

Delek Overriding Royalty Leviathan Ltd.

Condensed Interim Financial Statements as of June 30, 2023

In U.S. Dollars in thousand

Unaudited

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**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 statement of financial position as of 30 June 30,2023 and the related condensed statements of comprehensive income, changes in equity and cash flows for the periods of six and three months ended on that date. 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(E) 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, August 22, 2023.

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Condensed Interim Statements of Financial Position (Dollars in thousand)

	June 30 2023	June 30 2022	December 31 2022
	Unaudited		Audited
<u>Current assets</u>			
Cash and cash equivalents	290	466	304
Short-term investments	18,779	5,222	18,346
Loan to controlling shareholder	91,192	-	87,736
Royalties and other receivables	2,605	2,263	2,589
Total current assets	<u>112,866</u>	<u>7,951</u>	<u>108,975</u>
<u>Non-current assets</u>			
Long-term investments	-	11,407	-
Loan to controlling shareholder	-	84,990	-
Assets in respect of ORRI	184,128	189,352	186,381
Deferred Taxes	581	1,665	900
Total non-current assets	<u>184,709</u>	<u>287,414</u>	<u>187,281</u>
	<u>297,575</u>	<u>295,365</u>	<u>296,256</u>
<u>Current liabilities</u>			
Debentures	177,953	-	176,015
Other payables	1,618	1,331	1,322
Total current liabilities	<u>179,571</u>	<u>1,331</u>	<u>177,337</u>
<u>Non-current liabilities</u>			
Debentures	-	174,149	-
Total non-current assets	<u>-</u>	<u>174,149</u>	<u>-</u>
<u>Equity</u>			
Share capital	295	295	295
Share premium	127,275	127,275	127,275
Retained earnings	(9,566)	(7,685)	(8,651)
Total equity	<u>118,004</u>	<u>119,885</u>	<u>118,919</u>
	<u>297,575</u>	<u>295,365</u>	<u>296,256</u>

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

August 22, 2023		
Date of approval of the financial statements	Leora Pratt Levin Director	Tamir Polikar Director

Condensed Interim Statements of Comprehensive Income (Dollars in thousand)

	Six-month period ended June 30,		Three-month period ended June 30,		Year ended December 31,
	2023	2022	2023	2022	2022
	Unaudited		Unaudited		Audited
Revenue from overriding royalties	6,842	6,964	3,212	3,784	15,216
General and administrative expenses	398	408	190	204	828
Depletion	2,253	2,795	1,057	1,417	5,766
Operating profit	4,191	3,761	1,965	2,163	8,622
Financing expenses	(8,868)	(8,694)	(4,416)	(4,443)	(17,153)
Financing income	3,967	3,287	2,012	1,661	6,839
Loss before income tax	(710)	(1,646)	(439)	(619)	(1,692)
Tax benefit (Income tax)	(205)	557	(81)	399	(363)
Loss and total comprehensive loss	(915)	(1,089)	(520)	(220)	(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			
<u>Balance as at January 1, 2023 (Audited)</u>	295	127,275	(8,651)	118,919
Total comprehensive loss	-	-	(915)	(915)
<u>Balance as at June 30, 2023 (Unaudited)</u>	<u>295</u>	<u>127,275</u>	<u>(9,566)</u>	<u>118,004</u>

	Share capital	Share premium	Retained earnings	Total
	Unaudited			
<u>Balance as at January 1, 2022 (Audited)</u>	295	127,275	(6,596)	120,974
Total comprehensive loss	-	-	(1,089)	(1,089)
<u>Balance as at June 30, 2022 (Unaudited)</u>	<u>295</u>	<u>127,275</u>	<u>(7,685)</u>	<u>119,885</u>

	Share capital	Share premium	Retained earnings	Total
	Unaudited			
<u>Balance as at April 1, 2023 (Unaudited)</u>	295	127,275	(9,046)	118,524
Total comprehensive loss	-	-	(520)	(520)
<u>Balance as at June 30, 2023 (Unaudited)</u>	<u>295</u>	<u>127,275</u>	<u>(9,566)</u>	<u>118,004</u>

	Share capital	Share premium	Retained earnings	Total
	Unaudited			
<u>Balance as at April 1, 2022 (Unaudited)</u>	295	127,275	(7,465)	120,105
Total comprehensive loss	-	-	(220)	(220)
<u>Balance as at June 30, 2022 (Unaudited)</u>	<u>295</u>	<u>127,275</u>	<u>(7,685)</u>	<u>119,885</u>

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

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

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

Condensed Interim Statements of cash flows (Dollars in thousand)

	Six-month period ended June 30,		Three-month period ended June 30,		For the year ended December 31,
	2023	2022	2023	2022	2022
	Unaudited		Unaudited		Audited
Cash Flows - Current Operations:					
Loss for the year	(915)	(1,089)	(520)	(220)	(2,055)
Adjustments for:					
Depletion and depreciation	4,191	4,553	2,032	2,301	9,390
Deferred Taxes	319	(332)	96	(204)	433
Increase in Long-term investments	-	3	-	23	-
Changes in assets and liabilities items:					
Increase in trade and other receivables	(16)	(806)	(73)	(328)	(1,062)
Increase in loan to controlling shareholder	(3,456)	(3,238)	(1,726)	(1,629)	(6,530)
Increase (Decrease) in trade and other payables	296	(215)	(3,188)	(3,298)	(293)
Net cash used for current operations	<u>419</u>	<u>(1,124)</u>	<u>(3,379)</u>	<u>(3,355)</u>	<u>(117)</u>
Cash Flows - Investment Activity:					
Repayment of loans to controlling shareholders	-	-	-	-	545
Long-term deposit in bank deposits	-	2,700	-	2,700	5,404
Short-term deposit in bank deposits	(433)	(1,315)	3,300	747	(5,733)
Net cash deriving from (used for) investment activity	<u>(433)</u>	<u>1,385</u>	<u>3,300</u>	<u>3,447</u>	<u>216</u>
Increase (Decrease) in cash and cash equivalents	<u>(14)</u>	<u>261</u>	<u>(79)</u>	<u>92</u>	<u>99</u>
Cash and cash equivalents balance at the beginning of the period	<u>304</u>	<u>205</u>	<u>369</u>	<u>374</u>	<u>205</u>
Cash and cash equivalents balance at the end of the period	<u><u>290</u></u>	<u><u>466</u></u>	<u><u>290</u></u>	<u><u>466</u></u>	<u><u>304</u></u>
Annex A - Additional information on cash flows:					
Interest paid	<u>6,745</u>	<u>6,745</u>	<u>6,745</u>	<u>6,745</u>	<u>13,489</u>
interest received	<u>510</u>	<u>32</u>	<u>508</u>	<u>32</u>	<u>281</u>
Taxes Paid	<u><u>493</u></u>	<u><u>1,343</u></u>	<u><u>270</u></u>	<u><u>401</u></u>	<u><u>1,462</u></u>

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

Notes to 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) ("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 1.5% and 6.5%, prior to ROI date and after ROI date, respectively. For further information concerning the royalties 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 June 30, 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 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").

Notes to the Condensed Interim Financial Statements

NOTE 1 – General (contd.)

E. (contd.)

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.

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

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

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

Notes to the Condensed Interim Financial Statements

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. First-time application of amendments to existing accounting standards

1. Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Accounting Estimates):

The definition "changes in accounting estimate" was replaced by the definition "accounting estimates". According to the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The amendment clarifies that a change in accounting estimate that results from new information or new developments is not a correction of an error. In addition, 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 amendment is applied prospectively for annual reporting periods beginning on January 1, 2023 or thereafter.

The amendment did not have a material effect on the financial statements.

Notes to the Condensed Interim Financial Statements

NOTE 2 – Significant Accounting Policies (contd.)

C. First-time application of amendments to existing accounting standards (contd.)

2. Amendment to IAS 1, Presentation of Financial Statements (disclosure of accounting policy information):

The amendment replaces 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 reports (GPFs) make on the basis of those financial statements.

The amendment further clarifies that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and does not need to 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 about material transactions, other events or conditions is in itself material.

The amendment is applied prospectively for annual reporting periods beginning on or after January 1, 2023.

The amendment did not have a material effect on the financial statements.

NOTE 3 – Additional information

- A. The Partnership's income in the report period from the sale of natural gas from the Leviathan project is affected mainly by the demand for natural gas in the domestic market and in the regional market (Egypt and Jordan), by the production and transmission capacity and the gas price which is partially linked to the Brent oil barrel prices. Below is the Partnership's share in the income and quantities of natural gas sold to the domestic market and regional market in the report period (in millions of dollars).

	For the six-month period ended June, 30		For the three-month period ended June, 30		For the year ended December 31,
	2023	2022	2023	2022	2022
	Unaudited				Audited
Revenues:					
Domestic market	75.8	123.2	24.4	60.1	284.7
Regional market	456.1	414.4	226.4	230.7	859.2
	531.9	537.6	250.8	290.8	1,143.9
Quantities (BCM)					
Domestic market	0.43	0.79	0.13	0.38	1.71
Regional market	1.99	1.71	1.00	0.88	3.45
	2.42	2.50	1.13	1.26	5.16

Notes to the Condensed Interim Financial Statements

NOTE 3 – Additional information (contd.)

- B. Further to Note 6H to the Annual Financial Statements regarding the drilling of the development and production well “Leviathan-8” in the area of lease I/14 Leviathan South (in this section: the “Well”), and regarding the completion of the completion works at the Well, in June 2023, the Well has been connected to the Leviathan project’s existing subsea production system and production from the Well has begun, according to the timetables and on budget.
- C. Further to Note 6H to the Annual Financial Statements regarding a project which mainly involves laying a third subsea transmission pipeline from the production wells in the Leviathan field to the platform (the “Third Pipeline Project”), which will make it possible to increase the maximum capacity for gas supply from the Leviathan project to the INGL transmission system, on June 29, 2023, the partners in the Leviathan project adopted an FID (Final investment Decision) to perform the Third Pipeline Project.
- D. Further to Note 6H to the Annual Financial Statements regarding Phase I – Second Stage of the Leviathan project development plan, on June 21, 2023, the partners in the Leviathan project submitted to the Petroleum Commissioner an application for approval of the export of natural gas from the Leviathan project via an existing and future regional pipeline and via a floating liquefied natural gas (FLNG) facility, which is in initial planning stages, while also increasing the natural gas volumes that will be transmitted from the Leviathan project to the domestic market (the “Application”). As of the date of approval of the financial statements, no response to the Application has yet been received from the Ministry of Energy and Infrastructures, and there is no certainty that the Application will be granted, and if it is granted, under what terms and conditions.
- E. 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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