Delek Overriding Royalty Leviathan Ltd.

Financial Statements as of December 31, 2022

In U.S. Dollars in thousand

Contents

Auditors' Report to the shareholders of Delek Overriding Royalty Leviathan Ltd.

We have audited the accompanying statements of financial position of **Delek Overriding Royalty Leviathan Ltd.** (hereafter – "the Company") as of December 31, 2022 and 2021 and the statements of comprehensive income, changes in equity and cash flows for each of the two years in the period ended December 31, 2022. 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.

The Company's annual financial statements as of December 31, 2020 and for the year then ended, have been audited by other auditors, whose audit report dated March 22, 2021 included qualified opinion stating that the loan granted to the controlling shareholder during 2020 (and which did not form any part of the assets that guarantee the repayment of the debentures) was not measured on the grant date at fair value as required under International Financial Reporting Standards.

We conducted our audits in accordance with Generally Accepted Auditing Standards in Israel, including standards prescribed by the Auditors' Regulations (Auditor's Mode of Performance) – 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statements presentation. We believe that our audit provide a reasonable basis for our opinion.

As described in note 7 to the financial statements, the loan granted to the controlling shareholder during 2020 (and which does not form any part of the assets that guarantee the repayment of the debentures) was not measured on the day in which it was granted according to its fair value as required under International Financial Reporting Standards.

In our opinion, except for the matter described in the preceding paragraph, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations, changes in equity and its cash flows for the two years in the period ended in December 31, 2022, in conformity with International Financial Reporting Standards (IFRS).

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Firm in the Deloitte Global Network

Haifa, March 29, 2023.

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Statements of Financial Position (Dollars in thousand)

	Note	December 31 2022	December 31 2021
Current assets			
Cash and cash equivalents	3	304	205
Short-term investments	4	18,346	3,907
Loan to controlling shareholder	7	87,736	-
Royalties and other receivables	5	2,589	1,527
Total current assets		108,975	5,639
Non-current assets			
Long-term investments	4	-	14,110
Loan to controlling shareholder	7	-	81,752
Assets in respect of ORRI	1B, 6	186,381	192,147
Deferred Taxes		900	1,333
Total non-current assets		187,281	289,342
		296,256	294,981
Current liabilities			
Debentures	9	176,015	-
Other payables	8	1,322	1,615
Total current liabilities		177,337	1,615
Non-current liabilities			
Debentures	9	-	172,392
Total non-current assets		-	172,392
Equity			
Share capital		295	295
Share premium		127,275	127,275
Retained earnings		(8,651)	(6,596)
Total equity		118,919	120,974
		296,256	294,981

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

March 29, 2023		
Date of approval of the financial statements	Leora Pratt Levin Director	Tamir Polikar Director

Statements of Comprehensive Income (Dollars in thousand)

	Note	For the year end 31.12.2022	31.12.2021	31.12.2020
Revenue from overriding royalties	6	15,216	11,361	1,335
General and administrative expenses	10	828	910	203
Depletion		5,766	5,557	712
Operating profit		8,622	4,894	420
Financing expenses	11	(17,153)	(16,855)	(2,883)
Financing income	11	6,839	6,144	1,067
Loss before income tax		(1,692)	(5,817)	(1,396)
Tax benefit (Income tax)	13	(363)	473	144
Loss and total comprehensive loss		(2,055)	(5,344)	(1,252)

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

Statements of Changes in the Company's Equity (Dollars in thousand)

	Share capital	Share premium	Retained earnings	Total
Balance as at January 1, 2020	*	-	-	*
Total comprehensive income (loss) **	-	-	(1,252)	(1,252)
overriding royalties	295	127,275		127,570
Balance as at December 31, 2020	295	127,275	(1,252)	126,318

	Share capital	Share premium	Retained earnings	Total
Balance as at January 1, 2021	295	127,275	(1,252)	126,318
Total comprehensive income (loss) **	-	-	(5,344)	(5,344)
Balance as at December 31, 2021	295	127,275	(6,596)	120,974

	Share capital	Share premium	Retained earnings	Total
Balance as at January 1, 2022	295	127,275	(6,596)	120,974
Total comprehensive income (loss)	-	-	(2,055)	(2,055)
Balance as at December 31, 2022	295	127,275	(8,651)	118,919

* Less 1 thousand dollars.

**) The company's operations started at October 28 2020 (Note 1B)

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

Statements of Cash Flows (Dollars in thousand)

	For the year ended		
	31.12.2022	**31.12.2021**	***) 31.12.2020**
Cash Flows - Current Operations:			
Loss for the year	(2,055)	(5,344)	(1,252)
Adjustments for:			
Depletion and depreciation	9,390	8,861	1,252
Deferred Taxes	433	(445)	(888)
Increase in Long-term investments	-	(37)	-
Changes in assets and liabilities items:			
Increase in trade and other receivables	(1,062)	(199)	(1,328)
Increase in loan to controlling shareholder	(6,530)	(6,089)	-
Increase in trade and other payables	(293)	738	2,134
Net cash used for current operations	(117)	(2,515)	(82)
Cash Flows - Investment Activity:			
Investment in oil and gas assets	-	-	(70,815)
Loan granted to controlling shareholder	-	-	(80,037)
Repayment of loans to controlling shareholders	545	671	3,703
Long-term deposit in bank deposits	5,404	5,540	(20,900)
Short-term deposit in bank deposits	(5,733)	(3,581)	(326)
Net cash deriving from (used for) investment activity	216	2,630	(168,375)
Cash Flows - Financing Activity:			
Bond offering (net of issue costs)	-	87	168,460
Net cash deriving from financing activity	-	87	168,460
Increase in cash and cash equivalents	99	202	3
Cash and cash equivalents balance at the beginning of the year	205	3	-
Cash and cash equivalents balance at the end of the year	304	205	3
Annex A - Finance and investment activity not involving cash flows:			
Investments in oil and gas assets against share premium	-	-	127,601
Annex B - Additional information on cash flows:			
Interest paid	13,489	13,489	2,328
interest received	281	55	3
Taxes Paid	1,462	-	-

*) The company’s operations started at October 28 2020 (Note 1B)

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

Notes to the Financial Statements

Note 1 – General

A. The Company was established on July 15, 2012 as a private company limited in shares under the name Delek Energy Tamar Royalty Ltd. and on March 1, 2020, changed its name to Delek Overriding Royalty Leviathan Ltd. ("the Company"). As at the date of approval of the financial statements, the Company is wholly owned by Delek Energy Systems Ltd., a private company wholly owned by Delek Group Ltd. ("Delek Energy" and "Delek Group", respectively). The Company has not had any active operations since it was incorporated until the closing of the transaction in paragraph B that completed on October 28, 2020.

B. The Company is a special purpose company (SPC) for the purpose of holding the royalty interests of Delek Energy and Delek Group for the share of New Med Energy Limited partnership (previous name was Delek Drilling – Limited Partnership. On February 21, 2022, the Partnership's name was changed to its current name) ("New Med" or the "Partnership") in the Leviathan Project. On March 1, 2020, two conditional agreements were signed between the Company and Delek Energy, and between the Company and Delek Group for the transfer of royalty interests in the Leviathan Project, as set out below:

1. Pursuant to the agreement between the Company and Delek Energy, Delek Energy transfered to the Company, by way of final and irrevocable endorsement, its rights to receive royalties for the Partnership's share in the Leviathan Leases, to which it is entitled under the deed of royalties for the Partnership's share in the oil and natural gas and/or other valuable substances produced in the Leviathan Project, as is at the time of signing of the agreement, together with all other rights attached to the royalty interests, including any liens registered in favor of Delek Energy on the rights of New Med in the Leases to ensure payment of the royalties, against the issue of 1,000,000 ordinary shares of the Company. The transfer of the royalty interests is affected in accordance with Section 104A(a) of the Israeli Income Tax Ordinance [New Version] 1961 (the "Ordinance") which sets out provisions for the transfer of property by deferring tax.

2. Pursuant to the agreement between the Company and Delek Group, Delek Group sold to the Company its rights to receive royalties for the Partnership's share in the Leviathan Leases, to which it is entitled under the deed of royalties for the Partnership's share in the oil and natural gas and/or other valuable substances produced in the Leviathan Project, as is at the time of signing of the agreement, together with all other rights attached to the royalty interests, including any liens registered in favor of Delek Group on the rights of New Med in the leases to ensure payment of the royalties, against the payment of a consideration as determined on the date of sale of the royalty interests. The consideration for the royalty right determined based on its value from the date of eligibility to receive royalties, and therefore on the date of closing of the transaction the Company deducted from the amount of the consideration the inflows received by Delek Group from the date of eligibility to receive royalties until the closing date of the transaction.
The Company paid Delek Group the consideration for the acquisition in the sum of approx. USD 71 million from the funds that were received as the result of issuance of debentures to qualified investors as noted in Note 9 below

NOTE 1 – General (contd.)

3. The transferred rights under the above agreements are the rights of Delek Energy and Delek Group to receive royalties from New Med's share (45.34%) in oil and/or gas and/or other valuable substances, which will be produced and utilized from the oil assets in the I/14 Leviathan South and I/15 Leviathan North leases. The rates of royalties that the company are eligible to receive are 1.5% and 6.5%, prior to ROI date and after ROI date, respectively. For further information concerning the royalties rights, see Note 6 below.

4. The Company's rights and obligations in respect of the royalty interests will apply from the closing date of the transaction, and this includes the Company having any right and bearing any liability with regard to royalties received in respect of oil and/or gas sold after the closing date. The closing of the transaction was completed on October 28, 2020.

5. The Company's only significant asset and source of regular cash flows is the right to receive payments of Overriding Royalties paid to it by the Royalties Payor which in turn will be based on the Royalties Payor's revenues from sales of natural gas based on its interest in the Leviathan Project. Accordingly, the Company's ability to make payments on the debentures is entirely dependent on its receipt of Royalties Payments. Moreover, as the payments of Overriding Royalties to the Company are not expected to be sufficient for the Company to repay the principal amount of the debentures on the scheduled maturity date, the Company will be required to refinance the debentures on or prior to the scheduled maturity date, which will depend on then-current market conditions, the Company's ability to access the capital markets and the financial performance and condition and outlook of the Company and the Leviathan Project.

NOTE 1 – General (contd.)

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

On March 27, 2023, the General Partner's board held a discussion regarding the Consortium's Offer, and in view of Delek Group's personal interest in the transaction and the material nature of the transaction, decided to appoint the audit committee, comprised solely of 3 external directors (the "Committee"), to explore and resolve any issue pertaining to the purchase of the publicly held units in the offered transaction, and to take any and all actions required for the exercise of the Committee's powers. In addition, the Committee was authorized to decide also not to perform the transaction or to make its approval conditional or to request, obtain and explore alternative offers, all as it shall deem fit.

If the required agreements are reached with Delek Group and the Committee's recommendation is received to approve the transaction, then approval of the transaction by way of an arrangement under Section 350 of the Companies Law, and the closing of the transaction and performance thereof, will be subject to the approval of the court, which will supervise the arrangement, approval of the arrangement by the meeting of the unitholders by a majority of 75% of all of the unitholders (including Delek Group and affiliates thereof), and approval by an ordinary majority of the public unitholders (without Delek Group and affiliates thereof), and receipt of the other regulatory approvals, and consents from third parties, as required for the closing of a transaction of this type. It is emphasized that, as of the report approval date, there is no certainty that it will be possible to obtain all of the said approvals and consents, and consequently the chances of the closing of the transaction are uncertain.

NOTE 2 – Significant Accounting Policies

A. Basis of preparation of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of presentation

The Company's financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Consistent accounting policies

The accounting policies applied in the financial statements of comprehensive income have been applied consistently for all the periods presented.

B. Functional currency and presentation currency

The functional currency is the currency which best and most faithfully presents the economic effects of transactions, events and circumstances. The presentation currency is the currency in which the financial statements of the Company are presented.

The functional currency of the Company and the presentation currency is the USD.

C. Going concern

The management has, at the time of approving the financial statements, a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

D. Cash and cash equivalent

In the statement of financial position, cash and bank balances comprise cash (i.e. cash on hand and demand deposits) and cash equivalents. Cash equivalents are short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather for investment or other purposes.

Bank balances for which use by the Group is subject to third party contractual restrictions are included as part of cash unless the restrictions result in a bank balance no longer meeting the definition of cash. Contractual restrictions affecting use of bank balances are disclosed in note 4. If the contractual restrictions to use the cash extend beyond 12 months after the end of the reporting period, the related amounts are classified as non-current in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management. Such overdrafts are presented as short-term borrowings in the statement of financial position.

NOTE 2 – Significant Accounting Policies (contd.)

E. Accounting treatment of the transfer of rights

As described in Note 1B above, Delek Energy and Delek Group transfered to the Company their rights to receive royalties from oil and gas assets (Leviathan Leases). As these transactions are transactions with the controlling shareholders that continue to directly or indirectly hold all the shares of the Company even after the foregoing transactions are completed, after the rights transfer has been completed, the Company initially measured the rights acquired using the “as pooling” method, i.e. based on their carrying amounts in the controlling shareholders’ books prior to the transfer (namely, the carrying amount of the entire investment in the Leviathan Reservoir that was derecognized from the controlling shareholders’ books as a result of transferring the royalty interests to the Company). See Note 2G below for depletion of the royalty interests.

F. Transactions in Foreign Currency

A transaction that is not denominated in the functional currency is treated as follows:

- upon initial recognition, it is recorded in the functional currency, using the spot exchange rate between the functional currency and the relevant foreign currency on the date of the transaction;
- on each reporting date, monetary items in foreign currency are converted using the spot exchange rate in effect on such date;
- on each reporting date, non-monetary items in foreign currency that are measured at historical cost are converted using the exchange rate in effect on the date of the transaction; and
- exchange rate differences on the settlement of monetary items, or resulting from the conversion of monetary items using exchange rates that differ from those used for the conversion upon initial recognition during the period, or from those used for conversion in previous financial statement dates, are recognized as profit and loss in the period incurred.

G. Depletion of the Royalties Interest

The Royalties Interest is depleted according to the unit-of-production method and based on proved and probable reserves as appraised by an external expert at the commencement of commercial production of the Leviathan Field. There is a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable reserves and a 50% statistical probability that it will be less ("2P").

NOTE 2 – Significant Accounting Policies (contd.)

H. Revenue from the Royalties Interest

The Company applies International Financial Reporting Standard No. 15 – Revenue from Contracts with Customers ("IFRS 15") to account for royalties received from gas and condensate sales. Accordingly, revenues from the Royalties Interest are measured based on the consideration to which the Company expects to be entitled and excludes amounts collected on behalf of third parties and recorded as earned and are recognized only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

I. Impairment of Non-Financial Assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).
Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The expected future cash flow is derived using estimates of proved and probable reserves and information regarding the Royalties Interest.
An impairment loss is recognized in profit or loss for the amount by which the asset's carrying value exceeds its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognized for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

NOTE 2 – Significant Accounting Policies (contd.)

J. Taxes on Income

The income tax expense represents the sum of the tax currently payable and deferred tax.

1. Current tax:
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

   A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable.

2. Deferred tax:
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.
Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

3. Current tax and deferred tax for the year:
Expenses (income) with respect to taxes on income for the presented periods include the total amount of current taxes, as well as the change in the balances of deferred tax.

K. Financial instruments

Financial assets and financial liabilities are recognized in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value, Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

NOTE 2 – Significant Accounting Policies (contd.)

K. Financial instruments (contd.)

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1. Financial assets: (contd.)

All recognized financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

The Company`s financial assets are measured subsequently in their entirety at either amortized cost.

Amortized cost and effective interest method:

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. Interest income is recognized in profit or loss and is included in the "financing income " line item.

NOTE 2 – Significant Accounting Policies (contd.)

K. Financial instruments (contd.)

1. Financial assets: (contd.)

Impairment of financial assets:

The company recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.
For financial instrument, the Company recognizes lifetime expected credit losses (ECL) when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.
An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Derecognition of financial assets:

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Comapny neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. On derecognition of a financial asset measured at amortized cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2. Financial liabilities:

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.
Financial liabilities are classified, at initial recognition, as loans and borrowings. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

NOTE 2 – Significant Accounting Policies (contd.)

K. Financial instruments (contd.)

2. Financial liabilities: (contd.)

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Derecognition of financial liabilities:

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

L. Provisions:

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risk and uncertainties surrounding the obligation.

M. Levies:

The Company recognizes the expense due to the Levy under the Israeli Taxation of Profits and Natural Resources Law - 2011 (the "Levy") according to IFRIC No. 21 of the International Financial Reporting Interpretations Committee - "Levies" ("IFRIC 21") using the "obligating event" approach, i.e., only on the date on which the obligation of payment thereof arises (meaning only as of the date of commencement of actual payment thereof). The accounting treatment of the Levy as aforesaid for the Royalties Interest has no effect on the Company's financial statements, since the obligation of payment of the Levy in respect of the Royalties Interest has not yet arisen.

NOTE 2 – Significant Accounting Policies (contd.)

N. Critical accounting judgements and key sources of estimation uncertainty:

In applying the Company's accounting policies, which are described above in note 2, the management of the Company is required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Below is a description of the critical judgements and key sources of estimation uncertainty used in the preparation of the financial information, in the preparation of which the management of the Company were required to make assumptions as to circumstances and events that involve significant uncertainty.

Estimates of Gas Reserves

Estimates of gas and condensate reserves (the "Gas Reserves") are used, inter alia, in determining the rate of depletion of the Royalties Interests during the reported period, as well as in the examination of potential impairments.

The estimated gas quantity is determined on an annual basis, according to the opinions of independent external experts. Evaluation of the proved and probable gas reserves according to the above principles is a subjective process and the evaluations of different experts may be materially different. In light of the materiality of the depletion expenses, the abovementioned changes may have a material effect on the results of the operations and the financial condition of the Royalties Interest.

NOTE 2 – Significant Accounting Policies (contd.)

O. New and revised IFRS Standards in issue

At the date of authorization of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

1. The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

   The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

   The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments.

   The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods.

3. Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates:

   The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

   The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:
   - A change in accounting estimate that results from new information or new developments is not the correction of an error
   - The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

   The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

NOTE 2 – Significant Accounting Policies (contd.)

O. New and revised IFRS Standards in issue (contd.)

4. Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies:

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively.

Note 3 – Cash and cash equivalents

	December 31	
	2022	**2021**
Cash in banks in ILS	233	133
Cash in banks in USD	70	72
	304	205

Note 4 – Short-Term and Long-Term Investments

	Interest rate as of December 31 2022	December 31	
	%	**2022**	**2021**
Under current assets			
Deposit in banks (in dollars)*	3.95-4.7	18,346	3,907
		18,346	3,907
Under non-current assets			
Restricted deposit in banks (in dollars)*		-	14,110
		-	14,110

*With respect to pledges and guarantees, see Note 9A.

Note 5 – Royalties and other receivables.

	December 31	
	2022	**2021**
Royalties from related party (see Note 1B3)	1,360	981
Prepaid expenses	1,229	546
	2,589	1,527

NOTE 6 – Additional information concerning the royalties rights

A. Composition

	December 31	
Cost	**2022**	**2021**
Balance as at January 1	198,416	198,416
Acquisition of Royalties from related party (see Note 1B)	-	-
Balance as at December 31	198,416	198,416
Accumulated depletion (Note 2G)		
Balance as at January 1	6,269	712
Additions	5,766	5,557
Balance as at December 31	12,035	6,269
Depreciated cost as at December 31	186,381	192,147

B. Below is a breakdown of the royalties rights.

Name of lease	Rights expire on (1)	New Med's share
I/15 Leviathan North	February 13, 2044	45.34%
I/14 Leviathan South	February 13, 2044	45.34%

(1) The validity of the oil rights are extended from time to time and is contingent on compliance with certain obligations on dates set out in terms of the oil assets. Non-compliance with the commitments could lead to cancellation of the oil rights.

C. **The development plan for the Leviathan reservoir:**
On June 2, 2016, the development plan was approved by the Petroleum Commissioner at the Ministry of Energy (the "**Commissioner**"), as submitted by Chevron. On February 23, 2017, the Leviathan Partners adopted a final investment decision (FID) for the development of Phase 1 – First Stage, at a capacity of approx. 12 BCM per year. The total cost invested in the development of Phase 1 – First Stage amounted, as of the date of the financial statements, to a sum of approx. $3.8 billion (100%, the Partnership's share being approx. $1.7 billion). Following a running-in period, on December 31, 2019, the piping of the natural gas from the Leviathan reservoir began.

NOTE 6 – Additional information concerning the royalties rights (contd.)

D. In March 2023, NSAI submitted a report on the estimated reserves and contingent resources in the Leases, updated as at December 31, 2022. According to the report the overall quantity of natural gas and condensate resources is estimated at approx. 619.2 BCM and approx. 48.2 million barrels, respectively, and is divided into categories of resources classified as reserves and resources classified as contingent.

The quantity of proved developed producing reserves is 391.1 BCM and the quantity of reserves classified as proved + probable reserves is 440.9 BCM.
In addition, the quantity of proved developed producing condensate reserves amounts to 30.4 million barrels and the quantity of reserves classified as proved + probable reserves is 34.3 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 are 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 approx. 297.9 BCM (high estimate) and approx. 59.5 BCM (low estimate). The quantity of contingent condensate resources ranges between approx. 23.1 million barrels (high estimate) and approx. 4.6 million barrels (low estimate).

The estimates of the natural gas, oil and condensate reserves in the Leases are partially based on geological, geophysical, engineering and other information received from the wells and from the operator in these leases. These estimates are the professional estimates and assumptions only of NSAI, for which there is no certainty. Actual quantities of natural gas and condensate consumed may be different from these estimates and assumptions, partly due to technical and operational conditions and/or regulatory changes and/or the supply and demand conditions in the natural gas and/or condensate market and/or commercial conditions and/or from actual performance of the reservoirs. The estimates and assumptions may be revised if additional information becomes available and/or as the result of a range of factors related to oil and natural gas exploration and production projects.

E. The Leviathan partners have agreements for the sale of part of the gas reserves in the reservoir, which are mainly exported to Egypt and Jordan, and agreements for the local market with power producers, as well as industrial and other customers. The agreements usually set minimum volumes that the customers are required to purchase, delivery periods, options for reducing the volumes in some cases and various linkage mechanisms for the prices set in the agreements.
In February 2022, the partnership reported references an agreement for the provision of transmission services on a firm basis as aforesaid for the purpose of piping natural gas from the Tamar reservoir and Leviathan reservoir to EMG's terminal in Ashkelon for the transmission thereof to Egypt (the "Transmission Agreement").

NOTE 6 – Additional information concerning the royalties rights (contd.)

E. (contd.)

In March 2022, The partnership reported that the natural gas flow through Jordan to Egypt began in accordance with a Transmission Agreement is aimed at enabling the flow of such natural gas.

F. According to the deed of royalties signed between the Partnership and each of the transferors (and as amended on February 10, 2020), the Partnership undertook to pay the transferors royalties on its share of the oil and/or gas and/or other valuable substances that will be produced and utilized from Leviathan Leases (before deducting any kind of royalties, however after deducting the oil used for the production itself), at a rate of 1.5% before return on investment (1.125% for Delek Energy and 0.375% for Delek Group) and 6.5% after return on investment (4.875% for Delek Energy and 1.625% for Delek Group). As of October 28, 2020 all rights and obligations concerning the royalty interests were applied to the company.

Under the agreements with the Partnership, the recipient of the royalty may choose to receive the royalty in kind, ie, to receive part of the oil and/or natural gas and/or other valuable substances that will be produced and utilized from an oil asset. If the recipient of the royalty does not choose to receive the royalties in kind, the Partnership will pay the market value, at wellhead, of the royalties due. As the company chose not to receive royalties from the Leviathan Project in kind, the Partnership pays it the market value of the royalties at wellhead (see also section G below).

It should be emphasized that the effective rate of royalty may vary in view of the decision to be made concerning the manner by which the market value is calculated at wellhead, as set out in section G below.

It should be noted that, with regard to setting the date of return on investment in the Tamar Project - which is another oil asset of the Partnership and with regard to which the Partnership pays royalties in a similar manner, in January 2019 the Supervisor of the Partnership filed a lawsuit against the Partnership, the general partner in the Partnership, Delek and Delek Energy (below in this section: the "Royalty Holders"), under which the court was petitioned to declare that the calculation of the date of return on investment in the Tamar Project must include the payments that the Partnership is required to pay to the State under the Natural Resources Taxation Law and which were not taken into account in the Partnership's calculation. According to the Supervisor, including these payments in the calculation will cause significant delay in the date of return on investment in the Tamar Project, compared with the date set according to the Partnership's calculation. In April 2019 the Royalty Holders filed their statement of defense and a counterclaim, claiming, among other things, that in the calculation of the ROI date in the Tamar project, the Partnership included expenses that were attributed to the calculation, including the financing expenses of the Partnership itself, future expenses of an uncertain amount for disposal and removal of facilities, staff company expenses of the Partnership, and any expense intended for the project stages after the wellhead. According to the Royalty Holders, by deducting the foregoing expenses, the ROI date in the Tamar project actually falls before the date fixed in accordance with to the Partnership's calculation.

As at the date of approval of the financial statements, the parties' arguments in the foregoing legal proceedings have not yet been decided. It is clarified that the decision on the question of including the various components in calculating the ROI date for the Tamar project may have an effect on the manner by which the ROI date will be calculated for the Leviathan Project.

NOTE 6 – Additional information concerning the royalties rights (contd.)

G. Method for calculating the market value of the royalties

Under the terms of the royalties, the Partnership is required to pay the Royalty Holders the market value of the royalties "at wellhead". As the sale of natural gas is priced at the onshore point of delivery of the gas and not at wellhead, a method of calculation is required for the effective rate of the royalty that reflects the market value of the royalty at wellhead (the "Effective Rate"). The market value at wellhead of the royalties paid to the Royalty Holders in the Leviathan Project has so far been calculated by the Partnership based on the manner by which the market value of the State's royalties are calculated, as will be described below. Therefore, the method of calculating the market value of the State's royalties also affects the effective rate of the royalty interests transferred to the Company.

The Petroleum Law, that refers to the duty to pay royalties to the State provides, inter alia, that the holder of a lease is required to pay the State a royalty at the rate of one eighth (12.5%) of the volume of oil produced from the lease fields and utilized, and that a holder of a lease will pay to the State Treasury, the “market value of the royalty at wellhead”.

On May 9, 2020, the Natural Resources Administration at the Ministry of Energy issued directives on the manner of calculation of the value of the royalty at wellhead with regard to offshore oil rights, in accordance with Section 32 of the Petroleum Law. The directives include the following principles: The value of the royalty at the wellhead for oil produced and consumed will be equal to 12.5% of the selling price to customers at the point of sale, net of recognized expenses, as set out below. The calculation is according to the net back method; the expenses to be recognized for the purpose of calculating the value of the royalty at the wellhead will be the expenses actually incurred by the lease holder between the wellhead and the point of sale, provided that they are necessary, in the Commissioner's opinion, for the sale of the oil; the Commissioner will issue specific instructions to each lease holder, from time to time, specifying the deductible expenses, for calculation of the royalty, in accordance with the specific characteristics of the lease; it was further determined that the following expenses and their related expenses will not be recognized (whether capital or operating): exploration expenses; drilling expenses including exploration, development and production; production expenses; expenses due to development of the subsea system; general and administrative expenses; fines; excise taxes; financing expenses, including interest expenses for both fixed assets and for current expenses; operating expenses and investment in fixed assets, which were not in practice used for their intended purpose; it was further determined that abandonment costs will be recognized for calculation of the royalty according to the abandonment plan to be prepared by the lease holders and approved by the Commissioner of Petroleum Affairs. Recognition of these costs will apply from the beginning of the year in which at least 50% cumulatively of the reserves in the reservoir were produced.

NOTE 6 – Additional information concerning the royalties rights (contd.)

G. Method for calculating the market value of the royalties (contd.)

Depletion expenses will be calculated according to the depletion method, starting from the date on which the fixed assets began to operate. In addition, if an agreement is signed granting third parties an ownership right in the fixed asset or a right of use in the fixed asset, with or without consideration, or if an agreement is signed involving the receipt of payment from third parties for the transportation or treatment of oil, the estimated value of the fixed asset will be amended in the year in which the economic value of the asset was created in excess of the depletion expenses of the relevant fixed asset as will be determined, taking into account the depletion expenses that were deducted for the purpose of calculating the value of the royalty at wellhead.

As aforesaid, the directives provide that the Commissioner will send each lease holder, from time to time, individual instructions for each lease, specifying the deductible expenses for calculating the royalty, based on the specific aspects of the lease.
On July 24, 2022, the Director of Natural Resources at the Ministry of Energy released specific directives regarding the method of calculation of the royalty value at the wellhead in the Leviathan project (the "Specific Directives"), in which the rate of deductible expenses was determined in the calculation of the royalty value at the wellhead in the Leviathan reservoir.
On 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.

From the date of commencement of the supply of gas from the Leviathan reservoir, the Leviathan partners pay the State advances on account of the State's royalties on revenues from the Leviathan project, at the rate of approx. 11.26%, in accordance with a letter of request received from the Ministry of Energy in January 2020. Such effective rate is higher than the calculation made by the Partnership and Chevron. The rate of the royalties on which the Partnership's financial statements for 2022 are based is approx. 10.9% (2021: 10.8%, 2020: 10.6%).
The rate of royalties to the Company on which the Company's financial statements for 2022 are based is approx. 1.31% (2021: 1.29%, 2020:1.28%).

H. Review of different alternatives for increasing the production capacity of the Leviathan reservoir:
As of the date of approval of the financial statements, and according to the development plan, the capacity of gas supply from the Leviathan project to the INGL transmission system is approx. 1.2 BCF per day at maximum production. As part of the promotion of Phase 1B and the increase of the maximum gas production capacity to approx. 2.1 BCF per day (approx. 21 BCM per year), the Leviathan Partners are examining the acceleration of an investment in a third subsea transmission pipeline from the wells to the platform (the "**Third Pipeline**"), in which context the possibility of increasing the production capacity is being examined. It is clarified that the laying of the Third Pipeline depends on the adoption of a final investment decision (FID), which in the Partnership's estimation is expected to be adopted by the Leviathan Partners in Q2/2023, upon completion of the required preliminary work as specified below. The investments in the laying of the Third Pipeline, together with the investments in the platform's related systems, are estimated at approx. $562 million (100%, the Partnership's share is approx. $255 million), to be made starting from Q1/2023 until the expected operation of the Third Pipeline in mid-2025.

NOTE 6 – Additional information concerning the royalties rights (contd.)

H. Review of different alternatives for increasing the production capacity of the Leviathan reservoir (contd.)

As of the date of approval of the financial statements, and according to the development plan, the capacity of gas supply from the Leviathan project to the INGL transmission system is approx. 1.2 BCF per day at maximum production. In order to increase this capacity to approx. 1.4 BCF per day, the Leviathan Partners are promoting a project in which a third subsea transmission pipeline shall be laid from the field to the platform (the "**Third Pipeline**"). The investments in the laying of the Third Pipeline, together with the investments in the platform's related systems, are estimated at approx. $562 million (100%, the Partnership's share in the sum of approx. $255 million), to be made starting from Q1/2023 until the expected operation of the Third Pipeline in mid-2025. Accordingly, the Leviathan Partners gave the project's operator approval for an initial expense of approx. $45 million (100%, the Partnership's share in the sum of approx. $20 million) for engineering design work and reserving of supply dates through preliminary engagements with suppliers, in order to enable the performance of the project at accelerated timelines and to have it ready for adoption of a final investment decision as part of the total budget. In addition, in the context of approval of the 2023 budget, the Leviathan Partners approved another approx. $163 million (100%, the Partnership's share in the sum of approx. $74 million) for the budgeting of the Third Pipeline. The total budgets approved up to the date of approval of the financial statements are approx. $208 million (100%, the Partnership's share in the sum of approx. $94 million) out of a budget of approx. $562 million, as aforesaid. In is clarified that a final investment decision has not yet been adopted in respect of the Third Pipeline project. In the estimation of the Partnership, such a decision is expected to be adopted by the Leviathan Partners in Q2/2023, after completion of the preliminary work mentioned above.

In addition, as of the date of approval of the financial statements, the Leviathan Partners are reviewing the promotion of various alternatives for the development of Phase 1 – Second Stage and increasing the production capacity up to a total of approx. 21 BCM per year, with the aim of adopting a final investment decision (FID). These development options may include development and expansion of the infrastructures for piping natural gas from the Leviathan reservoir to additional consumers in the target markets, primarily the Egyptian market, supply to the existing liquefaction facilities in Egypt and promotion of the option for natural gas liquefaction through a floating liquefaction facility (Floating Liquefied Natural Gas, "**FLNG**") for the purpose of marketing thereof to the global markets.

NOTE 6 – Additional information concerning the royalties rights (contd.)

H. Review of different alternatives for increasing the production capacity of the Leviathan reservoir (contd.)

Thus, the development plan for Phase 1 – Second Stage, as approved as aforesaid in June 2016 by the Petroleum Commissioner, may be updated according to the development alternative that will be chosen, and in such case further regulatory approval may be required for the change in the plan. For purposes of examining the various expansion alternatives, on February 20, 2023, the Leviathan Partners approved budgets for 2023 in accordance with the Joint Operating Agreement applying to the Leviathan project, in the sum total of approx. $96.4 million (100%, the Partnership’s share is approx. $44 million), for the performance of Front End Engineering and Design for Phase 1 – Second Stage (Pre-FEED) (in this section: the “Budgets”). In the context of such design, and further to previous analyses, the Leviathan Partners promote a future construction of an FLNG owned thereby, with an annual production capacity of approx. 4.6 million tons of LNG for purposes of sale thereof to global markets, thus also enabling the increase of the quantities supplied to the domestic market. The budgets include the sum of $44.9 million (100%, the Partnership’s share is $20 million), inter alia for the performance of Pre-FEED and commencement of FEED, for expansion of the Leviathan reservoir’s production system, including the design of subsea infrastructures and of necessary changes on the production platform, as well as the sum of $51.5 million (100%, the Partnership’s share is $23.3 million), inter alia for the performance of Pre-FEED for the FLNG facility, as aforesaid, in a competitive process between international groups specializing in the design and construction of FLNG facilities. On December 30, 2013, a general meeting of the unit holders was held, in which it was resolved, inter alia, to approve refraining from distribution of profits (as defined in Section 9.4 of the Partnership Agreement), for the purpose of investment thereof in the development of the Leviathan reservoir according to the work plan and budgets approved and/or to be approved under the joint operating agreements that apply to the Leviathan Leases.

NOTE 7 – Loan to controlling shareholder

On October 28 2020 the Company granted a dollar loan to its controlling shareholder (Delek Energy systems Ltd.) in the amount of USD 80,036,622 (hereinafter - the “Principal Amount” and the "Borrower") for a period commencing on the date of provision of the Principal Amount and ending on December 30, 2023 (the “Loan Period”). The amount of the loan as of December 2022 is 87,736 thousand Dollars.

The Principal Amount shall bear annual interest of 7.994% per annum commencing on the date of provision of the loan. VAT will be added to the interest as required under law.
The Principal amount together with interest accrued until the applicable date and the VAT (as applicable) are herein defined together as the “Loan Amount”.
Interest payments shall be made each 6 months commencing as of December 30, 2020 until the end of the Loan Period.

The Principal Amount shall be repaid by the Borrower to the Lender in a single payment at the end of the Loan Period, on December 30, 2023.
The Borrower shall be entitled to repay the Loan Amount, in whole or in part (at its discretion), prior to the repayment date under this agreement, without a penalty, interest or special payment.
The Borrower shall be entitled to assign its obligations under this agreement to a third party or an affiliate (including Delek Group Ltd.) at its sole discretion but subject to the Borrower guaranteeing full and final repayment of the entire Loan Amount.

The loan granted to the controlling shareholder (and which does not form any part of the assets that guarantee the repayment of the debentures) was not measured on the day in which it was granted according to its fair value as required under International Financial Reporting Standards.

On October 28, 2020 Delek Energy assigned the loan to Delek Group and guarantees the performance of all obligations of Delek group towards the Company under the Loan Agreement.

Note 8 – Other payables

	December 31	
	2022	**2021**
Income tax payables and VAT	-	897
Related party	1,275	664
Accrued expenses	47	54
	1,322	1,615

NOTE 9 – Issuance of debentures

A. On October 28, 2020, the company completed of the issuance of debentures to foreign and Israeli classified investors (“the Issuance"), which was secured by a lien on the rights to overriding royalties from the Leviathan project that were transferred to the Issuer (“the Leviathan Overriding Royalty”).

1. The debentures were issued in a single series in a total amount of USD 180 million par value, repayable on December 30, 2023 (in a single payment) and bearing fixed annual USD interest rate of 7.494%. (The annual effective interest rate is approx.. 10.1% taking into account the issuance costs). The interest on the Debentures will be paid twice a year, on June 30 and December 30.

2. Under the transaction outline, the rights of the Delek Group (25%) and Delek Energy (75%) in the Leviathan Overriding Royalty and the rights attached to the royalty were transferred to the Issuer on the transaction closing date and were pledged in favor of the trustee of the Debentures in the Issuance (“the Issuance Trustee”), to secure repayment of the Debentures, under the terms of the deed of trust and the other documents under which the Debentures were issued (jointly: “the Issuance Documents”). In addition, the Issuer pledged in favor of the Issuance Trustee the rights attached to the royalty and rights in some of the bank accounts and insurance policies (jointly: “the Pledges”).

3. The full proceeds of the Issuance was used for the acquisition as noted in Note 1B above, and the Loan to controlling shareholder as noted in Note 7 above, and a security cushion in the amount of USD 21 million (As of December 31, 2022, the amount is USD 8.7 million. The deposit was classified as Short-term investments as the bond is due to be repayable on December 30, 2023) to secure interest payments, which will be held in an account pledged in favor of the Issuance Trustee, and the issuance and underwriting costs estimated at USD 8 million (it should be noted that in addition to this amount, the transferors beared issuance and underwriting costs amounting to USD 3.6 million). The security cushion abovewere deposited on the closing date in the account of the trustees of the Company's debenture holders and is used for upcoming payments to the debenture holders, in accordance with the provisions of the amendment to the deed of trust.

4. The Debentures are rated B+ on the international rating scale of the Fitch rating agency. On October 2022, Fitch Ratings has affirmed the company’s USD180 million bond at 'B+'. The Outlook is Stable.

5. On October 22, 2020, the Commissioner of Petroleum Affairs approved the transfer of the Leviathan Overriding Royalty to the Issuer and the pledge of the royalty in favor of the Issuance Trustee.

6. On October 20, 2020, the Issuer received approval from the Tel Aviv Stock Exchange Ltd. ("the TASE") to list the debentures on the TACT-Institutional System of the TASE, and they were listed for trading.

7. On October 15, 2020, the Issuer received a tax ruling from the Israel Tax Authority for issuance of the debentures, confirming that the debentures listed on the TACT Institutional System will be considered debentures traded on the TASE for the purposes of sections 9(15D) and 97(B2) of the Income Tax Ordinance, subject to certain conditions set out in the ruling.

NOTE 9 – Issuance of debentures (contd.)

8. The Issuance Documents included covenants, restrictions, undertakings, and grounds to call for immediate repayment of the debentures and exercise the pledges, including, inter alia, the following:

A. The Issuer has undertaken, among other things, not to take any financial debt in addition to the Debentures.

B. The Issuer has undertaken that it will not carry out a merger or change its activities in a manner that is likely to cause a material adverse effect ("MAE"), or that will result in liquidation proceedings or other defined structural changes, and will not sell, transfer, pledge or otherwise dispose of any of the pledged assets, other than transactions that are permitted under the Financing Documents, including full or partial sale of its rights in the Leviathan Overriding Royalty, subject to certain terms that are defined in the Financing Documents.

C. Provisions were set out regarding early redemption of the Debentures, including, (1) early redemption initiated by the Issuer, subject to payment of a make whole premium; (2) mandatory early redemption in certain defined cases, including at the time of sale of all or most of the rights in the Leviathan Overriding Royalty.

D. Events of default were defined, whose occurrence, subject to certain cure periods, qualifications, and terms that have been defined, will serve as grounds to call for immediate repayment of the unpaid balance of the debentures and the Issuance Trustee will be entitled to act to exercise the pledges, including in the following cases: (1) default on payment of principal, interest or other payments required under the Financing Documents; (2) material breach of representations; (3) breach of the covenants or negative covenants defined in the Issuance Documents; (4) an event or introduction of insolvency proceedings of a material party to a gas agreement (as defined in the Financing Documents), the operator in the Leviathan project or New Med, if it is likely to cause a MAE (as defined in the documents); (5) premature termination of the JOA, the terms of the Leviathan lease, or material gas agreements to which New Med is a party (as defined in the documents), if it is likely to cause a MAE, subject to certain conditions and qualifications; (6) if a party to a material gas agreement (as defined in the documents) to which New Med is a party breached the agreement, if it is likely to cause a MAE; (7) in the event of abandonment or suspension of operations at the Leviathan project for more than 15 consecutive days, if it is likely to cause a MAE; (8) if damage is caused to the Leviathan project (including physical damage, revocation of a license or transfer of New Med’s rights in the project by a government entity), which is likely to cause a MAE, which has not been remedied; (9) in the event of denial or revocation of government approval related to the Leviathan project, which is likely to cause a MAE; (10) If any of the Financing Documents to which the Issuer is a party, or pledges provided under the Issuance Documents, with a cumulative value of more than USD 10 million, cease to be in effect; (11) if a non-appealable judgment is handed down against the Issuer for payment of an amount of more than USD 10 million, which was not paid; (12) the occurrence of an event that is likely to lead to the sale of the pledged assets or part of them subject to certain terms and restrictions; (13) if an undertaking to perform mandatory early redemption is breached; (14) if the provisions for expenses from the Issuer’s account are breached.

NOTE 9 – Issuance of debentures (contd.)

8. (contd.)

E. The Issuer has undertaken that all the proceeds from the Leviathan Overriding Royalty will be deposited in revenue account pledged in favor of the Issuance Trustee, which is subject to a waterfall payment mechanism, while any surpluses remaining in the account may only be used for buyback of shares or early redemption of the Debentures and cannot be distributed.

F. Provisions have been stipulated for a safety cushion for the interest payments, and the Issuer has undertaken to comply with the covenant of an interest coverage ratio, as defined in the documents, such that this ratio will not be less than 1.2 (as at December 31, 2022 the ratio for 2023 is expected to be approx. 2.5).

G. As of the date of the financial statements, the Company fulfilled its undertakings as aforesaid.

B. Liquidity risks result from the management of the Company's working capital, and from the financial expenses and principal repayments of the debt instruments of the company. A liquidity risk is the risk that the Company will have difficulties in fulfilling undertakings related to financial liabilities.
The management of the Company reviews the cash flow forecasts on a monthly basis for a 12-month period at least, as well as information regarding the cash balances and the deposits.
The Company strives to ensure that the cash, the held deposits, together with the forecasted income, shall always be sufficient to cover liabilities on the respective maturity dates thereof. The foregoing does not take into account the effects of extreme scenarios that cannot be foreseen.

2022	**Up to 3 months**	**More than 3 months and up to 1 year**	**1-2 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**Total**
Bonds	-	193,489	-	-	-	-	193,489
Total	-	193,489	-	-	-	-	193,489

The fair value of the financial instruments presented in the financial statements matches or is close to their book value, with the exception of the bonds issued as stated above, whose fair value, as of December 31, 2022, is approx. $179.1 million

NOTE 10 – General and administrative expenses

	Year ended December 31		
	**) 2022	**) 2021	*) 2020
Insurance	680	740	168
Professional services	148	170	35
	828	910	203

*) The company's operations started at October 28 2020 (Note 1B)
****)** As per the account agreement, the General and administrative expenses are limited to up to 300,000 USD. The expenses in 2022 were paid by the Company and by the controlling shareholder against the offsetting of the Loan as noted in note 7 above.

NOTE 11 – Finance income and expenses

	Year ended December 31		
	2022	2021	*) 2020
Finance Income			
Interest from Loan to control holder	6,531	6,089	1,064
Interest from Bank deposit	308	55	3
	6,839	6,144	1,067
Finance Expenses			
Interest for debentures	17,113	16,792	2,870
others	40	63	13
	17,153	16,855	2,883

*) The company's operations started at October 28 2020 (Note 1B)

NOTE 12 – Taxation on Profits from Natural Resources Law, 2011

In April 2011, the Israeli Parliament - the Knesset, passed the Profits and Natural Resources Tax Law, 2011 ("the Law"). Implementation of the Law results in a change in the tax regulations applicable to the Partnership, including the introduction of the oil and gas profits levy in accordance with the law and elimination of the depletion allowance. The law includes transitional provisions for producing projects or projects that started production before 2014.

The main provisions of the Law are as follows:

1. Introduction of the oil and gas profits levy at the rate set out below. The rate of the levy is based on the recovery factor ("the R Factor"), according to the ratio between the net cumulative revenues from the project and the cumulative investments as defined in the Law. The minimum rate of the levy will be 20% if the R Factor is 1.5, and will rise progressively up to a maximum rate of 50%, until the R Factor reaches 2.3. In addition, it was determined that the rate of the levy will be reduced as from 2016 at a multiple of 0.64 in the difference between the rate of corporate tax rate set out in section 126 of the Income Tax Ordinance for each tax year and a tax rate of 18%. In accordance with the rate of corporate tax that was set, as from 2016, the maximum rate will be 46.8%.
   Additional provisions were also determined regarding the levy, *inter alia*, the levy will be recognized as an expense for the purpose of calculation of income tax; the levy limits shall not include transmission plants that are used for export; the levy shall be calculated and imposed in relation to each lease separately (ring fencing); the charge of a recipient of payment from a holder of a petroleum interest which is calculated, *inter alia*, as a percentage of the petroleum produced, (the "**Derivative Payment**") *[sic]* in accordance with the amount of the Derivative Payment received thereby, while the amount of the levy attributed to the recipient of the Derivative Payment will concurrently be deducted from the levy amount owed by the holder of the petroleum right. In addition, the Law prescribes rules for consolidation or separation of petroleum ventures for purposes of the Law.

   According to the Law, the holder of the petroleum right will be given fixed annual accelerated depreciation on a deductible asset, as defined in the law, which is owned thereby, at a fixed rate of up to 10% (at the choice of the holder of the petroleum right) or, alternatively, variable current annual depreciation up to the amount of the taxable income in that year (and not more than 10%).
   The provisions regarding the imposition of an oil and gas profits levy apply from April 10, 2011 and include transition provisions with respect to ventures that began commercial production by January 1, 2014.

   a) A venture, the date of commencement of commercial production from which occurred before the commencement date, will be subject to the provisions of this Law with the following changes:
      (1) If a levy payment duty applies with respect to such venture in the tax year which the commencement date occurs, the rate of the levy in such tax year will be half of the rate of the levy that would have been imposed on the petroleum profits if not for the provisions of this paragraph and no more than 10%;
      (2) In the event that the levy coefficient in the tax year in which the commencement date occurs exceeds 1.5, rules were set for the manner of calculation of the levy coefficient in each tax year thereafter;
      (3) The rate of the levy which will be imposed on the petroleum profits of the venture in each of the tax years 2012 to 2015 will be equal to half the rate of the levy that would have been imposed on the petroleum profits as aforesaid, if not for the provisions of this paragraph.

NOTE 12 – Taxation on Profits from Natural Resources Law, 2011 (contd.)

The main provisions of the Law (contd.)

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. It is noted that disputes have arisen between the Assessing Officer for Large Enterprises and the holders of the rights in the Leviathan Leases regarding the levy reports for the Leviathan Leases for the years 2013-2015, which disputes chiefly pertained to the method of classification and quantification of data in the levy reports for the Leviathan Leases for the said years. In October 2018 the parties reached agreements with respect to the said disputes in the framework of a levy assessment agreement for the years 2013-2015, which, in October 2018, was sanctioned as a judgment by the Tel Aviv District Court.
   Furthermore, a levy assessment agreement was signed in December 2019 between the Assessing Officer for Large Enterprises and the holders of the rights, with respect to the levy reports for the years 2016-2017 and in October 2021 an assessment agreement was signed with respect to the Leviathan levy assessment for 2018. It is further noted that, as of the date of approval of the financial statements, several interpretive disputes are being heard in the context of administrative objection proceedings vis-à-vis the assessing officer with regard to the implementation of the provisions of the Law in the levy reports of the Leviathan Leases for 2019, including pertaining to recognition of payments borne by the holders of the interests in the leases in order to enable feasibility of export of natural gas to Egypt.

5. It is noted that the rate of the levy coefficient in the Leviathan Leases as of the date of the financial statements is lower than 1.5 and the effect of the above-mentioned assessments and disputes may be reflected in the levy amount calculation. However, even if the assessing officer's position is fully accepted, to date it is not expected to result in a coefficient rate higher than 1.5 from which actual collection of the levy begins.
   In addition, the right holders in the Leviathan venture reached agreements with the Tax Authority on the consolidation of the Leviathan Leases (north and south) as a single petroleum venture for purposes of the Law and the reports thereunder, according to the provisions of Section 8(a) of the Law.

6. On November 10, 2021, the Knesset approved in second and third reading, Amendment No. 3 to the Taxation of Profits from Natural Resources Law, 5781-2021 (the "**Amendment to the Law**"), according to which, *inter alia*, in the event of a dispute, an advance payment of oil and gas profit levies will be required in the amount of 75% of the disputed amounts, subject to the decision of the assessing officer on the objection (prior to completion of legal proceedings which are under dispute in court, if any). In accordance with the Amendment to the Law as aforesaid, 75% of the said disputed amount may be advanced.

NOTE 12 – Taxation on Profits from Natural Resources Law, 2011 (contd.)

The main provisions of the Law (contd.)

7. **Taxation of Profits from Natural Resources Regulations:**
On December 2, 2020, the Taxation of Profits from Natural Resources Regulations (Advances due to the Petroleum Profit Levy), 5781-2020 (in this section: the "**Advances Regulations**") were published. The Advances Regulations regulate the payment of the advances that shall be paid by holders of petroleum interests in a petroleum project, including the method of calculation of the advances, the dates of payment thereof, and the reporting thereon.
The Advances Regulations were promulgated by virtue of Sections 10(b) and 51 of the Law and their purpose is to regulate the issue of payment of the advance payments that will be made by the holders of a petroleum interest in a petroleum project. The Regulations mainly pertain to the determination of the calculation of the advances, the dates of payment thereof, and the reporting thereon.

8. As the date of the financial statements the levy does not affect these financial statements.

NOTE 13 – Taxes on Income

A. Tax rates applicable to the Company

The corporate tax rate in Israel is 23%.

An association of individuals is taxed on real capital gain at the corporate tax rate in the year of the sale.

B. The Company has not been assessed since it was established.

Income taxes (tax benefits) in the statements of income

	Year ended December 31		
	2022	**2021**	***) 2020**
Current taxes	-	70	744
Taxes in regards previous years	(70)	(98)	-
Deferred taxes (see also section E above)	433	(445)	(888)
	363	(473)	(144)

*) The company's operations started at October 28 2020 (Note 1B)

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