Partnership pledged in favor of the trustee for the bonds (the "**Trustee**"), in a first-ranking fixed charge, its interests in the Leviathan project (45.34%), including in the Leviathan Leases (in this section: the "**Leases**"), the operating approvals of the production system and the export approvals (collectively: the "**Pledge of the Leases**"), the Partnership's rights and the revenues from agreements for the sale of gas and condensate from the Leviathan project (the "**Gas Agreements**"), the Partnership's rights in the joint operating agreement (JOA) for the Leases, the Partnership's share in the project's assets (including the platform, wells, facilities, and systems for production and transmission to shore), the Partnership's rights in dedicated

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bank accounts, certain insurance policies and various licenses in connection with the Leviathan project. The Partnership also pledged the shares held thereby in the Issuer, in NBL Jordan Marketing Limited and in Leviathan Transportation System Ltd.

In addition, the Issuer pledged in favor of the Trustee, in a first-ranking floating charge, its rights in all of its existing and future assets and pledged in favor of the Trustee its rights in the Loan agreement and in its bank accounts (collectively: the "**Pledges**" and the "**Pledged Assets**", as the case may be).

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

The Pledges that the Partnership created in favor of the Trustee are subject, *inter alia*, to the State's royalties according to the Petroleum Law and to the rights of the parties entitled to royalties in respect of the Partnership's revenues from the Leviathan project, including the control holder of the Partnership.

Note 3 – Bonds (Cont.):

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

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

to refrain from modifying or amending the Leviathan Agreements or material Gas Agreements, as defined in the Financing Documents ("**Material Gas Agreements**"), or the royalty agreements or engage in a new royalty agreement; to refrain from approval of certain acts in the context of the JOA; etc. The Issuer undertook not to take additional financial debt, with the exception of the issue of additional bonds or other secured debt *pari passu*, subject to conditions that were specified, including (i) the sum of the secured debt of the Issuer (including the bonds) does not exceed, at any time, \$2.5 billion; (ii) certain financial ratios that were specified in the Financing Documents in relation to the issuance of additional debt as aforesaid are maintained.

In addition, the Partnership undertook not to take any additional financial debt which is

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secured by the Pledged Assets, with the exception of an additional loan that it shall receive from the Issuer on terms and conditions back-to-back to additional debt that the Issuer shall raise subject to the restrictions set forth therefor in the Financing Documents.

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

In addition, provisions were determined regarding early redemption of the bonds, including (1) early redemption at the Issuer's initiative, subject to payment of a make whole premium, other than a certain period before the specified repayment date, during which prepayment will not be charged with make whole premium and (2) mandatory early redemption in certain cases that were defined, including by way of a buyback of the bonds and/or performance of a tender offer to all the bondholders, including upon a sale of all or some of the interests in the Leviathan project.

Note 3 – Bonds (Cont.):

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

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

Notes to the Financial Statements as of December 31, 2023 (Expressed in US \$ Thousands)

said payments to a non-pledged account of the Partnership is subject to conditions determined, including fulfillment of an NPV Coverage Ratio of at least 1.5².

The Financing Documents define Events of Default, upon occurrence of which, subject to certain determined curing periods, exceptions and conditions, the Trustee for the bonds shall be entitled (or required – upon the demand of one quarter of the bondholders) to accelerate the outstanding balance of the bonds and shall be entitled to act to enforce the Pledges. The main events are as follows: (1) Default on payment of principal, interest or other payments mandated by the Financing Documents; (2) Breach of representations; (3) Breach of the Covenants or Negative Covenants determined in the Financing Documents; (4) An event or entry into proceedings for insolvency of the Issuer, and an insolvency event as aforesaid or of a party to a Material Gas Agreement (as defined in the Financing Documents), the operator in the Leviathan project or the Partnership, if likely to cause an MAE (as defined in the agreement), subject to certain conditions and qualifications; (5) premature termination of any of the Leviathan Agreements or Material Gas Agreements, if likely to cause an MAE, subject to certain conditions and qualifications; (6) If a party to a Material Gas Agreement breaches the agreement with a likely MAE, subject to certain conditions and qualifications; (7) In the event of abandonment or cessation of the Leviathan project operations for more than 15 consecutive days, if likely to cause an MAE; (8) If damage is caused to the Leviathan project (including physical damage, revocation of license or transfer of the Partnership's rights therein by a government authority), with a likely MAE, which was not cured; (9) In the event of denial or revocation of a government approval granted in connection

Note 3 – Bonds (Cont.):

with the Leviathan project, with a likely MAE; (10) If any of the Financing Documents to which the Issuer or the Partnership are a party, or pledges provided under the Financing Documents, with an aggregate value of more than \$35 million, cease to be in effect; (11) If a non-appealable judgment is issued against the Issuer for payment of an amount in excess of \$35 million which was not paid; (12) If there is a breach of an undertaking in an agreement for the provision of other *pari passu* secured debt of the Issuer worth over \$35 million; (13) If an undertaking to perform mandatory early redemption is breached; (14) If the provisions regarding expenditures from the Revenues Account are breached; etc. The bonds are rated by international rating agencies and an Israeli rating agency.

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

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

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Leviathan and Tamar reservoirs. As of the date of approval of the financial statements, the Partnership fulfills its undertakings as aforesaid.

On 1 May 2023 a partial prepayment of the first series of the bonds, as described above, whose original maturity date was 30 June 2023, was made according to the terms and conditions of the bonds, for a total of \$280 million (out of a total series of \$500 million). The outstanding balance of the first series of the bonds was repaid in full and on schedule on 30 June 2023, according to the terms and conditions of the bonds.

On May 22, 2022, the board of directors of the Partnership's general partner 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 directors of the Partnership's general partner, 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.

On 15 November 2023, the General Partner'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. Up to the date of approval of the financial statements, the Partnership made buybacks according to the buyback plan in the sum total of approx. \$7.7 million. 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.

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

A. The "Ratio-Yam" joint venture is a venture for exploration, development and production of oil and gas in the area of the I/15 Leviathan North and I/14 Leviathan South leases (the "**Leases**" and/or "**Leviathan Leases**"). in which the participants are, as of the date of approval of the financial statements, the Partnership, Chevron Mediterranean Ltd. ("**Chevron**" or the "**Operator**") and Ratio Energies – Limited Partnership ("**Ratio Energies**" and jointly, the "**Leviathan Partners**").

B. Plan for development of the Leviathan reservoir:

On 2 June 2016, the development plan was approved by the Petroleum Commissioner at the Ministry of Energy (the "**Commissioner**"). This plan, which is divided into two phases (Phase 1 – First Stage and Phase 1 – Second Stage), includes the supply of natural gas to the domestic market and for export of a total volume of up to ~21 BCM per year, and the supply of condensate to the domestic market (in this section: the "**Development Plan**" or the "**Plan**"). According to the Plan, a production system will be built that includes up to 8 first wells that will be connected by a subsea pipeline to a permanent platform, which is located in the territorial waters of Israel in accordance with the provisions of NOP 37/H and on which the gas and condensate processing systems will be installed. Gas will be piped from the Platform to the shore to the northern entry point of the national transmission system of INGL as defined in NOP 37/H (the "**INGL Connection Point**"). Condensate will be piped to the shore via a separate pipeline, parallel to the gas pipeline, and will be connected to an existing fuel pipeline of Europe Asia Pipeline Co. ("**EAPC**"), which leads to the container site of PEI and from there to Oil Refineries Ltd. ("**ORL**"). Furthermore, a site will be constructed for storage and unloading of condensate, for the purpose of providing backup in the event that the piping of condensate to ORL is not possible.

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

- 1. Phase 1 - First Stage** – the current stage, in which 4 first subsea production wells were drilled, a subsea production system was built, which connects the production wells with the platform, and a transmission system to the shore and related onshore facilities were built. At this point, the gas production capacity is ~12 BCM per year.
- 2.** On 23 February 2017, the Leviathan Partners adopted the final investment decision (FID) for the development of Phase 1 – First Stage, with a budget of approx. \$3.75 billion (100%). The total cost invested in the development of Phase 1 - First Stage, as of 31 December 2023, is approx. \$4.1 billion (100%). After a preliminary running-in period, on 31 December 2019, the piping of natural gas from the Leviathan reservoir commenced. On 1 January 2020, the sale of natural gas from the Leviathan reservoir to Jordan began, under the agreement with NEPCO (as specified in Note 5C2 below) and on 15 January 2020, the piping of natural gas from the Leviathan reservoir to Egypt began under the agreement with Blue Ocean (as specified in Note 5C3 below). In June 2023, an additional fifth production well, Leviathan-8, was connected to the existing subsea production system of the Leviathan project and production began therefrom, on schedule and on budget.

In addition, to increase the gas production capacity to ~14 BCM per year from mid-2025, the Leviathan Partners adopted a final investment decision (FID) on 29 June 2023 to carry out a project in which a third subsea transmission pipeline will be laid

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from the field to the platform, and improvements on the platform will be upgraded (the "Third Pipeline") with a total budget of approx. \$568 million (100%, the Partnership's share – approx. \$258 million).

Phase 1 - Second Stage – expected to include, *inter alia*, 3 additional production wells, insofar as required, related subsea systems and expansion of the platform's processing facilities to increase the system's total gas production capacity to a total of up to ~21 BCM per year.

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

As of the date of approval of the financial statements, the Leviathan Partners are promoting the development of Phase 1 – Second Stage as aforesaid, with the aim of adopting a final investment decision (FID). This plan includes modular expansion of infrastructures for the piping of natural gas from the Leviathan reservoir, as aforesaid, and may also include the laying of a fourth subsea transmission pipeline from the field to the platform (the "Fourth Pipeline"), to allow a maximum daily production capacity of ~2,350 MMCF (~21 BCM per year) and supply to consumers in the domestic market and in the regional market, and primarily the Egyptian and LNG markets.

3. On 21 June 2023 and 21 December 2023, the partners in the Leviathan project submitted an in-principle application to the Commissioner to approve an increase in the natural gas export volume produced from the Leviathan project, according to the Government resolution applicable to the export of gas from the Leviathan reservoir, via an existing and future regional pipeline or via an FLNG facility, in addition to an increase in the volumes of natural gas which will be piped from the Leviathan project to the domestic market. As of the date of approval of the financial statements, a formal response to the Partnership's application has yet to be received from the Ministry of Energy, and there is no certainty that it will be granted, and if so – on what terms.
4. In the context of promotion of Phase 1 – Second Stage, the Leviathan Partners approved, in 2023 and 2024, in accordance with the joint operating agreement, budgets in the sum total of approx. \$44.9 million and approx. \$19.9 million (100%, the Partnership's share – approx. \$20.4 and approx. \$9 million), respectively, for performance and completion of pre-FEED of the alternatives for expansion of the Leviathan reservoir's production system, including the

construction of subsea infrastructures, connection of additional production wells, and performance of the required changes on the platform. As of the date of approval of the financial statements, the pre-FEED phase has completed, and in the estimation of the Operator, commencement of the FEED stage is expected mid-2024.

In addition, in the said years, the Leviathan Partners approved budgets in the sum total of approx. \$51.5 million and approx. \$11.4 million (100%, the Partnership's share – approx. \$23.4 and \$5.2 million), respectively, for the performance of pre-FEED to examine the various alternatives for the export of natural gas, *inter alia*, through the construction of an FLNG facility. In this regard it is noted that in the context of exploring the option of constructing an FLNG facility, indications have been received that point to a substantial change in the estimated costs of constructing an FLNG facility, and therefore, in 2024, the Leviathan Partners intend to review additional options of constructing an FLNG facility, *inter alia*, in view of the option for the modular development of the Leviathan project.

5. In the estimation of the Operator in the Leviathan project, before performance of the FEED, the estimated cost of Phase 1 – Second Stage (excluding the costs of the Fourth Pipeline and an FLNG facility, insofar as it is decided to approve them) is approx. \$2.4 billion (100%, the Partnership's share – approx. \$1.09 billion), insofar as a FID is adopted for the development of Phase 1 - Second Stage during H1/2025, the estimated timeframe for first gas production is expected between mid-2028 and mid-2029.
6. Additional production wells will be required during the years of operation of the project to enable production of the required volume and in accordance with the level of redundancy of the production system and the wells in the field which is defined, from time to time, by the Leviathan Partners.

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

D. Evaluation of reserves and contingent resources in the Leviathan Leases:

In March 2024, a report was received from Netherland Sewell & Associates Inc ("NSAI"), which is a qualified, expert an independent reserve and resource appraiser, on evaluation of reserves and contingent resources in the Leases according to the SPE-PRMS, updated as of 31 December 2023. According to the report, the overall quantity of natural gas and condensate resources in the best estimate is assessed at ~608.1 BCM and ~47.3 million barrels, respectively, and is divided into categories of resources classified as reserves or contingent resources.

The quantity of the proved reserves is ~381.5 BCM and the quantity of the proved + probable reserves is ~429.6 BCM.

Additionally, the proved condensate reserves are ~29.6 million barrels, and the quantity of proved + probable reserves is ~33.4 million barrels.

In the contingent resources report, which includes resources classified as contingent – development pending, which are contingent on approval for drilling of further wells, on approval of future developments, on the demonstration of the existence of a future market for the sale of natural gas and on commitment to development of the resources, the said contingent resources were classified under two categories, pertaining to each one of the stages of development of the reservoir, as following:

Phase I – First Stage – Resources attributed to Phase I – First Stage of the development of the Leviathan reservoir, plus the Third Pipeline project.

Future Development – Resources attributed to development stages beyond Phase I – First Stage.

Accordingly, the quantity of contingent resources of natural gas ranges between ~298.7 BCM (high estimate) and ~58.1 BCM (low estimate). The quantity of contingent condensate resources ranges between ~23.2 million barrels (high estimate) and ~4.5 million barrels (low estimate). See Section F below on uncertainty in the evaluation of reserves.

E. Deep Targets:

In 2019, an analysis was performed of reprocessing of seismic surveys, *inter alia* in connection with exploration drilling to the deep targets in the Leviathan Leases (the "**Data Reprocessing**"), as a result of which a new 'isolated carbonate buildup' deep target was defined in the area of the Leviathan Leases. In addition, the analysis of the Data Reprocessing revealed that it is necessary to reclassify and redefine the two deep targets which were previously defined in the area of the lease as a single 'submarine

clastic channel' target.

In January 2020, a report on evaluation of prospective resources in the Leases was received from NSAI, updated as of 31 December 2019. According to the report, the best estimate in the carbonate buildup for gas and oil is estimated at approx. 4.5 BCM and approx. 155.3 million barrels, respectively, and the best estimate in the clastic channel for gas and oil is estimated at approx. 6.5 BCM and approx. 223.9 million barrels, respectively. As of 31 December 2023, the details presented in the aforesaid report remain unchanged. See Section F below with regard to uncertainty in the evaluation of reserves.

The Partnership intends to explore the possibility of the specification, drilling and development of the deep exploration targets in the area of the lease.

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

F. Appraisals of reserves of natural gas, condensate, contingent and prospective resources:

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

Note 5 – Contingent Liabilities, Engagements and Pledges

A. Engagements for the payment of royalties:

1. Following the closing of the merger between the Partnership and Avner Oil Exploration Limited Partnership ("**Avner**" or "**Avner Partnership**") of May 2017, all of the liabilities related to royalties apply with respect to all of the (current and future) gas and petroleum assets of the Partnership. However, the rate of royalties in respect thereof, was reduced by 50% compared with the rate of royalties prior to the Merger (since the Partnership and Avner Partnership held equal parts in the petroleum assets, excluding the Ashkelon and Noa leases, in which the Partnership held 25.5% and Avner Partnership 23%, and in their respect the rate of royalties was reduced by 47.42% with respect to the royalties paid by the Partnership to Delek Group and

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Delek Energy, as defined below, and by 52.58% with respect to the royalties paid by Avner Partnership before the Merger, as specified below).

2. In the context of the right transfer agreement signed in 1993, the Partnership undertook to pay Delek Energy and Delek Group (the "**Royalty Interest Owners**") royalties at the rates specified below from the entire share of the Partnership in petroleum and/or gas and/or other valuable substances that shall be produced and utilized from the petroleum assets, in which the Partnership has or shall have any interest (prior to deduction of any kind of royalties, but after deduction of the petroleum used for the production itself).

The royalty rates are as follows: until the date of the Partnership's investment recovery, royalties shall be paid at a rate of 2.5% of onshore petroleum assets and 1.5% of offshore petroleum assets, and after the investment recovery date – 7.5% of onshore petroleum assets and 6.5% of offshore petroleum assets.

According to the agreement between the Partnership and the Royalty Interest Owners, an expert deciding arbitrator was appointed in 2002 in order to determine the right meaning of certain definitions and terms concerning the royalties that the Partnership is liable to pay as aforesaid, mainly with respect to the definition of "investment recovery date". In the appointed arbitrator's decision, he expressed his opinion and determined, *inter alia*, the manner of calculating and various elements that should and shouldn't be taken into account for determining the "investment recovery date". With respect to the dispute that ended regarding the investment recovery date in the Tamar Project between the Partnership and the Royalty Interest Owners.

Note 5 – Contingent Liabilities, Engagements and Pledges

A. Engagements for the payment of royalties (Cont.):

3. In addition, the Partnership will pay, by virtue of the Avner Partnership Agreement, royalties at a rate of 3% of all of the share of the limited partnership in petroleum and/or gas and/or other valuable substances which will be produced and utilized out of the petroleum assets in which the limited partnership has a present or will have a future interest (before deduction of royalties of any type, but after the reduction of the oil to be used for the purpose of the production itself). In an agreement signed on September 2, 1991, it was determined that the said right of the royalties is held by the General Partner in trust, and it is paid to those entitled to royalties under the Limited Partnership Agreement.

4. Royalty to the State:

The Petroleum Law, 5712-1952 (the "**Petroleum Law**") and the Petroleum Regulations, 5713-1953, prescribe that a lease holder, within the meaning of such term in the Petroleum Law, owes the State Treasury royalty at the rate of one-eighth of the petroleum quantity produced and utilized from the area of the lease, according to the market value at the wellhead, excluding the quantity of petroleum used by the lease holder for operating the area of the lease, but royalties will in no event fall below the minimum royalties prescribed by the law.

In accordance with the Petroleum Law, the State is entitled to royalties from the produced quantity of gas. The Commissioner notified the operator of the joint

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Notes to the Financial Statements as of December 31, 2023 (Expressed in US \$ Thousands)

ventures that the State decided not to receive the royalties, to which it is entitled from the gas discoveries, in kind, but to receive the market value of the royalties at the wellhead, in dollars.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

B. Engagements for the supply of natural gas:

1) Agreements for the sale of natural gas from the Leviathan project:

Below are concise details regarding the agreements for the supply of natural gas from the Leviathan project which were signed by the Partnership, together with the other Leviathan Partners, that are valid as of the date of approval of the financial statements³:

Customer	Supply commencement date	Agreement period⁴	Total maximum contract quantity for supply (100%) (BCM)	Total quantity supplied until 31 December 2023 (100%) (BCM)	Main linkage basis of the gas price
Independent power producers	2020, or the date of commencement of the commercial operation of the buyers' power plant (whichever is later).	The agreements are for a long term of 9 to 25 years. Some of the agreements grant each of the parties an option to extend the agreement in the event that the total quantity set in the agreement is not purchased.	~19.1	~2.3	In most of the agreements the linkage formula of the gas price is based on the Electricity Production Tariff and includes a "floor price". One of the agreements determines a fixed price without linkage.
Industrial customers	2020	The agreements are for a period of 2.5 to 15 years. In most of the agreements the parties are not granted an option to extend the agreement period.	~4.2	~0.9	In most of the agreements the linkage formula is based in part on linkage to the Brent prices and in part to the Electricity Production Tariff, and includes a "floor price". There is partial linkage also to the crack spread index and to the general TAOZ index published by the Electricity Authority. Some of the agreements determine a fixed price without linkage.
NEPCO export agreement (described in Paragraph 2 below)	2020	15 years. The agreement stipulates that in the event that the buyer does not purchase the total contract quantity, the supply period will be extended by another two years.	~45	~10	The linkage formula is based on linkage to the Brent prices and includes a "floor price".
Blue Ocean export agreement (described in Paragraph 3 below)	2020	15 years. The agreement stipulates that in the event that the buyer does not buy the total contract quantity, the period of the supply will be extended by another two years.	~60	~16.4	The linkage formula is based on linkage to the Brent prices, and includes a "floor price". The agreement includes a mechanism for updating the price by up to 10% (up or down) after the fifth year and after the tenth year of the agreement, upon fulfillment of certain conditions determined in the agreement.

³ The figures in the table do not include SPOT agreements for the supply of natural gas from the Leviathan project.

⁴ In most of the agreements, the gas supply period may end on the date of supply to the customers of the maximum contract quantity set forth in the agreement.

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Customer	Supply commencement date	Agreement period ⁴	Total maximum contract quantity for supply (100%) (BCM)	Total quantity supplied until 31 December 2023 (100%) (BCM)	Main linkage basis of the gas price
Total			~128	~30 ⁵	

⁵ The total quantity supplied from the Leviathan project by 31 December 2023 (100%) (both under the agreements appearing in the table and both under SPOT agreements and agreements that ended) is ~40 BCM.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

C. Engagements for the supply of natural gas (Cont.):

1. Agreements for the sale of natural gas from the Leviathan project (Cont.):

Further details with respect to natural gas sale agreements signed by the Leviathan Partners:

- 1) In 2023 and until the date of approval of the financial statements, the Partnership signed several SPOT agreements for the sale of natural gas from the Leviathan project with various customers in the Israeli market. During Q4/2023, with the temporary halting of production from the Tamar reservoir following the outbreak of the Iron Swords War, the Leviathan Partners took action to sign such SPOT agreements with all of the relevant customers in the Israeli market to ensure the possibility to supply natural gas to such customers, as required.
- 2) In the agreements for the sale of natural gas to independent power producers and to industrial customers, excluding SPOT agreement (in this section: the "**Agreements**"), the customers undertook to purchase or pay ("Take-or-Pay") for a minimum annual quantity of natural gas at a scope and according to the mechanism specified in the supply agreement (the "**Minimum Quantity**"). It is noted that in the context of the Agreements, provisions and mechanisms are provided, which allow each of the said buyers, after paying for natural gas not consumed under the agreement due to the application of the Take-or-Pay mechanism as aforesaid, to receive gas with no additional payment up to the amount it had paid for gas it had not consumed in the years consecutive to the year when the payment was made. In addition, the Agreements determine a mechanism for accrual of a balance in respect of surplus quantities (over the take-or-pay) consumed by the buyers in any given year and application thereof to reduce the buyers' obligation to purchase the Minimum Quantity as aforesaid, in several subsequent years.
- 3) In the supply agreements additional provisions were determined, *inter alia*, on the following subjects: a right to terminate the agreement in the event of the breach of a material undertaking, a right of the Leviathan Partners to supply gas to the buyers from other natural gas sources, compensation mechanisms in the event of a failure to supply the contract quantities, limits to the liability of the parties to the agreement, and with respect to the internal relationship among the sellers with respect to the supply of gas to the said buyers.
- 4) In accordance with the Gas Framework, each of the buyers, in agreements executed by 13 June 2017 and for a period to exceed 8 years, was given an option to reduce the minimum quantity to an amount equal to 50% of the average annual quantity it actually consumed in the three years preceding the date of the notice of exercise of the option, subject to adjustments as determined in the supply agreement. Upon the reduction of the minimum quantity, the other quantities determined in the supply agreement will be reduced accordingly. Each one of the said buyers may exercise the option as stated in the notice, to be given to the sellers during a period of 3 years which shall commence 5 years after the date of commencement of the gas flow from the Leviathan project to the buyer. If the buyer gave notice of the exercise of the said Option, the quantity will be decreased 12 months after the date the notice was given.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

C. Engagements for the supply of natural gas (Cont.):

2) Agreement for the Export of Natural Gas from the Leviathan Project to the Jordanian National Electric Power Company:

In September 2016, an agreement was signed for the supply of natural gas between NBL Jordan Marketing Limited (the "**Marketing Company**") and NEPCO (the "**NEPCO Agreement**"). The Marketing Company is a subsidiary wholly owned by the partners in the Leviathan project, who hold it relative to their holding rates in the Leviathan project.

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

The gas delivery point according to the NEPCO Agreement is at the connection between the Israeli transmission system and the Jordanian transmission system on the border between Israel and Jordan. In December 2019, INGL completed the construction of the Israeli transmission system up to the border between Israel and Jordan at a cost of approx. \$109 million (100%, the Partnership's share being approx. \$49 million).

NEPCO has undertaken to take or pay for a minimum annual quantity of gas, in such amount and in accordance with the mechanism as determined in the NEPCO Agreement.

The price of the gas that was set in the agreement is based on a price that is linked to the Brent oil barrel prices and includes a "floor price" plus a marketing commission and piping fees. In addition, NEPCO will bear the piping payments to INGL.

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

On 3 July 2023, the parties agreed to increase the natural gas quantities that would be supplied to NEPCO on a firm basis, temporarily and in relation to a number of months in 2023-2024, and that the minimum annual quantity that NEPCO had undertaken to take or pay for during 2023-2024 would increase accordingly. The aforesaid does not change the total supply volume under the Export to Jordan Agreement (~45 BCM), as specified above.

3) Agreement for the Export of Natural Gas from the Leviathan Project to Blue Ocean in Egypt:

In February 2018, an agreement was signed between the Partnership and Chevron and Blue Ocean (in this section: the "**Buyer**") for the export of natural gas from the Leviathan project to Egypt and on 26 September 2019, the signing of an agreement for amendment of the original Leviathan-Blue Ocean agreement between the Leviathan Partners and Blue Ocean was closed (in this section: the "**Leviathan Agreement**"), and an agreement was signed in connection with the allocation of the available capacity in the transmission system from Israel to Egypt between the Leviathan Partners and the Tamar partners. On 15 January 2020, the flow of natural gas began in accordance with the Leviathan Agreement.

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Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

C. Engagements for the supply of natural gas (Cont.):

3. Agreement for the Export of Natural Gas from the Leviathan Project to Blue Ocean in Egypt (Cont.):

Below is a summary of the details and terms and conditions of the Leviathan export agreement:

- 1) The total contract gas quantity which the Leviathan Partners undertook to supply to the Buyer on a firm basis is approx. 60 BCM (the "**TCQ**").
- 2) The supply of gas began on January 15, 2020, and will be until 31 December 2034 or until the supply of the full TCQ, whichever is earlier (the "**Term of the Leviathan Agreement**"). In the event that the Buyer does not purchase the TCQ, each party will be entitled to extend the supply period by two additional years.
- 3) The Leviathan Partners undertook to supply the Buyer with annual gas quantities as follows: (i) in the period that commenced on 15 January 2020 and ended on 30 June 2020, ~2.1 BCM per year; (ii) in the period that commenced on 1 July 2020 and ended 30 June 2022, ~3.6 BCM per year; and (iii) in the period commencing 1 July 2022 and ending on the end of the Term of the Leviathan Agreement, ~4.7 BCM per year. Furthermore, the Leviathan Agreement includes provisions with respect to the possibility of piping additional gas quantities, over and above the aforesaid daily quantities, on a spot basis. The increase of the supply as aforesaid is made by upgrading the systems at the EMG terminal in Ashkelon, including the installation of another compressor, and by increasing the transmission capacity in INGL's system and/or transport of natural gas from Israel to Egypt via Jordan. See Note 5M below.
- 4) The Buyer has undertaken to take or pay for quarterly and annual quantities according to mechanisms set forth in the Leviathan Agreement which, *inter alia*, enable the Buyer to reduce the TOP quantity in a year in which the average daily Brent price (as defined in the agreement) is lower than \$50 per barrel, such that it shall be 50% of the annual contract quantity. If the contract quantity is reduced in the case of a disagreement about the gas price update, as stated in Paragraph E below, Blue Ocean's right to reduce the take-or-pay quantity as aforesaid will be revoked. Also, in connection with the Buyer's undertaking to take or pay, the agreement stipulates, among other things, instructions and a mechanism that allow the Buyer, after having consumed the minimum billable quantity for a certain year, to receive gas supply in that year without additional payment up to the balance of the amount of gas that was not consumed in previous years and for which it paid the sellers as part of the take-or-pay obligation (make up mechanism), as well as instructions and a mechanism that allow the Buyer to accumulate quantities purchased in any year above the minimum quantity, and use them to reduce the Buyer's obligation (carry forward mechanism).

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

C. Engagements for the supply of natural gas (Cont.):

3. Agreement for the Export of Natural Gas from the Leviathan Project to Blue Ocean in Egypt (Cont.):

- 5) The price of the gas to be supplied to the buyer will be determined according to a formula based on a Brent oil barrel, and a "floor price". Export to Egypt includes a mechanism for a price update of up to 10% (up or down) after the fifth and tenth years of the agreement, upon certain conditions specified in the agreement. If the parties do not reach an agreement on the price update as aforesaid, the buyer shall have the right to reduce the contractual quantity by up to 50% on the first adjustment date and 30% on the second adjustment date. The agreement includes an incentives mechanism, subject to quantities and the oil barrel price.
- 6) The Leviathan Agreement includes accepted provisions relating to conclusion of the agreement, as well as provisions in the case of conclusion of the export agreement, signed between the Tamar partners and Blue Ocean as a result of a breach thereof, and the Leviathan Partners' not agreeing to supply also the quantities according to the said Tamar agreement, and also includes compensation mechanisms in such a case.
- 7) To facilitate an increase in the export quantities to Egypt, and in view of the delay in completion of the Ashdod-Ashkelon combined section project, as specified in Note 5M1 below, the Leviathan Partners and Blue Ocean signed an amendment to the Export to Egypt Agreement, in which it was agreed, *inter alia*, to define an additional gas delivery point in Aqaba, Jordan, under the Export to Egypt Agreement, in which a certain price discount was determined as compensation to Blue Ocean for the additional transmission expenses entailed by transmission of the gas from the additional delivery point, which are borne thereby. The piping of gas to Egypt to the delivery point in Aqaba began in March 2022, and is performed through the Jordan-North Export Pipeline, as specified in Note 5M2 below.

Concurrently with the signing of the Leviathan Agreement, on 26 September 2019 (as amended on 21 August 2023) an agreement was signed between the Partnership and Chevron and the rest of the Leviathan Partners and the Tamar partners in connection with allocation of the capacity (in this section: the "**Capacity Allocation Agreement**") in the transmission from Israel to Egypt system.

The allocation of the capacity in the transmission from Israel to Egypt system (the EMG pipeline and the transmission in Israel pipeline) will be on a daily basis, according to the following order of priority:

1. First layer – up to 350 MMCF per day will be allocated to the Leviathan Partners.
2. Second layer – the capacity above the first layer, up to 150 MMCF per day until 30 June 2022 (the "**Capacity Increase Date**"), and 200 MMCF per day after the Capacity Increase Date, will be allocated to the Tamar partners.
3. Third layer – any additional capacity above the second layer will be allocated to the Leviathan Partners.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

C. Engagements for the supply of natural gas (Cont.):

3. Agreement for the Export of Natural Gas from the Leviathan Project to Blue Ocean in Egypt (Cont.):

Pursuant to the Capacity Allocation Agreement, on the date of the closing the EMG transaction, the Leviathan Partners and the Tamar partners paid the Partnership and Chevron the sum of \$250 million (80% by the Leviathan Partners and 20% by the Tamar partners), as participation fees, in consideration for the undertaking to allow the piping of natural gas from the Leviathan and Tamar reservoirs and guaranteeing capacity in the EMG pipeline. Pursuant to the agreement, the amount of the aforesaid payments will be updated according to the formula and dates determined in the agreement, based on the actual use of the EMG pipeline. In view of the aforesaid, for the period between January 1, 2022 and June 30, 2022, the distribution of payments between the Leviathan Partners and the Tamar partners was approx. 83% and approx. 17%, respectively. The Capacity Allocation Agreement determines further arrangements for bearing the additional costs and investments that will be required for refurbishment of the EMG pipeline and maximum utilization of the pipeline capacity, which shall be paid by both the Leviathan Partners and the Tamar partners. In this context it is noted that on June 30, 2022, the parties updated the distribution of payments between the Leviathan Partners and the Tamar partners, and held a reconciliation accordingly in non-material amounts, for purposes of adjusting the parties' respective rates of participation in the actual costs of usage of the EMG pipeline capacity in such period. The Capacity Allocation Agreement further determines that from June 30, 2020 until the Capacity Increase Date, insofar as the Tamar partners shall be unable to supply the quantities which they undertook to supply to Blue Ocean, the Leviathan Partners shall supply the Tamar partners with the required quantities.

The term of the Capacity Allocation Agreement is until the conclusion of the Export to Egypt Agreement, unless it shall have ended prior thereto in the following cases: a breach of a payment undertaking which was not remedied by the party in breach; or in a case where the Competition Authority shall not have approved extension of the capacity and operatorship agreement according to the decision of the Competition Commissioner. In addition, each party shall be entitled to end its part in the Capacity Allocation Agreement insofar as its export agreement shall have been terminated.

D. Agreement for the supply of condensate to ORL:

In December 2019, an agreement was signed (the "**ORL Agreement**") whereby condensate produced from the Leviathan reservoir will be piped to the existing fuel pipeline of EAPC which leads to a container site of Petroleum & Energy Infrastructures Ltd. ("**PEI**") and from there it will be piped to ORL's facilities, according, *inter alia*, to regulatory directives.

The ORL Agreement is a SPOT agreement, for a period of 15 years from the date of commencement of the piping of condensate (in commercial quantities), with each party having the right to terminate the ORL Agreement by giving prior notice of at least 360 days, to the other party. In addition, each party may terminate the ORL Agreement on shorter notice upon the occurrence of various events, including in the case of a breach by the other party, and upon the occurrence of regulatory and other changes which will not allow the piping of the condensate according to the provisions of the ORL Agreement.

Leviathan Bond Ltd

Notes to the Financial Statements as of December 31, 2023 (Expressed in US \$ Thousands)

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

D. Agreement for the supply of condensate to ORL (Cont.):

The piping of condensate to ORL shall be made on an interruptible basis, up to a maximum quantity that was agreed between the parties (the "**Maximum Quantity**"). The parties may update the Maximum Quantity from time to time, subject to compliance with the conditions that were determined by the authorities in this respect, including the Ministry of Energy and the Ministry of Environmental Protection ("**MoEP**").

The ORL Agreement stipulates that the delivery of the condensate to ORL will be without consideration, while the Leviathan Partners shall bear any and all expenses relating to the piping of the condensate.

In the context of correspondence between the Leviathan Partners and ORL in Q1/2022, the Leviathan Partners claimed against ORL that failure to pay for the condensate supplied to ORL as aforesaid constitutes prohibited and unlawful abuse of ORL's power as a monopsony in the purchase of condensate. In the context of this claim the Leviathan Partners invited ORL to enter into negotiations to remedy the aforesaid violation immediately and retroactively. In its reply ORL rejected the Leviathan Partners' arguments. The Leviathan Partners reiterated their position whereby ORL's failure to pay for the condensate supplied thereto as aforesaid constitutes a violation of the law which causes material damage to the Leviathan Partners. Following the signing of the agreement with **ARF** (as set forth in Paragraph E below), ORL sent a letter to the Leviathan Partners whereby the engagement with ARF is a breach of the ORL Agreement, an anticipatory breach of the agreement and bad faith conduct. Later, on 4 February 2024, the Leviathan Partners notified ORL that the piping of the condensate to ARF was expected to commence in March 2024, and that from that date the quantities delivered to ORL would be significantly reduced. In response to this notice, ORL sent a letter to the Leviathan Partners, according to which the Leviathan Partners' said notice constitutes a breach of the agreement with ORL. In its said letter, ORL also demanded that the Leviathan Partners provide clarification on the condensate quantities they intend to pipe to ORL. It is the Partnership's position that ORL's said claims and demands are groundless.

E. Agreement for the transport of condensate from the Leviathan reservoir

On 1 September 2022, Chevron (on behalf of the Leviathan Partners) and Energy Infrastructures Ltd. ("**PEI**") signed an agreement intended to regulate an alternative mechanism for the transport of condensate from the Leviathan project through an existing 6" pipe of PEI and the systems related thereto (the "**Agreement**" and the "**Pipe**", respectively), with the following main provisions:

1. The Agreement will be in effect for 20 years from the date of commencement of the piping, subject to provisions that confer on the parties the possibility of terminating it before the end of the term.
2. According to the Agreement, PEI will be responsible for planning and carrying out the work for connection and adjustment of the Pipe to transport of the condensate as aforesaid (the "**Connection Work**") and for receiving all approvals for the transport of condensate through the Pipe and for the ongoing operation and maintenance of the Pipe.
3. Chevron (through the Leviathan Partners, per their share in the Leviathan Leases) undertook to bear the costs associated with the Connection Work in accordance with the scope and mechanism stipulated in the Agreement, in amounts agreed upon by the parties in advance.

Leviathan Bond Ltd

Notes to the Financial Statements as of December 31, 2023 (Expressed in US \$ Thousands)

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

E. Agreement for the transport of condensate from the Leviathan reservoir (Cont.):

4. Each of the parties may bring the Agreement to an end if the closing conditions were not met within 12 months from the date of signing or if the Transport Commencement Date was not met within 12 months from the Effective Date of the Agreement.
5. During the piping period, PEI will make the Pipe available for Chevron's use (other than in emergencies defined in the Agreement, in which the piping of condensate through the Pipe will be temporarily discontinued), and reserve an agreed capacity in the Pipe in exchange for fixed capacity fees stated in the Agreement. In addition, PEI will transport the condensate through the Pipe, in consideration for transport fees agreed upon in the Agreement.

In November 2022, the Leviathan Partners approved a budget of approx. \$27 million (100%, the Partnership's share is approx. \$12.2 million) for the purpose of implementation of such Agreement.

On 1 February 2024, the Partnership was informed that all of the Agreement's closing conditions have been fulfilled. On 7 March 2024, the piping of condensate to ARF has commenced.

F. Agreement with Ashdod Oil Refinery Ltd. for the sale of condensate from the Leviathan reservoir

On 18 January 2023, the Leviathan Partners, including the Partnership (the "**Sellers**") engaged with ARF in an agreement for the sale of condensate to ARF (the "**Agreement**"). Following is a concise description of the main terms of the Agreement:

1. According to the Agreement, the Sellers undertook to supply to ARF, condensate that is produced from the Leviathan reservoir, which will be transported through PEI's pipe.
2. The Agreement stipulates, *inter alia*, provisions regarding limitations on the maximum quantities (on a daily and monthly level) of the condensate to be supplied to ARF, fines in the event of a breach of the provisions of the Agreement, and other standard provisions in agreements of this type.
3. The piping of the condensate to ARF will begin on the date of commencement of transport in PEI's pipe (the "**Transport Commencement Date**"), and will continue for a period of 4 years. On 7 March 2024, the piping of condensate to ARF has commenced.
4. The price to be paid to the Sellers was determined according to the price of a Brent oil barrel less a margin, in a graduated manner, as specified in the Agreement.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

G. Estimates regarding natural gas and condensate quantities, prices and supply dates:

The estimates regarding the natural gas and condensate quantities which will be purchased by the aforesaid buyers in the Leviathan project, and the supply commencement dates according to the supply agreements, constitute information the materialization of which, in whole or in part, is uncertain, and which may materialize in a materially different manner, due to various factors including non-fulfillment of the conditions precedent in each one of the supply agreements (insofar as not yet fulfilled), non-receipt of regulatory approvals, changes in the scope, pace and timing of consumption of the natural gas by each one of the aforesaid buyers, the prices of gas and condensate, to be determined according to the formulas specified in the supply agreements, the electricity production tariff, the Dollar-ILS exchange rate (insofar as relevant to the supply agreement), the Brent prices (insofar as relevant to the supply agreement), the index of energy demand management (TAOZ) which is published by the Electricity Authority and the crack spread index (insofar as they are relevant to the supply agreement), construction and operation of the power plants and/or other plants of the buyers (insofar as relevant to the supply agreement), exercise of the options granted in each one of the supply agreements and the date of exercise thereof, etc.

H. Reimbursement of indirect expenses to the Leviathan project operator:

The Partnership's operations in the joint ventures Ratio-Yam is carried out by Chevron. According to the joint operation agreements it was agreed that Chevron would serve as the operator and would be exclusively responsible for the management of the joint operations.

According to the rules of settlement of accounts specified in the agreement, Chevron are entitled to reimbursement of all of the direct expenses it incurs in connection with the fulfillment of its duties as operator and to a rate of 1%-4% for exploration expenses, with the rate of payment to the operator decreasing as the exploration expenses increase, and additionally, to a rate of 1% of all the direct development and operating expenses, as defined in the agreement, subject to certain exceptions.

I. Dependence on a customer:

As of 31 December 2023, NEPCO and Blue Ocean are the Partnership's largest customers and therefore, termination of the agreements signed between them and the Leviathan Partners, or the non-fulfillment thereof, will materially affect the Partnership's business and future revenues.

J. Permits and licenses for the projects' facilities:

In Phase 1 – First Stage of the development plan for the Leviathan project, the Leviathan Partners received approval for the construction of a permanent platform for the production of natural gas and oil, as well as approval for the operation of a system for production of natural gas and condensate from the Leviathan project pursuant to which the Leviathan Partners were obligated, *inter alia*, to submit guarantees.

In February 2017, the Minister of Energy granted the SPC owned by the Leviathan Partners, Leviathan Transmission System Ltd., a license for the construction and operation of the transmission system, which will serve for the transfer of natural gas of the Leviathan Partners originating from the Leviathan Leases, or other natural gas

Leviathan Bond Ltd

Notes to the Financial Statements as of December 31, 2023 (Expressed in US \$ Thousands)

suppliers upon the fulfillment of certain conditions, all subject to the terms of the license. December 2019, the Commissioner's approval was received for the operation of the system for production of natural gas and oil from the Leviathan Leases. In addition, other permits were received including a sea discharge permit, an air emission permit, toxic materials permits and business permits.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

K. Pledges and guarantees:

1. Long-term bank deposits as of 31 December 2023 include an amount of approx. \$101.4 million used as a safety cushion for repayment of the principal of the bonds in the context of the issue of Leviathan Bond bonds (see Note 3 above).
2. See Note 3 regarding pledges provided by the Partnership on its assets in the context of the bonds.
3. In the context of the Partnership's activity in the Leviathan project, the Partnership provided a personal guarantee in favor of the Israeli Tax Authority (Customs) in connection with equipment imported by the venture operator in the sum of approx. ILS 67.6 million.
4. During July 2018, the partners in the Leviathan project provided a guarantee in favor of the Israel Land Authority regarding the construction of development infrastructure for the Leviathan project. The share of the Partnership in the said guarantee is approx. ILS 2.3 million.
5. To secure a transmission agreement for the export of gas to Egypt (see Section M) in the context of the Partnership's activity in the Leviathan project, the Partnership provided bank guarantees in favor of INGL. As of the date of approval of the financial statements the total sum is approx. ILS 152 million, against which the Partnership pledged a dollar deposit in the sum of approx. \$11.5 million.
6. The Partnership provided guarantee in the sum of approx. \$45.3 million to the Ministry of Energy in connection with its rights in Leviathan fields, see Section N3 below.

L. Legal proceedings:

1. On 27 February 2020, the Partnership learned of the filing of a class action and a motion for class certification (in this section: the "**Certification Motion**") with the Tel Aviv District Court by an electricity consumer (in this section: the "**Petitioner**") against the Partnership and Chevron and against the other holders of the Tamar Project and the Leviathan project (as parties against which no remedy is sought), in connection with the competitive process for the supply of natural gas conducted by the IEC and in connection with a possible amendment to the agreement for the supply of gas from the Tamar Project to the IEC, as agreed by Isramco, Tamar Petroleum, Dor and Everest (collectively in this section: the "**Other Holders in the Tamar Project**"), with no involvement on the part of the Partnership and Chevron (in this section: the "**Amendment to the Tamar Agreement**").
The Petitioner's principal arguments are that the bids made by the Other Holders in the Tamar Project and the holders in the Leviathan project in the competitive process amount to abuse of monopoly power and to a restrictive arrangement, as defined in the Economic Competition Law; the Partnership's and Chevron's not signing the Amendment to the Tamar Agreement also amounts to abuse of monopoly power; the price determined in the agreement for the supply of gas from the Leviathan project to the IEC further to the competitive process is an unfair price; and profits made and which shall be made by the Partnership and Chevron under this agreement, while harming competition, amount to unjust enrichment. The Petitioner asserts that such actions of the Partnership and Chevron have caused and are expected to cause damage to the classes he seeks to represent in the sum of approx. ILS 1.16 billion, and according to which the court is moved to award compensation and fees. The

main remedy in the Certification Motion is a ruling by the court that the Partnership and Chevron are not entitled to prevent the Other Holders in the Tamar Project from signing the Amendment to the Tamar Agreement. On 6 February 2024, the court granted the Petitioner's motion, with the consent of respondents, to cancel the trial hearings scheduled for March-April 2024 and no new dates have been scheduled therefor. In the Partnership's estimation, based on the opinion of its legal counsel, the chances of the Certification Motion being granted are lower than 50%.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

L. Legal proceedings (Cont.):

2. On 3 May 2021, Haifa Port Co. Ltd. (in this section: "**Haifa Port**") filed a claim against Chevron, Coral Maritime Services Ltd. (in this section: "**Coral**") and Gold Line Shipping Ltd. (in this section: "**Gold Line**") in the sum of approx. ILS 77 million (the "**Main Case**"). According to Haifa Port, direct unloading of cargoes in the area of the Leviathan platform, as was done by Chevron, without first unloading such cargoes at one of Israel's ports, is unlawful and was done so as to evade making mandatory payments to the port, and financial loss was thus incurred by the port. The complaint claims that from July 2018 forth, Chevron performed direct unloading as aforesaid, while declaring to the tax authorities that Haifa Port was the 'unloading port', even though the cargoes that were unloaded did not pass through Haifa Port in practice. The claim against the companies Coral and Gold Line is that they acted, at the relevant times, as the shipping agents for Chevron, which imposes on them, so Haifa Port claims, a duty to pay the handling fees on Chevron's behalf. Chevron filed an answer on 31 August 2021, and Haifa Port filed a replication on 1 December 2021. Concurrently, Chevron filed a counterclaim against Haifa Port in the sum of approx. ILS 4.4 million, for a claim in the sum of about ILS 0.7 million for handling fees and infrastructure fees actually and unlawfully charged by Haifa Port, and a claim of some ILS 3.7 million for mooring fees charged to Chevron and unlawfully not reduced by 30%, in cases of self-routing of ships which passed through the port area. On 11 September 2022, a pretrial hearing was held, in which it was determined that the parties will negotiate with the aim of reaching agreement on the completion of the preliminary proceeding, failing which they will file motions accordingly. Despite the attempt to reach agreements, the parties filed mutual motions regarding the preliminary proceedings. On 8 July 2023 and 18 July 2023, the court denied the motions the parties had filed with respect to the preliminary proceedings and scheduled a last pretrial hearing for 4 June 2024. On 3 April 2023, Haifa Port filed a motion for summary dismissal of the counterclaim, arguing lack of controversy between itself and Chevron, because the invoices and mooring fees had been paid by an agent. Such motion was denied on 21 June 2023 and the court issued an order for costs against Haifa Port. In the Partnership's estimation, based on the opinion of its legal counsel, the Main Case is more likely to be denied than granted.
3. On 15 December 2020, a motion for class certification was filed with the Tel Aviv District Court against Chevron (in this section: the "**Respondent**") by a resident of Dor Beach on behalf of "anyone who was exposed to the air, sea and coastal environment pollution, due to prohibited emissions from the gas platform operated by the Respondents in the sea, which is located opposite Dor Beach, and treats the natural gas reservoir, Leviathan, in the period from the commencement of the

platform's activity in December 2019 until a judgment is issued in the claim" (in this section: the "**Certification Motion**", the "**Petitioner**" and the "**Class Members**"). In essence, the Certification Motion argues that the Respondent exposed the Class Members to air, sea and environmental pollution, due to prohibited emissions deriving from the Leviathan reservoir platform. Such exposure, according to the Petitioner, created various health problems (which were not specified in the Certification Motion) and damage of injury to autonomy due to the concern of health damage as aforesaid. The main remedy sought in the Certification Motion is compensation for the class for the damage it allegedly incurred which is estimated at approx. ILS 50 million. On 7 February 2024, a judgment was granted, denying the Certification Motion and charging the Petitioner with expenses.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

M. Engagement in a transmission agreement for the export of gas:

As of the date of approval of the financial statements, the pipeline infrastructure for export to the Partnership's customers in Egypt and Jordan includes the main systems specified below-

1. On 28 May 2019, Chevron and INGL engaged in an agreement for supply of interruptible transmission services in relation to the piping of natural gas from the Leviathan reservoir and Tamar reservoir to EMG's terminal in Ashkelon, for the purpose of export to Egypt (in this section: the "**2019 Agreement**"). The payment pursuant to the 2019 Agreement will be made based on the gas quantity actually piped through the transmission system, subject to Chevron's undertaking to pay for certain minimum quantities.

In July 2020, upon the operation of a compressor at the entrance to the EMG system in Ashkelon, the transport capacity of the EMG pipe increased, within the infrastructure limits of the current INGL transmission system, to approx. 500 MMCF per day (~5 BCM per year). According to the Export to Egypt Agreement, as described in Note 5C3 above, the additional compressor was installed in Ashkelon, that allows the increase of the piping capacity in the EMG system to ~600 MMCF per day (~6 BCM per annum). Upon completion of the Ashdod-Ashkelon combined section, the transmission capacity in the EMG system could be increased to ~800 MMCF per day (~8 BCM per annum), and even more, given certain conditions in the Israeli and Egyptian transmission systems.

On 18 January 2021, Chevron engaged with INGL in an agreement for the provision of transmission services on a firm basis for the piping of natural gas from the Leviathan and

Tamar reservoirs to the EMG terminal in Ashkelon and for the transmission thereof to Egypt, which took effect on 14 February 2021 (above and below: the "**Transmission Agreement**" or, in this section: the "**Agreement**"). Below is a concise description of the principals of the Agreement, as amended from time to time:

- a) In the Transmission Agreement, INGL undertook to provide transmission services for the natural gas that shall be supplied from the Leviathan and Tamar reservoirs, including maintaining an annual base capacity in the transmission system of ~5.5 BCM (the "**Base Capacity**"). For the transmission services in relation to the Base Capacity, Chevron will pay capacity fees and a payment for the gas quantity that

shall actually be piped (throughput), in accordance with the accepted transmission rates in Israel, as shall be updated from time to time.

In addition, INGL undertook to provide non-continuous transmission services, on an interruptible basis, of additional gas quantities over and above the Base Capacity, subject to the capacity that shall be available in the transmission system. For transmission of the additional quantities as aforesaid, Chevron will pay a transmission rate for non-continuous transmission services in relation to the quantities that shall actually be piped.

- b) In the Transmission Agreement, Chevron committed to payment for the piping of a gas quantity that shall be no less than 44 BCM throughout the term of the Agreement. If the parties agree on an increase in the Base Capacity, then the minimum quantity for piping as aforesaid will be increased accordingly.
- c) Under the Transmission Agreement, INGL has undertaken to construct the Combined Section in accordance with the provisions of the decision of the Natural Gas Commission in connection with the financing of projects for export via the Israeli transmission system, and division of the costs of the construction of the Combined Section (the "**Combined Section**") (see Paragraph f) (the "**Council's Decision**"), and doubling of the Dor-Hagit and Sorek-Nesher transmission system segments in a manner which will allow the piping of the full quantities under the Transmission Agreement.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

M. Engagement in a transmission agreement for the export of gas to Egypt (Cont.):

1. (Cont.)

- d) Piping gas under the Transmission Agreement will commence on a date to be coordinated and agreed between the parties, but no earlier than 1 July 2022 and no later than 1 April 2023 (the "**Piping Commencement Date**"), and subject to INGL's right to defer the Piping Commencement Date in the event of delay in the approval of the NOP under which the Combined Section is being constructed. In February 2023, Chevron received a letter from INGL whereby, due to a malfunction in the vessel performing the infrastructure work for laying of the Combined Section (in this section: the "**Work**"), and further to a preliminary assessment received by INGL from the contractor performing the Work, a delay of at least 6 months was expected in completion thereof, such that the possible time frame for the Date of Commencement of Transmission had been postponed to the period from 1 October 2023 to 1 April 2024. This notice by INGL was given as a notice of *force majeure* under the Transmission Agreement, stating that its full implications were not yet known thereto at that time. In a letter of 9 March 2023 Chevron rejected INGL's claim of *force majeure*, until such time as information was provided about the malfunction and its effect on INGL's ability to fulfill its undertakings under the Transmission Agreement. In October 2023, Chevron informed the Partnership that it had received notice from INGL whereby following the outbreak of the Swords of Iron war, the Work on the project had been suspended, and the forecast for the Piping Commencement Date was about four months from the date of resumption of the Work. In February 2024, Chevron informed the Partnership that it had received notice from INGL whereby the

foreign contractor performing the Work for construction of the Combined Section did not intend to continue maintaining its availability for resumption of the Work, and intended to return in August-September 2024 to complete its undertakings in the project.

In view of the aforesaid, the Leviathan Partners are considering the implications resulting therefrom and the possibilities available to them. In February 2024, Chevron sent INGL a letter stating that, according to Chevron's position, the Piping Commencement Date occurred on 30 April 2023 at the latest, and therefore, *inter alia* INGL is required to provide transmission services according to the Transmission Agreement starting from such date, and to reimburse Chevron for the excess transmission fees it collected from such date forth. On 26 February 2024, Chevron received a letter of reply from INGL, in which INGL rejected all of Chevron's claims and whereby the Piping Commencement Date will only be possible after completion of the Combined Section. According to the position of Chevron and the Leviathan Partners, this position of INGL's is contrary to the provisions of the Transmission Agreement. As of the date of approval of the financial statements, the parties are holding discussions in an attempt to resolve the said dispute.

- e) The Transmission Agreement will end upon the earlier of: (1) the date on which the total quantity that is piped is 44 BCM; (2) 8 years after the Transmission Commencement Date; or (3) upon expiration of INGL's transmission license.
- f) In accordance with the principles determined in the Council's Decision, Chevron undertook to pay INGL the amount for the share of the partners in the both Leviathan and Tamar 56.5% out of the total cost of construction of the Combined Section, which is estimated at ILS 738 million. On 2 May 2022, INGL updated the budget of the Combined Section to a total of approx. ILS 796 million. In addition, in order to meet the transmission capacity in Ashkelon, INGL is required to accelerate the doubling of the Dor-Hagit and Sorek-Nesher sections at the cost of approx. ILS 48 million. Therefore, Chevron undertook to pay ILS 27 million for such partners' share as aforesaid (56.5%), see Note 5N5 above.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.):

M. Engagement in a transmission agreement for the export of gas to Egypt (Cont.):

1. (Cont.)

- g) In accordance with the Council's Decision, the Leviathan Partners and the Tamar partners provided a bank guarantee to secure INGL's share in the cost of construction of the foregoing infrastructure, and to cover Chevron's commitment to pay the capacity and transmission fees. As of the date of approval of the financial statements, the guarantees in favor of INGL for the Partnership's share in the Leviathan project, are approx. ILS 152 million, and also pledged in favor of the facility for the guarantees a deposit in the sum of approx. \$11.5 million (see Note 5K5).
- h) The Leviathan Partners and the Tamar partners will bear the costs stated in Paragraph f at the rates of 69% and 31%, respectively.
- i) The Transmission Agreement stipulates that in case of cessation of the export of natural gas from the Tamar and Leviathan projects to Egypt, Chevron will be entitled to terminate the Transmission Agreement subject to payment of

compensation to INGL due to the early termination, in an amount equal to 120% of the costs of construction of the Combined Section, plus the costs of accelerating the doubling of the Sorek-Nesher and Dor-Hagit sections, net of the amounts Chevron paid until the date of the termination in respect of such construction and acceleration costs and in respect of the piping of the gas under the Transmission Agreement. If, after the termination of the Transmission Agreement, export to Egypt resumes, the Transmission Agreement will be renewed subject to and in accordance with the capacity that shall be available in the transmission system at such time.

- j) It was further determined that the transmission period under the 2019 Agreement will be extended until the date of expiration of the 2019 Agreement according to the terms and conditions thereof or by 1 January 2025 or until the Piping Commencement Date pursuant to the Transmission Agreement, whichever is earlier.
- k) Concurrently with the signing of the Transmission Agreement, Chevron, the Leviathan Partners and Tamar partners signed a back-to-back services agreement which determined that the Leviathan Partners and Tamar partners will be entitled to transmit gas (through Chevron) under the Transmission Agreement, and will be responsible for fulfillment of Chevron's undertakings under the Transmission Agreement as if the Leviathan Partners and the Tamar partners were a party to the Transmission Agreement in Chevron's stead, each according to its share, as determined in the Capacity Allocation Agreement between the Leviathan Partners and the Tamar partners. The services agreement further determined that the Base Capacity that is kept in the transmission system for Chevron will be allocated between the Leviathan Partners and the Tamar partners according to the rates specified in Paragraph h above, and according to the order set forth in the Capacity Allocation Agreement. The aforesaid notwithstanding, the Leviathan Partners and the Tamar partners will bear capacity fees at a fixed ratio of 69% (the Leviathan Partners) and 31% (the Tamar partners), except in a case where a party (the Leviathan Partners or the Tamar partners, as the case may be) used the available share in the capacity of the other party.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

M. Engagement in a transmission agreement for the export of gas to Egypt (Cont.):

1. (Cont.)

- l) The expected completion date of the project for construction of the Combined Section has been postponed several times. In October 2023, Chevron updated the Partnership that it had received notice from INGL whereby as a result of the outbreak of the Iron Swords War, work on the said project had been suspended, and piping is expected to commence around four months after the date of resumption of the work. In February 2024, Chevron updated the Partnership that

it had received notice from INGL whereby the foreign contractor performing the work on construction of the Combined Section has no intention of continuing to remain on standby to continue the work, and that it intends to return in August-September 2024 to complete its undertakings in the project. In view of the foregoing, the Leviathan Partners are examining the implications arising therefrom and the options available to them.

2. The Jordan-North Export Pipeline, which connects between the Israeli transmission system and the Jordanian transmission system near the Sheikh Hussein Bridge. The construction of this export pipeline was completed in December 2019, *inter alia* through the construction of a natural gas pipeline by INGL from the Tel Kashish station to the border with Jordan, including the construction of a station near the border whose purpose is to measure the gas exported to Jordan. The follow-on pipeline on the Jordanian side was built by FAJR, the Jordanian transmission company (which is Egyptian-owned), which connects the Israeli transmission system to the existing transmission pipeline in Jordan and the Arab Gas Pipeline, and connects to the Egyptian transmission system in the area of Aqaba (above and below: the "**Jordan-North Export Pipeline**"). As of the date of approval of the financial statements, the total maximum gas supply capacity in the Jordan-North Export Pipeline is approx. 7 BCM per annum, of which around 3.5 BCM is allocated for the NEPCO Agreement. In view of the delay in completion of the project for construction of the Ashdod-Ashkelon Combined Section (as aforesaid in Section M1D), the Leviathan Partners have signed a set of agreements intended to allow the piping of quantities of natural gas to Egypt under the Export to Egypt Agreement, through Jordan, using the Jordan-North Export Pipeline.

In accordance with the said set of agreements, in March 2022, natural gas piping to Egypt through Jordan began, which allows for maximizing the sale of the natural gas produced from the Leviathan reservoir and transmitting natural gas surpluses that are not consumed in Israel and Jordan and/or piped to Egypt via the EMG pipeline, to the Egyptian market, via the Jordanian transmission system, mainly until the Combined Section is completed by INGL as aforesaid. As of the date of approval of the financial statements, and as the Partnership was informed by the operator in the Leviathan project, using the existing transmission infrastructure and current operating conditions, natural gas can be flowed to Egypt, via Jordan, in an average daily amount of up to ~350 MMCF (~3.5 BCM per year). It is noted in this context that the Ministry of Energy authorized the Leviathan Partners to add a point of delivery of natural gas to Egypt in Aqaba, Jordan. It is further noted that transmission of the gas to Egypt via the Jordan-North Export Pipeline entails additional transmission costs compared with transmission of the gas via the EMG pipeline.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

M. Engagement in a transmission agreement for the export of gas to Egypt (Cont.):

2. (Cont.)

The aforesaid set of agreements includes the agreements specified below:

- a. Agreement between Chevron and FAJR, the Jordanian transmission company, for supply of interruptible transmission services in relation to piping of natural gas from the Leviathan and Tamar reservoirs through the transmission system in Jordan, from the point of entry at the border between Israel and Jordan to the delivery point at the border between Jordan and Egypt, near Aqaba (the "**FAJR Agreement**"). The payment pursuant to the FAJR Agreement will be made based on the gas quantity actually piped in The FAJR transmission system.
- b. Concurrently with the signing of the FAJR Agreement, Chevron and the other Leviathan and Tamar partners engaged in a back-to-back services agreement, in the context of which the holders of interests to the Leviathan and Tamar reservoirs will be entitled to transmit gas (through Chevron) in the FAJR Agreement, and according to which, *inter alia*, the use of the FAJR transmission system for the purpose of export of natural gas to Egypt from the Leviathan and Tamar reservoirs will be made in accordance with the mechanism, terms and conditions, and order of priority specified in the aforesaid agreement.
- c. Agreement between Chevron and INGL for supply of interruptible transmission services in relation to the piping of natural gas from the Leviathan reservoir via the Jordan-North Export Pipeline to the point of connection to the FAJR transmission system at the border between Israel and Jordan (the "**Jordan-North INGL Agreement**"). The payment pursuant to the Jordan-North INGL Agreement will be made based on the gas quantity actually piped through the INGL transmission system, subject to Chevron's undertaking to pay for a minimum quantity as specified in the agreement. The term of the Jordan-North INGL Agreement was extended until 1 January 2025, unless the parties consensually extend it, subject to the decisions of the Natural Gas Authority at such time. Concurrently with the signing of the Jordan-North INGL Agreement, Chevron and the other Leviathan partners engaged in a back-to-back services agreement in connection with the Jordan-North INGL Agreement.
- d. The Leviathan Partners and Blue Ocean signed an amendment to the Export to Egypt Agreement as specified in Section C3 above.

According to the Export to Egypt Agreement, the Leviathan Partners have been obligated, since July 2022, to supply Blue Ocean with 450 MMCF of natural gas per day. The piping of this full quantity via the EMG pipeline will only be possible after completion of the Combined Section, whose construction, as aforesaid, is delayed. Despite the fact that until the date of approval of the financial statements the piping of gas through Jordan has been conducted as planned, as the transmission agreements with INGL effective on the date of approval of the financial statements are for the provision of interruptible transmission services, it is not certain on the date of approval of the financial statements it will be possible at all times to pipe via Jordan the full quantities that the Leviathan Partners are obligated as aforesaid to supply to Blue Ocean.

To increase the transmission capacity to Egypt via the Jordan-North Export Pipeline, the Leviathan Partners approved, by the date of approval of the financial statements, preliminary budgets prior to the adoption of a final investment decision (insofar as shall be adopted) in

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

M. Engagement in a transmission agreement for the export of gas to Egypt (Cont.):

2. (Cont.)

the sum total of approx. \$37.5 million (100%, the Partnership's share – approx. \$17 million), for the construction of a compressor station and additional related work in the Jordanian transmission system (the "**FAJR+ Project**").

In the Operator's estimation, the FAJR+ Project's budget is estimated at approx. \$335 million (in equal shares between the Leviathan Partners and the Tamar partners, the Partnership's share is approx. \$76 million). The FAJR+ Project is expected to increase the total transmission capacity in the Jordan-North Export Pipeline to ~10.5 BCM per annum during H1/2026. As of the date of approval of the financial statements, the Leviathan Partners are acting for adoption of a final investment decision for the FAJR+ Project, which is expected to be adopted by the end of H1/2024.

3. The Jordan-south export pipeline, which connects the Israeli transmission system in the southern area of the Dead Sea to Jordanian industrial plants.
4. As of the date of approval of the financial statements, the Operator, on behalf of the Leviathan Partners and the Tamar partners, is examining the possibility to participate in the construction of a project for a new onshore connection between the Israeli transmission system and the Egyptian transmission system in the area of Nitzana (the "**Nitzana Pipeline**"), which includes a pipeline and the construction of a compressor station in the area of Ramat Hovav. The Nitzana Pipeline (if built) will constitute part of INGL's transmission system and is expected to increase the capacity of transmission to Egypt by ~6 BCM per year. 1. [sic] For promotion of the construction of the Nitzana Pipeline, the Leviathan Partners approved, by the date of approval of the financial statements, preliminary budgets prior to an undertaking to participate in the financing of the Nitzana Pipeline, according to the INGL's decision in respect thereof, and prior to the adoption of a final investment decision (insofar as shall be adopted) in the sum total of approx. \$14.5 million (100%, the Partnership's share – approx. \$6.6 million). In the Operator's estimation, the Nitzana Pipeline project's budget is estimated at approx. \$360 million (in equal shares between the gas exporters participating in the funding thereof; the Partnership's share is approx. \$82 million). As of the date of approval of the financial statements, the Partnership, together with the other Leviathan partners, is examining all of the commercial conditions in this project in comparison with the alternatives of other projects to increase the capacity for export to Egypt, and accordingly, will make a decision on whether and how to participate in the Nitzana project.

N. Regulation:

1. The Gas Framework:

On 16 August 2015, Government Resolution No. 476 (readopted by the Government Resolution of 22 May 2016) was adopted with respect to a framework for the increase of the natural gas quantity produced from the "Tamar" natural gas field and the expeditious development of the "Leviathan", "Karish" and "Tanin" natural gas fields and other natural gas fields (in this section: the "**Government Resolution**"), which took effect on 17 December 2015, upon the grant of an exemption from certain provisions of the Restrictive Trade Practices Law to the Partnership, Ratio Energies and Chevron (in this section: the "**Parties**") by the former Prime Minister, in his

capacity as Minister of Economy, pursuant to the provisions of Section 52 of the Economic Competition Law, 5748-1988 (in this section: the "**Exemption**" or the "**Exemption pursuant to the Restrictive Trade Practices Law**"), the main principles of which are presented below.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.):

N. Regulation (Cont.):

1. The Gas Framework (Cont.):

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

- 1) The restrictive trade practice that was ostensibly created, according to the Competition Commissioner's position, as a result of the acquisition of the rights in the Ratio-Yam permit by the Parties; and the restrictive trade practice that was ostensibly created as a result of the Parties' coming together as joint holders of the Ratio-Yam permit and the Leviathan reservoir.
- 2) The restrictive trade practice that shall ostensibly be created in a case in which the Parties or some of them jointly market the gas that shall be extracted from the Leviathan reservoir to the domestic market until 1 January 2030.
- 3) The restrictive trade practice that shall ostensibly be created in a case in which the Parties or some of them market the gas that shall be extracted from the Leviathan reservoir jointly for export only.
- 4) The restrictive trade practice which may be created as a result of a certain agreement for the purchase of natural gas from the Leviathan reservoir, provided that such agreement is signed by 1 January 2025.
- 5) With respect to their activity in the Tamar and Leviathan reservoirs only, the Partnership and Chevron being the holders of a monopoly according to the Competition Commissioner's declarations.

b) The Exemption from the aforesaid restrictive arrangements had been contingent upon the satisfaction of certain conditions, including the transfer of all the interests of the Partnership and Chevron in the Tanin and Karish leases, the transfer of all the interests of the Partnership in the Tamar Project and the transfer of some of the interests of Chevron (interests in excess of 25%) in the Tamar Project, all of which were completed in accordance with the framework by December 2021.

c) Satisfying specific restrictions to apply to new agreements for the supply of natural gas

The Gas Framework sets out specific restrictions that will apply to new agreements for the supply of gas from the Leviathan reservoir, that shall be signed with consumers from the date of the Government Resolution. Most of the restrictions are no longer relevant, other than:

1. The consumer shall be subject to no restriction with respect to the purchase of natural gas from any other natural gas supplier.
2. The consumer will have the possibility of selling natural gas that it purchased in a resale, in accordance with the conditions and provisions set forth in the Exemption.
3. The parties shall not apply any restriction to the sale price at which the consumer shall sell the natural gas in a resale.

4. The gas sales agreements shall not include a condition whereby the consumer's notification of shortening of the term of the agreement or reduction of the purchase amount will lead to any change in the terms of the agreement that is detrimental to the consumer. In this context, no change detrimental to the consumer shall be made to the price and terms of payment, the terms, dates and quantities of supply, the addition of restrictions on resale of the gas, etc.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

2. Environmental Regulation:

The Partnership acts to prevent and/or minimize the environmental hazards that may occur in the course of its operations, has prepared for the financial, legal and operating implications deriving from such laws, regulations and directives and allocates budgets for compliance therewith in the framework of its annual work plans for its various assets.

- a) On 20 May 2020, Chevron received a notice from the MoEP of the intention to impose an administrative monetary penalty, in an immaterial amount, due to alleged violations of the emission permit given to the Leviathan platform and the Clean Air Law, and the Supervisor's instruction given by virtue thereof in connection with the continuous monitoring systems in the Leviathan platform. Chevron informed the Partnership that it submitted a request to the MoEP to receive information by virtue of the Freedom of Information Law, 5758-1998, which directly contemplates arguments raised in said notice and that the MoEP authorized to postpone the date of submission of arguments with regards to said administrative monetary penalty and to schedule it 30 days after receipt of the information. As of the date of approval of the financial statements, the requested information has not yet been received and therefore the count of days for responding to the aforesaid notice has not yet begun. Due the long time that passed since the process began and the response of the MoEP to the freedom of information request not yet being received, there is no certainty of the completion of the process.
- b) On 2 August 2023, Chevron received notice from the MoEP regarding its intention to impose thereon an administrative monetary penalty of approx. ILS 2.9 million (100%, approx. \$0.8 million) for alleged violation of the marine discharge permit of the Leviathan project. Chevron has submitted its arguments with respect to such notice, and on 7 December 2023, the decision of the MoEP on the matter has been issued whereby it was decided to reject the claims of Chevron and that such administrative monetary penalty amount shall remain unchanged. Payment for such administrative monetary penalty was transferred on 26 December 2023.
- c) On 6 August 2023, Chevron received a letter of notice and summons to a hearing before the MoEP for alleged non-compliance of the marine discharge permit and the toxins permit of the Leviathan project, and violation of the Prevention of Sea Pollution and the Hazardous Substances Law. The hearing took place on 7 January 2024, and on 21 January 2024, the hearing summary was received, whereby Chevron is required to take all actions to prevent deviations from the marine

discharge permit, and that the MoEP is considering exercising its powers according to law.

It is not possible at this stage to estimate whether an administrative monetary penalty will be imposed for the violations and the amount of the administrative monetary penalty that will be imposed, if any.

3. Directives on the provision of collateral in connection with the petroleum rights:

In September 2014, pursuant to Section 57 of the Petroleum Law, the Commissioner published directives for the provision of collateral in connection with petroleum rights. As of the date of approval of the financial statements, the Partnership has deposited autonomous bank guarantees with the Ministry of Energy, in connection with its rights in the oil and gas assets, against a bank credit facility (see Paragraph K11 above).

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

N. Regulation (Cont.):

4. Directives on the manner of calculation of the value of the royalty at the wellhead:

In May 2020, the Director of Natural Resources at the Ministry of Energy released the final version of the directives on the method of calculation of the royalty value at the wellhead in accordance with Section 32(b) of the Petroleum Law, 5712-1952 (in this section: the "**Directives**"):

- a) The Directives state that the value of the royalty at the wellhead shall be equal to 12.5% of the price of sale to customers at the point of sale, net of costs deemed essential for treatment, processing and transportation of the petroleum, actually incurred by the lease holder between the wellhead and the point of sale.
- b) The Directives determine additional provisions, including a specification of the types of deductible and non-deductible expenses for the above calculation.
- c) In July 2022, specific directives were released regarding the calculation of the royalty value at the wellhead for the Leviathan lease. Below is a summary of the directives received regarding calculation of the royalty value at the wellhead in the Leviathan lease:
 1. Capex that will be recognized for purposes of calculation of the royalty value at the wellhead and the rate of recognition include: (a) Capital cost for the transmission pipeline from the main manifold to the Leviathan platform (the "**Platform**"), will be recognized at a rate of 100%; (b) Capital costs in respect of the Platform will be recognized at a rate of 82%; and (c) Capital cost in respect of the transmission pipeline from the Platform up to the entrance to the terminal (DVS) will be recognized at a rate of 100%.
 2. Operating expenses arising directly from the types of Capex specified above, will be recognized at a rate of 82%: salary expenses of the workers at the Platform; maintenance and repair expenses; expenses for travel and transportation to the platform; expenses for food for the workers at the Platform; expenses for guarding and security at the Platform; expenses for professional and

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engineering consulting; insurance expenses and communications expenses at the Platform.

In the event that the sale price specified in the contract includes a component of a transmission tariff that is paid to INGL, all of the transmission expenses paid to INGL directly by the lease holders and that are included in the contractual sale price, will be recognized according to the relevant transmission tariff.

Abandonment costs will be recognized for calculation of the royalty according to the provisions set forth in the general directives, cumulatively: a. P2 Reserves balance in the Leviathan field according to an updated resources report shall be less than 125 BCM. b. The abandonment plan has been approved by the Commissioner.

- d) On 1 September 2022, the partners in the Leviathan project filed their response to such Specific Directives. As of the date of approval of the financial statements, the response of the Ministry of Energy has not yet been received.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

N. Regulation (Cont.):

5. Projects for export through the national transmission system:

On 23 June 2020, the Director General of the Natural Gas Authority announced his determination that the cost of the Combined Section designated for the piping of natural gas from the Leviathan and Tamar reservoirs to EMG's terminal in Ashkelon for purposes of piping gas to Egypt according to the export agreements is estimated (as of the date of signing of the Transmission Agreement) at a sum total of ILS 738 million which will be updated according to an update and accounting mechanism between the parties as set forth in the Transmission Agreement with INGL. On May 2, 2022, INGL updated the project's budget to approx. ILS 796 million.

According to the announcement of the Director General of the Gas Authority, 43.5% of the section's cost, as shall be determined in accordance with the aforesaid, will be financed by the holder of the transmission license (INGL) and 56.5% of the section's cost shall be financed by the exporter in accordance with the milestones that shall be determined in the Transmission Agreement. In addition thereto, the exporter shall pay the holder of the transmission license ILS 27 million (the Partnership's share approx. ILS 8.5 million) for its share in the cost deriving from the bringing forward of the doubling of the Dor-Hagit and Sorek-Nesher sections (which is estimated at approx. ILS 48 million) and that the exporter will provide the holder of the transmission license with an independent financial guarantee on behalf of an Israeli bank, in the sum of 110% of the aggregate amount of the cost stated above (the share of the holder of the transmission license in the cost of construction of the Combined Section plus ten percent), and in the sum of ILS 21 million (the share of the holder of the transmission license in the cost of acceleration of the doubling of the Dor-Hagit and Sorek-Nesher sections), which will decrease in accordance with the provisions of the addendum to the decision.

The announcement of the Director General of the Authority further determines that as long as the exporter exports to Egypt, the quantity of natural gas determined in the Transmission Agreement will be transported via the transmission system of the holder of the transmission license and not via a section outside of the Israeli transmission system and that insofar as the exporter shall have ceased to export to Egypt, it will be required to pay the holder of the transmission license the difference, if any, between 110% of the aggregate total cost of the section plus ILS 48 million (the cost derives from the acceleration of the doubling of the Dor-Hagit and Sorek-Nesher sections), and the aggregate capacity and piping fees that the exporter paid the holder of the transmission license from the date of completion of the Combined Section and of the payments that the exporter paid the license holder in accordance with the aforesaid.

With regard to Chevron's engagement with INGL in an agreement for transmission on a firm basis for the purpose of piping of natural gas from the Tamar reservoir and Leviathan reservoir to the EMG terminal in Ashkelon for the transmission thereof to Egypt see Section N below.

Note 5 – Contingent Liabilities, Engagements and Pledges (Cont.)

N. Regulation (Cont.):

6. The decision of the Natural Gas Commission on regulation of criteria and rates regarding the operation of the transmission system:

From time to time, the Natural Gas Commission adopts resolutions that update the rates of the various transmission services.

According to the Natural Gas Commission's resolution of 3 January 2021 on criteria and rates for the purpose of operation of the transmission system in a flow control regime, the Commission determined that the costs in respect of unaccounted for gas (UFG) in the transmission system that derives from reasons that cannot be attributed to deficient operation of the transmission system, but rather to factors that can be neither prevented nor controlled, such as measurement timing, pressure differences and temperature differences, will be borne by the gas suppliers. The resolution further stipulates that UFG within the range of 0% and 0.5% (either positive or negative) is deemed to be within the reasonable range. The costs in respect of a reasonable UFG-T will be allocated equally between the gas suppliers and the gas consumers.

5. Draft policy document with respect to the decommissioning of offshore exploration and production infrastructures

On 2 May 2023, the Ministry of Energy published for public comment a draft policy document that specifies general principles with respect to the decommissioning of offshore oil and natural gas exploration and production infrastructures, without derogating from the provisions of law applicable to this issue and from the provisions of the lease deeds and operation authorizations. The draft policy document specifies, *inter alia*, rules, criteria and timeframes for the decommissioning of wells and production facilities as well as the abandonment of no-longer used subsea infrastructures and pipelines, *inter alia*, according to the location of such installations in the deep sea, on the seabed or under the seabed. According to the Partnership's preliminary assessment, insofar as the stringent requirements of the draft policy document are approved, costs of decommissioning of the Partnership's assets are expected to increase.

Note 6 - Oil and Gas Profit Levy and Taxes

A. Information regarding income tax rules and the main arrangements existing as of the date of the statement of financial position:

1. The Partnership was approved by the Director General of the Tax Authority for the purpose of the Income Tax Regulations (Rules for the Calculation of Tax due to the Holding and Selling of Participation Units in an Oil Exploration Partnership), 5749-1988 (the "**Participation Unit Regulations**" or the "**Regulations**"). In September 2021 an amendment to the Income Tax Regulations as aforesaid was published in the Official Gazette whereby, effective from tax year 2022 a change has occurred in the tax regime that applies to the Partnership, such that it is taxed as a company with respect to its taxable income (while setoff of losses will be possible, subject to the tax laws, on the level of the Partnership itself without the same being attributed to the holders of the participation units). As a result of this change, commencing from tax year 2022, holders of participation units in the Partnership are subject to a tax regime that applies with respect to profit distributions made by the Partnership, which is similar to the tax applying to shareholders of a company for dividend distributions (i.e. pursuant to the two-stage method).

In view of the aforesaid amendment, up to and including tax year 2021 the accounting with holders of the participation units and the reporting on the Partnership's taxable income will be as being prior to the amendment as explained below.

2. Until 31 December 2021 the Partnership acted as a "transparent" entity for tax purposes according to the provisions of the Income Tax Ordinance (New Version) 5721-1961 (the "**Income Tax Ordinance**") and the Taxation of Profits from Natural Resources Law, 5771-2011 (in this section: the "**Law**") i.e. the Partnership's taxable income and the losses for tax purposes were attributed to the unit holders who are an "Entitled Holder", as this term is defined in the Participation Unit Regulations, according to the ratio of their holdings in the Partnership. An "Entitled Holder" was defined in the Participation Unit Regulations as an entity that held participation units at the end of December 31 of the tax year. According to Section 19 of the Law ("**Section 19**") regarding Section 63(a)(1) of the Ordinance, the share of each partner in the tax year will be calculated from the taxable income of the Partnership or from the losses thereof.

Because the Partners bear the tax results of the revenues and expenses of the Partnership, the financial statements did not include current taxes on income.

3. According to the provisions of Section 19, the General Partner is obligated to submit to the assessing officer a report on the taxable income of the Partnership and to pay the tax deriving therefrom (see later in the section), on account of the tax for which the partners in the Partnership are liable in the tax year in respect of which the report was submitted (i.e., on account of the tax for which the holders of the participation units, on December 31 of each tax year, are liable), according to the share in the Partnership of the Entitled Holders who are a body corporate (according to the corporate tax rate) and the share in the Partnership of the Entitled Holders who are individuals (according to a maximum marginal tax rate). The General Partner is liable for payment of tax advances calculated according to the tax rates applicable to companies (in 2019 to 2021 – 23%). See Section 1 above with regard to the change that is effective from 2022 to the tax regulations which apply to the Partnership, according to which a corporate tax rate of 23% applies to the Partnership.

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Note 6 - Oil and Gas Profit Levy and Taxes

B. Taxation of Profits from Natural Resources Law, 5771-2011:

In April 2011, the Knesset passed the Taxation of Profits and Natural Resources Law, 5771-2011 (the "**Law**"). Implementation of the Law has led to a change in the taxation rules applicable to the Partnership's revenues, which include, *inter alia*, the introduction of a oil and gas profits levy according to a mechanism specified in the Law and cancellation of the depletion deduction. The Law includes transitional provisions with respect to producing ventures or ones that commenced production by 2014.

The Law's main provisions are as follows:

- 1) The introduction of an oil and gas profits levy at a rate to be determined as stated below: The rate of the levy will be calculated according to a proposed R-factor mechanism, according to the ratio between the net aggregate revenues from the project and the aggregate investments as defined in the Law. A minimum levy of 20% will be collected commencing from the point when the R-factor ratio reaches 1.5, and will progressively increase up to a maximum rate when the ratio reaches 2.3. The maximum rate of the levy is 50% minus the product of 0.64 and the difference between the corporate tax rate set forth in Section 126 of the Income Tax Ordinance, 5721-1961 (in respect of each tax year) and a 18% tax rate. According to the corporate tax rate in 2022, the maximum rate is 46.8%.

Additional provisions were also determined, *inter alia*, that the levy will be recognized as an expense for the purpose of calculation of income tax; the levy limits shall not include transmission plants that are used for export; the levy shall be calculated and imposed in relation to each lease separately (ring fencing); the charge of a recipient of payment from a holder of a petroleum interest which is calculated, *inter alia*, as a percentage of the petroleum produced, (the "**Derivative Payment**") [*sic*] in accordance with the amount of the Derivative Payment received thereby, while the amount of the levy attributed to the recipient of the Derivative Payment will concurrently be deducted from the levy amount owed by the holder of the petroleum right. In addition, the Law prescribes rules for consolidation or separation of petroleum ventures for purposes of the Law.

According to the Law, the holder of the petroleum right will be given fixed annual accelerated depreciation on a deductible asset, as defined in the law, which is owned thereby, at a fixed rate of up to 10% (at the choice of the holder of the petroleum right) or, alternatively, variable current annual depreciation up to the amount of the taxable income in that year (and not more than 10%).

The provisions regarding the imposition of an oil and gas profits levy apply from April 10, 2011 and include transition provisions with respect to ventures that began commercial production by January 1, 2014.

- a) A venture, the date of commencement of commercial production from which occurred before the commencement date, will be subject to the provisions of this Law with the following changes:
 - (1) If a levy payment duty applies with respect to such venture in the tax year which the commencement date occurs, the rate of the levy in such tax year will be half of the rate of the levy that would have been imposed on the petroleum profits if not for the provisions of this paragraph and no more than 10%;

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- (2) In the event that the levy coefficient in the tax year in which the commencement date occurs exceeds 1.5, rules were set for the manner of calculation of the levy coefficient in each tax year thereafter;

Note 6 - Oil and Gas Profit Levy and Taxes

B. Taxation of Profits from Natural Resources Law, 5771-2011 (Cont.):

- (3) The rate of the levy which will be imposed on the petroleum profits of the venture in each of the tax years 2012 to 2015 will be equal to half the rate of the levy that would have been imposed on the petroleum profits as aforesaid, if not for the provisions of this paragraph.
- b) A venture with respect to which the commercial production commencement date occurs in the period between the commencement date and January 1, 2014, will be subject, *inter alia*, to the following provisions:
- (1) The minimal levy coefficient will be at a rate of 2 instead of 1.5 and the maximal rate will be 2.8 instead of 2.3;
- (2) The accelerated annual depreciation rate regarding a deductible asset purchased in the years 2011-2013 will be 15% instead of 10%.
- 2) The Law includes provisions regarding the taxation of petroleum partnerships as of 2011 - see Paragraph A above.
- 3) Pursuant to the Law, the reporting partner of the petroleum project files reports that include, *inter alia*, accrued data regarding proceeds and investments for the purpose of calculating the R-factor, as specified in Section 1 above.
- 4) On November 10, 2021, the Knesset approved, in the second and third readings, amendment no. 3 to the Taxation of Profits from Natural Resources Law, 5782-2021 (the "**Amendment to the Law**"), according to which, *inter alia*, in the case of a dispute, it will be necessary to bring forward payment of the oil and gas profit levy in the sum of 75% of the amounts in dispute, subject to the decision of the assessing officer in the administrative objection (prior to completion of legal hearings on the dispute at the court, if any). In accordance with the said Amendment to the Law, 75% of the amounts in dispute might be brought forward.
- 5) On 2 December 2020, the Taxation of Profits from Natural Resources Regulations (Advances due to the Oil profit levy), 5781-2020 (in this section: the "**Advances Regulations**") were published. The Advances Regulations regulate the payment of the advances that shall be paid by holders of petroleum interests in a petroleum project, including the method of calculation of the advances, the dates of payment thereof, and the reporting thereon.
- 6) It is noted that disputes have arisen between the Assessing Officer for Large and the holders of the rights in the Leviathan Leases regarding the levy reports for the Leviathan Leases for the years 2013-2015, which disputes chiefly pertained to the method of classification and quantification of data in the levy reports for the Leviathan Leases for the said years. In October 2018 the parties reached agreements with respect to the said disputes in the framework of a levy assessment agreement for the years 2013-2015, which, in October 2018, was sanctioned as a judgment by the Tel Aviv District Court.

A levy assessment agreement was signed in December 2019 between the TALE and the holders of the rights in Leviathan, with respect to the levy reports for the years

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2016-2017, and in October 2021 an assessment agreement was signed with respect to the Leviathan levy assessment for 2018.

In December 2021, the Leviathan Partners received an assessment to the best of judgment for the Leviathan levy for 2019, which includes interpretive disputes with regards to the implementation of the provisions of the Law in the levy reports of the Leviathan Leases, including pertaining to recognition of payments borne by the holders of the interests in the leases in order to enable feasibility of export of natural gas to Egypt. An administrative objection to the assessment to the best of judgment was submitted to the TALE in March 2022. On 23 October 2022, an appeal was filed with the Tel Aviv District Court in respect of a levy assessment order for 2019, which was served to the Leviathan partners in September

Note 6 - Oil and Gas Profit Levy and Taxes

B. Taxation of Profits from Natural Resources Law, 5771-2011 (Cont.):

6) (Cont.):

2022, and on 15 March 2022, the assessment reasoning of the TALE for the said appeal were received. According to the court's decision, the notice stating the grounds for the appeal will be filed by 21 March 2024. On 6 January 2022, a Leviathan lease levy report for 2020 was submitted to the Tax Authority and on 31 December 2023 an assessment to the best of judgment was received from the Tax Authority pursuant to Section 14(B)(2) of the Law.

The rate of the levy coefficient in the Leviathan Leases as of the date of the financial statements is lower than 1.5 and the effect of the above-mentioned assessments and disputes may be reflected in the levy amount calculation. However, even if the assessing officer's position is fully accepted, to date it is not expected to result in a coefficient rate higher than 1.5 from which actual collection of the levy begins.

In addition, the right holders in the Leviathan venture reached agreements with the Tax Authority on the consolidation of the Leviathan Leases (north and south) as a single petroleum venture for purposes of the Law and the reports thereunder, according to the provisions of Section 8(a) of the Law.

Note 7 - Related Parties:

- A. NewMed reimburse the Company for all costs paid and payable by the Company with respect to the bonds, including fees, commissions and any other expenses related to the operation of the Company (preparing financial statements, registration fees, filing fees, etc.).
- B. Loans from shareholder were granted to the Company at August 18, 2020 by NewMed in the form of Subordinated Loan. The fund was deposited in bank for long term bank deposits that serve as debt payment fund required balance as part of the bond issuance described in note 3 above. The bank deposits and the Subordinated Loan will be paid after the settlement of the Notes. The Subordinated Loan will bear interest that earned from the deposits.

Note 8 - Equity:

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

Note 9 - Material Subsequent Events:

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Notes to the Financial Statements as of December 31, 2023 (Expressed in US \$ Thousands)

- A.** See Note 4D for details regarding a reserves and contingent resources report in the Leviathan Leases.
- B.** See Note 5E for details regarding the commencement of the piping of the condensate from the Leviathan reservoir to ARF.