Delek Overriding Royalty Leviathan Ltd.

Condensed Interim Financial Statements as of March 31, 2023

In U.S. Dollars in thousand

Unaudited

Contents

Deloitte.

A Review Report of the Independent Auditor to the shareholders of Delek Overriding Royalty Leviathan Ltd.

Introduction

We have reviewed the accompanying financial information of Delek Overriding Royalty Leviathan Ltd. ("the Company"), which includes the condensed statements of financial position as of 31 March 2023 and the related condensed statements of comprehensive income, changes in equity and cash flows for the three-month period then ended. The board of directors and management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Basis of Qualified Conclusion

As described in note 3(C) to the condensed financial statements, 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 its grant date at fair value as required under International Financial Reporting Standards**.**

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the abovementioned financial information is not prepared, in all material respects, in accordance with IAS 34.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Firm in the Deloitte Global Network
Haifa, May 30, 2023.

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Condensed Interim Statements of Comprehensive Income (Dollars in thousand)

	March 31 2023	March 31 2022	December 31 2022
	Unaudited		Audited
Current assets			
Cash and cash equivalents	369	374	304
Short-term investments	22,079	5,969	18,346
Loan to controlling shareholder	89,466	-	87,736
Royalties and other receivables	2,532	1,935	2,589
Total current assets	114,446	8,278	108,975
Non-current assets			
Long-term investments	-	14,130	-
Loan to controlling shareholder	-	83,361	-
Assets in respect of ORRI	185,186	190,770	186,381
Deferred Taxes	677	1,463	900
Total non-current assets	185,863	289,724	187,281
	300,309	298,002	296,256
Current liabilities			
Debentures	176,979	-	176,015
Other payables	4,806	4,631	1,322
Total current liabilities	181,785	4,631	177,337
Non-current liabilities			
Debentures	-	173,266	-
Total non-current assets	-	173,266	-
Equity			
Share capital	295	295	295
Share premium	127,275	127,275	127,275
Retained earnings	(9,046)	(7,465)	(8,651)
Total equity	118,524	120,105	118,919
	300,309	298,002	296,256

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

May 30, 2023		
Date of approval of the financial statements	Leora Pratt Levin Director	Tamir Polikar Director

Condensed Interim Statements of Comprehensive Income (Dollars in thousand)

	Three-month period ended March 31,		Year ended December 31,
	2023	2022	2022
	Unaudited		Audited
Revenue from overriding royalties	3,630	3,180	15,216
General and administrative expenses	208	204	828
Depletion	1,196	1,378	5,766
Operating profit	2,226	1,598	8,622
Financing expenses	)4,452(	)4,251(	(17,153)
Financing income	1,955	1,626	6,839
Loss before income tax	(271)	(1,027)	(1,692)
Tax benefit (Income tax)	(124)	158	(363)
Loss and total comprehensive loss	(395)	(869)	(2,055)

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

Condensed Interim Statements of Changes in Equity (Dollars in thousand)

	Share capital	Share premium	Retained earnings	Total
	Unaudited			
Balance as at January 1, 2023 (Audited)	295	127,275	(8,651)	118,919
Total comprehensive income (loss)	-	-	(395)	(395)
Balance as at March 31, 2023	295	127,275	(9,046)	118,524

	Share capital	Share premium	Retained earnings	Total
	Unaudited			
Balance as at January 1, 2022 (Audited)	295	127,275	(6,596)	120,974
Total comprehensive income (loss)	-	-	(869)	(869)
Balance as at March 31, 2022	295	127,275	(7,465)	120,105

	Share capital	Share premium	Retained earnings	Total
	Audited			
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

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

Notes to the Condensed Interim Financial Statements

	Three-month period ended March 31,		For the year ended December 31,
	2023	2022	2022
	Unaudited		Audited
Cash Flows - Current Operations:			
Loss for the year	)395(	)869(	(2,055)
Adjustments for:			
Depletion and depreciation	2,159	2,252	9,390
Deferred Taxes	223	(128)	433
Increase in Long-term investments	-	(20)	-
Changes in assets and liabilities items:			
(Increase) Decrease in trade and other receivables	57	(478)	(1,062)
Increase in loan to controlling shareholder	(1,730)	(1,609)	(6,530)
Increase (Decrease) in trade and other payables	3,484	3,083	(293)
Net cash used for current operations	3,798	2,231	(117)
Cash Flows - Investment Activity:			
Repayment of loans to controlling shareholders	-	-	545
Long-term deposit in bank deposits	-	-	5,404
Short-term deposit in bank deposits	(3,733)	(2,062)	(5,733)
Net cash deriving from (used for) investment activity	(3,733)	(2,062)	216
Increase in cash and cash equivalents	65	169	99
Cash and cash equivalents balance at the beginning of the period	304	205	205
Cash and cash equivalents balance at the end of the period	369	374	304
Annex A - Additional information on cash flows:			
Interest paid	-	-	13,489
interest received	8	-	281
Taxes Paid	784	-	1,462

The accompanying notes are an integral part of the condensed interim 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).

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.

The royalty interests are 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 is eligible to receive are 1.125% and 0.375%, respectively, prior to ROI date and 4.875% and 1.625%, respectively, after ROI date. For further information concerning the roalties rights, see Note 6 of the Annual Financial Statements as of December 31, 2022.

C. 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.

D. These interim financial statements have been prepared in a condensed format as of March 31, 2023 (hereinafter – Condensed interim financial statements). These condensed interim financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2022, and the accompanying notes.

E. 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

NOTE 1 – General (contd.)

E. (contd.)

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. As of the date of approval of the financial statements, the Committee is holding regular meetings for the purpose of promoting the transaction, and in this context has chosen legal, economic and financial advisors. Furthermore, the Buyers are continuing to perform the due diligence.

NOTE 2 – Significant Accounting Policies

A. Preparation format of the Condensed Interim Financial Statements

The condensed interim Financial Statements have been prepared in accordance with generally accepted accounting principles for the preparation of interim financial statements as prescribed in IAS 34.

The main accounting policy and calculation methods applied in the preparation of these Condensed Interim Financial Statements are consistent with those applied in the preparation of the Annual Financial Statements as of December 31, 2022.

B. Taxes on income in interim reports

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. Current tax expenses (income) during the interim period are accumulated using the average annual effective income tax rate. For the purpose of calculating the effective income tax rate, losses for tax purposes for which deferred tax assets were not recognized, and which are expected to reduce the tax liability during the reporting year, are subtracted.

C. New and revised IFRS Standards in issue

Amendments to standards affecting the current period and/or previous reporting periods:

1. 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.

NOTE 2 – Significant Accounting Policies

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

Amendments to standards affecting the current period and/or previous reporting periods: (contd.)

2. 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.

NOTE 3 – Additional information

A. As per the Partnership calculation the Effective Rate of Statutory Royalties from the Leviathan project for the period ended March 31, 2023 is approx. 10.76%.

B. The Partnership's income in the report period from the sale of natural gas is affected mainly by the volume of natural gas consumption for the domestic market, Egypt and Jordan. Below is the Partnership's share in the income and quantities of natural gas sold to the domestic market and regional market in the report period from continuing operations (in millions of dollars).

	For the three-month period ended March, 31		For the year ended December 31,
	2023	2022	2022
	Unaudited		Audited
Revenues:			
Domestic market	51.4	64.0	284.7
Regional market	229.7	182.8	859.2
	281.1	246.8	1,143.9
Quantities (BCM)			
Domestic market	0.30	0.40	1.71
Regional market	0.98	0.83	3.45
	1.28	1.23	5.16

C. For further information concerning the loan to the controlling shareholder, see Note 7 of the Annual Financial Statements as of December 31, 2022.

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