Ratio Energies

Financial Report

As of 30.9.2022

Ratio Energies

Chapter A :
Board of Directors report

Chapter B:
Financial Report

Chapter A

Board of Directors report

This report is a convenience translation of Ratio Energies – Limited Partnership's Hebrew-language Report of the Board of Directors of the General Partner. The original Hebrew-language report is the only binding version and shall prevail in any event of discrepancy.

November 29, 2022

Report of the Board of Directors of the General Partner on the State of the Partnership's Business for the Nine-Month period ended September 30, 2022

The board of directors of the general partner, Ratio Energies Management Ltd.[1] hereby respectfully submits the board of directors' report on the state of business of Ratio Energies – Limited Partnership (the "**Partnership**") and its consolidated companies, Ratio Energies (Financing) Ltd.[2] and Leviathan Development (2016) Ltd. ("**Ratio Financing**" and "**Leviathan Development**" respectively, and collectively with the Partnership – the "**Group**"), as of September 30, 2022 and for the nine-month period then ended (the "**Report Period**"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Reports Regulations**").

The board of directors' report is an integral part of the quarterly consolidated report including all parts thereof. The entire quarterly consolidated report should be read as a single whole.

The Partnership presents quarterly financial statements (the "**Financial Statements**") which consolidate the financial statements of Ratio Financing and Leviathan Development. As of September 30, 2022 and as of the date of approval of the Financial Statements, in addition to holding Ratio Financing and Leviathan Development, the Partnership holds other companies. See Note 1D to the Financial Statements for details.

For a comprehensive description of the Partnership's operations, see below and in Chapter A (Description of the Corporation's Business) of the 2021 periodic report as released on March 31, 2022 (Ref. no.: 2022-01-033438) (the "**Periodic Report**") and in the notes to the annual financial statements for Y2021 (the "**Annual Financial Statements**") and in the notes to the Financial Statements.

Part A – Explanations of the Board of Directors on the State of the Corporation's Business

The Partnership is primarily engaged in the exploration, development and production of natural gas and condensate from the Leviathan reservoir in the area of the I/14 "Leviathan South" and I/15 "Leviathan North" leases (the "**Leviathan Leases**" or the "**Leviathan Reservoir**" or the "**Leviathan Project**"), in which the Partnership holds 15% of interests. On December 31, 2019, the piping of natural gas from the Leviathan Reservoir to the domestic market began and in January 2020, the piping of gas to the

[1] On May 8, 2022, the name of the General Partner of the Partnership was changed from Ratio Oil Exploration Ltd. to Ratio Energies Management Ltd.

[2] On April 4, 2022, the company's name was changed from Ratio Oil Exploration (Financing) Ltd. to Ratio Energies (Financing) Ltd.

export markets began such that from 2020, the Partnership has significant revenues from the sale of natural gas to customers in the export markets and in the domestic market.

During the Report Period, a total quantity (100%) of approx. 8.54 BCM of natural gas was sold from the Leviathan Reservoir. From the beginning of 2022 until shortly before the date of approval of the report, a total quantity (100%) of approx. 10.4 BCM of natural gas was sold from the Leviathan Reservoir. The Partnership's revenues in the Report Period totaled approx. 284.4 million U.S. dollars ("**$**"); the EBITDA in the Report Period totaled approx. $204.1 million. For details regarding the results of operations, see Section 3 below.

On August 30, 2022, the board of directors of the General Partner approved an (interim) profit distribution in the total sum of $25 million. Such profit distribution was carried out on September 21, 2022.

On February 21, 2022, the Partnership changed its name to Ratio Energies – Limited Partnership, *inter alia*, in order for the Partnership's name to more accurately reflect its operations and its goals, including as relating to the production of gas from the Leviathan Project and initiatives for renewable energy projects, subject to the approvals required by law, and in order also to reflect, *inter alia*, aspects of social and environmental responsibility, which the Partnership promotes along with its business operations, with the aim of producing and supplying affordable, reliable and clean energy.

Furthermore, in 2021, the Partnership posted an ESG report for 2021 on its website. The report includes issues and commitments undertaken by the Partnership beyond the issues and commitments preexisting and required by current law, as well as considerations related to environmental protection and sustainability, corporate governance, involvement in and support of the community, health and safety, transparency, the working environment in the Partnership, etc. The ESG report was prepared according to a world-leading international reporting standard of the GRI organization (Global Reporting Initiative).

1. **Key events in the Report Period and after the date of the report** [3]

1.1 On February 24, 2022, the Russian army invaded Ukraine as part of a premeditated campaign that included the mobilization of military field forces concurrently with the launch of air and artillery strikes. As a result, the United States and the member states of the European Union instituted a list of economic punitive measures against Russia, which included, *inter alia*, sanctions on the trade with Russia and on senior Russian officials, and it was decided to suspend the completion of the "Nord Stream 2" project intended to double the volume of gas exported from Russia to Germany. At the end of September 2022, news were

[3] This section includes updates on key events that occurred during the Report Period and until shortly before the release of this report, except for updates that have already been included in Chapter A (Description of the Corporation's Business) of the Periodic Report and in the quarterly report as of March 31, 2022 released on May 31, 2022 (Ref. 2022-01-055245) and in the quarterly report as of June 30, 2022 released on August 31, 2022 (Ref. 2022-01-090267).

received of an explosion in and significant damage to the pipelines of Nord Stream 1 and 2, preventing the transfer of Russian gas to Europe through such pipelines in the foreseeable future. In addition, some collaborations of international companies with Russian entities have been discontinued, including significant companies in the natural gas and oil production industry, and more .

Following the above and in light of Russia's status as a major global supplier of natural gas and oil, a global energy crisis began to emerge, manifested, *inter alia*, in the concern of a long-term shortage of natural gas and oil, leading to a rise in energy prices. As of the date of approval of the financial statements, the Partnership cannot estimate how the aforesaid crisis will develop and what long-term effect it will have on the energy markets in general and the Partnership's operation, in particular. It is noted that in 2021, Russia supplied approx. 150 BCM of natural gas to European countries that constitute approx. $40 of the total European gas consumption.

Many European countries seek to diversify their sources for supply of natural gas in order to reduce their dependence on natural gas from Russia, which may lead to a significant increase in the demand for natural gas from areas with the ability to connect to a natural gas pipeline to Europe and for LNG. The Partnership, together with its partners in the Leviathan Project, is examining the effect of such factors on the possibilities for development and/or expansion of the Leviathan Project.

In view of the war in Ukraine and its impact on the supply of natural gas to Europe, on May 30, 2022, the Ministry of Energy advertised that the Minister of Energy guided the people of her office to accelerate the strategic preparations for going into a fourth competitive process for natural gas explorations in the Israeli EEZ[4].

Furthermore, on June 15, 2022, a memorandum of understanding was signed between Israel, Egypt and the European Union on collaboration in trade, transport and export of natural gas to the EU countries (the "**MOU**")[5]. According to the MOU, the parties will act for regular supply of natural gas to the EU countries from Egypt, Israel and other locations, through liquefaction of natural gas in liquefaction facilities in Egypt, subject to preservation of the energy security in the domestic market of each of the countries that signed the MOU, and without Israel or Egypt impeding export of natural gas to other countries. In addition, according to the MOU, the EU will encourage European companies to participate in competitive processes and invest in natural gas exploration and production projects in Israel and Egypt.

1.2 The Partnership, together with its partners in the Leviathan Project, Chevron Mediterranean Limited ("**Chevron**" or the "**Operator**") and

[4] https://www.gov.il/he/departments/news/press_300522
[5] https://www.gov.il/he/departments/news/ng_150622

NewMed Energy - Limited Partnership ("**NewMed**", and collectively with Chevron and the Partnership: the "**Leviathan Partners**") engaged, during the Report Period until shortly before the date of approval of the Financial Statements, in several agreements for the supply of natural gas to the domestic market in immaterial amounts.

In September 2022 and in November 2022, two natural gas supply agreements that were signed by the Leviathan Partners with Or Power Energies (Dalia) Ltd. of November 30, 2016 and with Edeltech Ltd. of January 30, 2016, were terminated with the parties' consent and in accordance with the terms and conditions of the agreements in view of non-fulfillment of the conditions precedent in the two agreements.

It is further noted that there are several agreements between the Leviathan Partners and several customers in the domestic market for the supply of natural gas, which are scheduled to expire on the date of commercial operation of the Karish reservoir. In October 2022, Energean PLC, which holds the interests in the Karish reservoir, announced that first natural gas piping from the Karish reservoir had commenced. Shortly before the date of approval of the Financial Statements, some of the said customers notified the Partnership that the date of commercial operation of the Karish reservoir is estimated to occur in January 2023. The Partnership estimates that, given the volume of the demand for natural gas in the export markets, and particularly in Egypt, expiration of the agreements as aforesaid will not have a material impact on the Partnership's revenues.

1.3 Further to Section 8.1.5 of the Periodic Report, the Leviathan Partners are considering bringing forward construction of a third subsea transmission pipeline that will connect the Leviathan Reservoir to the production platform (the "**Third Pipeline**"), together with additional investments in the platform, to secure redundancy of the gas flow and increase the volume of production to redundancy of over 1.2 BCF per day. The construction budget for the Third Pipeline, together with the additional investments as aforesaid, is estimated, according to a preliminary assessment, at approx. $550 million (100%). It is clarified that the bringing forward of the construction of the Third Pipeline is subject to the adoption of a final investment decision (FID) by the Leviathan Partners, which the Operator expects to be obtained in Q1/2023. Completion of the Third Pipeline, insofar as the approvals required for its construction are obtained, is expected in H1/2025. In November 2022, the Leviathan Partners approved an amount of up to $45 million (100%) to be used for long-term engagements and ensuring conditions in the engagements until such FID is presented for the partners' approval and as part of such total budget.

Caution regarding forward-looking information – The Partnership's estimates in relation to the construction budget for the Third Pipeline and the additional investments, the date of adoption of the FID and the construction completion date constitute

forward-looking information within the meaning thereof in Section 32A of the Securities Law, 5728-1968. The said information is based, *inter alia*, on information received from the Operator, based on the plans it formulated in relation to the costs, timetables and performance, and the information in the Partnership's possession as of the date of approval of this report. Therefore, there is no certainty that the aforesaid will indeed materialize, or will materialize in a manner similar to the manner described above, and estimates may not materialize or materialize in a materially different manner due to various factors which are beyond the Partnership's control, *inter alia* as a result of unexpected delays and/or a change in the plan and/or delays in engagements for construction of the Third Pipeline and/or unexpected problems and/or materialization of one or more of the risk factors entailed by the Partnership's activity, including as specified in Section 28 of the Description of the Corporation's Business chapter in the Periodic Report.

In addition to the aforesaid, and further to Note 8C6 to the annual financial statements, the Leviathan Partners are continuing to explore the various possibilities for increasing the volume of production from the Leviathan Project in aspects of increasing the production capacity of the Leviathan platform and of the infrastructures that shall be required in order to transport the natural gas to existing and potential customers.

1.4 Further to Section 8.1.6(3)D to the Periodic Report and Note 8C5 to the Annual Financial Statements regarding the decision of the Leviathan Partners to drill the "Leviathan-8" development and production well in the area of the I/14 "Leviathan South" lease, it is noted that the well was drilled as planned and completed in June 2022. The well is planned to be connected to the existing subsea production system of the Leviathan Reservoir in Q1/2023, following completion work .

1.5 Further to Section 11.2 of the Periodic Report, regarding the Partnership's activity for the promotion of possibilities of use of preexisting and/or new pipelines to regional markets, it is noted that as of the date of approval of the report, the Partnership is examining, together with the Leviathan Partners other possibilities for increasing the export amounts of natural gas through the Jordan Valley terminal ("**Jordan North**") and through a new onshore connection that is planned to be built by Israel Natural Gas Line Ltd. ("**INGL**") between the Israeli transmission system and Egypt at the Nitzana area. In this context, it should also be noted that on June 14, 2022, the Natural Gas Authority published a request for information regarding the ability and intention of the partners in the producing projects to export natural gas through the Jordan North terminal and via the onshore line that is to be built in the Ramat Hovav-Nitzana area. In this request, the aforementioned partners were asked to estimate the quantities of natural gas expected to be exported through these infrastructures, upon completion thereof. Further thereto, on July 25, 2022, Chevron replied to the Natural Gas

Authority that the Leviathan Partners are interested in using the full transmission capacity within the aforementioned infrastructures. As of the date of approval of the report, the Natural Gas Authority's decision regarding the Nitzana line has not yet been received.

On November 9, 2022, the Natural Gas Authority notified the Leviathan Partners that in 2023, they will be allocated additional export capacity of 1 BCM for piping in the Jordan North line on an interruptible basis, over and above the quantities piped via the Jordan North line in the context of the agreement for export from the Leviathan Project to the National Electric Power Company of Jordan (NEPCO). In the Partnership's estimation, the said decision is not expected to affect the quantities piped to Egypt via Jordan, or the transmission tariffs.

1.6 Further to an analysis of supply and demand in the domestic and regional markets, and given the knowledge accumulated from the production from the Leviathan Reservoir and from an analysis of the constraints of the natural gas transmission network in Israel and in the regional market, the Leviathan Partners are examining and promoting an investment in onshore infrastructure facilities designated for piping additional quantities of natural gas to customers in the markets of the region. The investments that are being examined are: 1) construction of natural gas compression facilities in Jordan for the purpose of piping gas from Israel to Egypt through Jordan with a total preliminary budget of approx. $300 million, and 2) a compression terminal near Ramat Hovav and a pipeline section from this area to the Egyptian border at Pitchat Nitzana with a total preliminary budget of approx. $350 million. The share of the Leviathan Partners in the investment in each of the said two projects is under examination.

1.7 Further to Section 11.2.3 of the Description of the Corporation's Business Chapter in the Periodic Report and to Note 25C1.i)2 to the Annual Financial Statements regarding the Leviathan Partners, together with Energy Infrastructures Ltd. ("**PEI**"), examining a possibility for the transmission of crude oil (condensate) from the Leviathan Reservoir, on September 1, 2022, Chevron and PEI (jointly: the "**Parties**") signed a binding agreement for the piping of crude oil from the Leviathan Project by means of a preexisting 6-inch pipe of PEI and its related systems, which agreement will take effect on the date of satisfaction of the conditions precedent specified therein. For further details, see Note 4A3 to the Financial Statements. It is further noted that in November 2022, the Leviathan Partners approved a budget of approx. $27 million (100%) for implementation of the said agreement.

1.8 Further to Section 11.2.4(1) of the Description of the Corporation's Business Chapter in the Periodic Report and to Note 25C1D to the Annual Financial Statements regarding the engagement with INGL for the construction of the Ashdod-Ashkelon offshore transmission system section, in November 2022, Chevron informed the Partnership that

INGL had informed it that the anticipated date of commencement of transmission had been updated to June 2023.

1.9 Further to Section 20.5 of the Description of the Corporation's Business Chapter in the Periodic Report and to Note 11A to the Annual Financial Statements, on August 1, 2022, an amendment to the financing agreement was signed, which includes several amendments and updates regarding the current operation of the financing agreement and, *inter alia*, provisions regarding replacement of the base interest from LIBOR interest to Secured Overnight Financing Rate (SOFR) interest, such that from the actual transition date, the loan will be linked to the TERM SOFR interest which is published by the competent body (the CME (Chicago Mercantile Exchange) Group) plus credit margin, and determination of appropriate provisions regarding hedging transactions to protect the loan's interest rate. See Note 5 to the Financial Statements for details.

See Section 4.1 below regarding interest rate hedging transactions.

1.10 On October 19, 2022, the board of directors of the General Partner of the Partnership decided to fully prepay the outstanding loan (plus interest) that had been provided to the Partnership by Ratio Financing, pursuant to a loan agreement dated November 9, 2016, as a back-to-back loan of the entire proceeds of the issue of Ratio Financing's Series B Bonds. In accordance with the foregoing, on October 19, 2022, the board of directors of Ratio Financing resolved to fully prepay the outstanding balance of Series B Bonds, initiated by Ratio Financing, which was carried out on November 6, 2022. For further details, see Note 5.1A to the Financial Statements.

1.11 For updates on legal proceedings, see Note 7A to the Financial Statements.

1.12 On July 20, 2022, all of the partners in licenses 39, 40, 47 and 48 (Cluster A) and licenses 45, 46, 52 and 53 (Cluster C) (collectively: the "**Licenses**") unanimously decided to submit a notice to the Petroleum Commissioner at the Ministry of Energy (the "**Commissioner**") whereby the partners in the Licenses are waiving all of their interests therein. On July 26, 2022, such notice was delivered to the Commissioner and accordingly the Licenses expired on October 27, 2022.

1.13 Further to Section 24 of the Description of the Corporation's Business chapter in the Periodic Report, on October 6, 2022, the Natural Gas Commission's decision was released regarding an annual update of the transmission tariffs from November 2022. In the context of the update to the tariffs as aforesaid, the capacity tariff was set at ILS 0.6453 per MMBTU, reflecting an approx. 17.6% decrease relative to the tariff last year, the flow tariff was set at ILS 0.1109 per MMBTU, reflecting an approx. 18% decrease relative to the tariff last year, and the flow tariff in the transmission system for consumers connected to the distribution network was set at ILS 0.7902 per MMBTU, reflecting an approx. 17.7% decrease[6].

On October 6, 2022, the Natural Gas Commission published a request for public comment on the Commissioner's decision regarding the directives on determination, collection, and management of a system-wide tariff. According to the said draft, the tariff is intended to finance projects for improvement and development of the natural gas sector and will apply to the transmission consumers that pay transmission fees. In addition, the tariff will be independent, will be managed by INGL and the Natural Gas Commission will discuss and update it once a year7.

On the very same day, the Natural Gas Commission published a request for public comment on the determination of a system-wide tariff for 2023, to take effect at the beginning of 2023, which is expected to be used for the following purposes: payment of damages to a landowner pursuant to Section 28A of the Natural Gas Sector Law, 5762-2002; examination of the effects of the developing hydrogen market on the natural gas sector infrastructures; statutory planning for storage at the Rosh Zohar reservoir; statutory planning for the construction of a redundancy line to the city of Arad[8].

On November 1, 2022, the Leviathan Partners submitted their response to the said draft decisions, in which they claimed that the draft decisions should be rejected and the system-wide tariff in the proposed format canceled, for the reasons specified in the said response.

1.14 Further to Section 24.8.2 of the Description of the Corporation's Business Chapter in the Periodic Report, regarding the directives as to the method for calculation of the royalty value at the wellhead, it is stated that on July 24, 2022, the specific directives of the Commissioner regarding the method of calculation of the State royalties from the Leviathan Reservoir were received. On September 1, 2022, the Leviathan Partners' response to the said specific directives was submitted. See Note 8A to the Financial Statements for additional details.

1.15 On September 20, 2022, Ms. Ronit Rinder took office as an independent director serving on the board of directors of the General Partner. For details, see the immediate report of September 20, 2022 (Ref. 2022-01-119350).

1.16 With respect to the convening of a general meeting of the participation unit holders, on whose agenda is amendment of the limited partnership agreement and reappointment of the Partnership's supervisor, see the immediate report for the convening of a general meeting of October 31, 2022 (Ref. 2022-01-106347), the information included in which is

6 board_decision_2_2022.pdf (www.gov.il).
7 shimua_061022.pdf (www.gov.il).
8 shimua_061022_1.pdf (www.gov.il).

incorporated herein by reference. The date of convening of the meeting was scheduled for December 6, 2022.

2. **Below is a table that includes natural gas production data from the Leviathan Project in the first three quarters of 2022[9,10]**

	Q1	Q2	Q3
Total output (attributable to the holders of the equity interests of the Partnership) during the period (in MMCF)	14,400.32	14,815.70	16,048.50
Average price per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF)	5.69	6.52	6.60
Average royalties (any payment derived from the output of the production asset including from gross income from the petroleum asset) paid per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF) – The State[11]	0.64	0.73	0.74
Average royalties (any payment derived from the output of the production asset including from gross income from the petroleum asset) paid per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF) – General Partner and Geologist[11]	0.31	0.35	0.36
Average production costs per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF)[12,13]	0.74	0.79	0.55
Average net proceeds per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF)	4.01	4.65	4.94

[9] The data presented in the table above with respect to the share attributed to the holders of the equity interests of the Partnership in the average price per output unit, in the royalties paid, in the production costs and in net income, was rounded off to two digits after the decimal point.

[10] Since the sum of the costs entailed by production of the condensate during the nine-month period ended September 30, 2022 exceeded the sum of the revenues received in respect thereof, and since the condensate is a byproduct of natural gas production, separate figures were not presented in the table above in connection with the production of the condensate, and all of the costs and expenses in connection with production of the condensate were attributed to the production of the natural gas.

[11] For details regarding State royalties and overriding royalties, see Note 18 and Note 24C1E to the Annual Financial Statements and Note 8A to the Financial Statements.

[12] It is noted that the average production costs per output unit include natural gas transmission costs for supply of the gas to Egypt in the sum of approx. $25.1 million in Q1/2022, approx. $31.8 million in Q2/2022, and approx. $19.7 million in Q3/2022 (in 100% terms).

[13] The average production costs per output unit include current production costs only and do not include costs for exploration and development of the reservoir, future abandonment costs and levy and tax payments to be paid in the future by the Partnership.

3. Results of operations and financial position

3.1 Below is the main breakdown regarding the Partnership's Condensed Consolidated Statement of Comprehensive Income:

	For the nine-months ended September 30		For the three-months ended September 30		For the year ended Dec. 31
	2022	2021	2022	2021	2021
	$ in millions				
Revenues					
From natural gas sales	284.4	226.5	105.9	80.9	293.4
Net of royalties	(42.5)	(37.8)	(17.5)	(13.5)	(48.9)
Net revenues	**241.9**	**188.7**	**88.4**	**67.4**	**244.5**
Expenses and costs:					
Cost of natural gas and condensate production	(31.3)	(26.1)	(9.0)	(8.7)	(37.4)
Depreciation and amortization expenses	(22.1)	(22.0)	(7.8)	(7.4)	(28.0)
Net oil and natural gas exploration costs	(0.1)	(1.1)	(0.1)	(0.4)	(1.1)
Net G&A expenses	(6.4)	(3.7)	(1.9)	(1.3)	(6.7)
Operating income	**182.0**	**135.8**	**69.6**	**49.6**	**171.3**
Net financing expenses	(27.5)	(51.4)	(12.0)	(17.8)	(69.1)
Profit before taxes on income	**154.5**	**84.4**	**57.6**	**31.8**	**102.2**
Taxes on income	(35.7)	(23.5)	(13.1)	(23.5)	(24.7)
Net profit and other comprehensive income for the period	**118.8**	**60.9**	**44.5**	**8.3**	**77.5**
Sales of natural gas in BCM[14]	**8.54**	**8.30**	**3.02**	**2.83**	**10.72**
Condensate production in Israel (barrels in thousands)[15]	**675.65**	**648.24**	**239.75**	**219.47**	**837.7**

3.1.1 **Net revenues** – Revenues from the sale of natural gas in the Report Period totaled approx. $284.4 million compared with approx. $226.5 million in the same period last year, an increase rate of approx. 26%. Revenues from the sale of natural gas in Q3/2022 totaled approx. $105.9 million compared with approx. $80.9 million in the same period last year, up approx. 31%. The increase between the periods derives mainly from the increase in the prices of natural gas sold in the export markets, which is partially linked to the price of Brent barrel, as well as from the increase in the quantities of natural gas that were sold to Egypt (the average price of natural gas sold to Egypt is higher than the average price in the domestic market). Total royalties include royalties to the State and overriding royalties in accordance with the Partnership agreement. Royalty expenses in the Report Period totaled approx. $42.5 million compared with approx.

[14] The data refers to sales of natural gas from the Leviathan Project (100%), rounded off to two digits after the decimal point.

[15] The data refers to the production of condensate from the Leviathan Project (100%) rounded off to thousands of barrels, see also Note 25C1I to the Annual Financial Statements regarding an agreement in connection with the sales of condensate from the Leviathan Reservoir.

$37.8 million in the same period last year. Royalty expenses in Q3/2022 totaled approx. $17.5 million compared with approx. $13.5 million in the same period last year. From the date of commencement of the supply of gas from the Leviathan Reservoir, the Leviathan Partners make advance payments to the State on account of the State royalties in respect of revenues from the Leviathan Project at the rate of 11.26%, and the Partnership additionally pays, in accordance with the Partnership agreement, overriding royalties at the rate of approx. 5.40%[16]. However, in view of the publication of specific directives regarding the method for calculation of the royalty value at the wellhead in the Leviathan Project (the "**Specific Directives**") by the Director of Natural Resources at the Ministry of Energy on July 24, 2022, the Partnership made in Q2/2022 an adjustment to the royalty expenses recorded in the Partnership's Financial Statements from the date of commencement of the supply of natural gas from the Leviathan Reservoir, so as to reflect the aforesaid Specific Directives. For further details on royalties, see Note 18 and Note 24C to the Annual Financial Statements and Note 8A to the Financial Statements.

Below is a breakdown of the quantities of natural gas[14] sold in the Report Period according to the customers' geographic location:

	For the nine-month period ended September 30		**For the three-month period ended September 30**		**For the year ended Dec. 31**
	2022	**2021**	**2022**	**2021**	**2021**
	BCM				
Israel	2.92	3.78	1.18	1.17	4.55
Jordan	2.00	2.03	0.70	0.76	2.74
Egypt	3.62	2.49	1.14	0.90	3.43
Total	**8.54**	**8.30**	**3.02**	**2.83**	**10.72**

3.1.2 **Cost of natural gas and condensate production** mainly includes expenses of management and operation of the project, including expenses of shipping and transport, salaries, consulting, maintenance, insurance and the cost of transmission of natural gas to Egypt. The cost of natural gas and condensate production in the Report Period totaled approx. $31.3 million, compared with approx. $26.1 million in the same period last year, an increase at the rate of approx. 20%. The increase in the Report Period mainly derives from the increase in natural gas sales to Egypt and consequently an increase in transportation and

[16] The royalty rates may be different as a result of deduction of expenses for the gas transmission and treatment systems up to the actual delivery points. The method of calculation of the said overriding royalties rate is done in accordance with the principles according to which the State royalties for the project are calculated, and therefore the said rate may change insofar as the method of calculation of the State royalties changes. For further details, see Note 18 and Note 24c to the Annual Financial Statements and Note 8A to the Financial Statements.

shipping expenses and the costs of transmission of the gas to Egypt, as can be seen in the above table.

In Q3/2022, the cost of natural gas and condensate production totaled approx. $9.0 million compared with approx. $8.7 million in the same period last year.

3.1.3 **Depreciation and amortization expenses** in the Report Period totaled approx. $22.1 million, compared with approx. $22.0 million in the same period last year. In Q3/2022, depreciation and amortization expenses totaled approx. $7.8 million compared with approx. $7.4 million in the same period last year. The expenses mainly reflect the depreciation depletion expenses for the investments in the development of the Leviathan gas reservoir and depreciation expenses for other long-term assets.

3.1.4 **Net Oil and natural gas exploration expenses** in the Report Period totaled approx. $0.1 million compared with approx. $1.1 million in the same period last year. In Q3/2022, net oil and gas exploration expenses totaled approx. $0.1 million compared with approx. $0.4 million in the same period last year. The decrease between the comparison periods derives mainly from the decision of the partners in Cluster A and Cluster C licenses, to waive all of their interests in the licenses. For further details, see also Note 4B to the Financial Statements.

It is noted that expenses for operator fees to the General Partner were included in the 'net oil and natural gas exploration expenses' item, until April 22, 2021, see also Note 24C1C to the Annual Financial Statements.

3.1.5 **Net G&A expenses** in the Report Period totaled approx. $6.4 million, compared with approx. $3.7 million in the same period last year. These mostly consist of expenses in respect of professional services, payroll expenses and management fees for the General Partner. The increase in the total expenses in the Report Period compared with the same period last year derives mainly from a change to the management services arrangement between the Partnership and the General Partner that applies from April 23, 2021, as approved by the general meeting on May 27, 2021. For further details regarding the aforesaid arrangement, see Note 24C1D to the Annual Financial Statements. It is noted that from April 23, 2021, the payments for operator fees have been cancelled (as specified in Note 24C1C to the Annual Financial Statements) which were included in the 'net oil and natural gas exploration expenses,' item, as provided in Section 3.1.4 above and were not presented under the 'net G&A expenses' item.

Net G&A expenses in Q3/2022 totaled approx. $1.9 million compared with approx. $1.3 million in the same period last year.

The increase mainly derived from the expenses in respect of professional services.

3.1.6 **Net financial expenses** in the Report Period totaled approx. \$27.5 million compared with net financial expenses of approx. \$51.4 million in the same period last year.
Below are the main changes in the 'net financial expenses' item in the Report Period compared with the same period last year:

a. In the Report Period, the ‘financial expenses’ item included financial costs in connection with bonds and loans from banking corporations provided for financing of the Leviathan Leases in the amount of approx. \$25.1 million, compared with approx. \$38.2 million in the same period last year.

b. Total financial costs include exchange rate differentials due to changes in the dollar exchange rate. Total income from exchange rate differentials due to the increase in the dollar exchange rate in the comparison period totaled approx. \$13.3 million in the Report Period compared with approx. \$1.2 million in the same period last year.

c. During the Report Period, the fair value of CAP options and an [Interest Rate Swap) IRS)] hedging transaction that the Partnership acquired as part of its risk management increased by approx. \$7.3 million . For further details, see Note 5 to the Financial Statements.

d. During the Report Period, the fair value of the Partnership's investment in Ratio Petroleum Energy – Limited Partnership ("**Ratio Petroleum**") decreased by approx. \$1.5 million. During the same period last year, expenses from revaluation of the Partnership's investment in Ratio Petroleum totaled approx. \$13.3 million.

e. During the Report Period, expenses of exchange rate differentials totaled approx. \$6.4 million, compared with \$0.3 million in the same period last year, due to changes in the dollar exchange rate.

Net financial expenses in Q3/2022 totaled approx. \$12.0 million compared with net financial expenses of approx. \$17.8 million in the same period last year.

Below are the main changes in the 'net financial expenses' item in Q3/2022 compared with the same period last year:

a. In Q3/2022, the ‘financial expenses’ item included financial costs in connection with bonds and loans from banking corporations provided for financing of the Leviathan Leases in the amount of approx. $15.4 million, compared with approx. $15.3 million in the same period last year.

b. Total financial costs include exchange rate differentials due to changes in the dollar exchange rate. Total expenses of exchange rate differentials in Q3 totaled approx. $1.7 million compared with approx. $1.6 million in the same period last year.

c. In Q3/2022, the fair value of CAP options and an IRS [interest rate swap] hedging transaction that the Partnership acquired as part of its risk management increased by approx. $5.0 million. For further details, see Note 5 to the Financial Statements.

d. In Q3/2022 the fair value of the Partnership's investment in Ratio Petroleum decreased by approx. $0.2 million. In the same period last year, expenses from revaluation of the Partnership’s investment in Ratio Petroleum totaled approx. $3.0 million.

e. In Q3/2022, expenses of exchange rate differentials totaled approx. $1.1 million, compared with $0.5 million in the same period last year, due to changes in the dollar exchange rate.

It is also noted that part of the securities balances in the Partnership's investment portfolio are mainly exposed to changes in the market situation and the exchange rate between the shekel and the dollar. In the management of liquid sources, fluctuations in the capital market and the relationship between the exchange rates of the shekel and the dollar, are taken into account. The impact of these factors is reflected in the 'net financial expenses' item.

3.1.7 **Taxes on income** in accordance with the amendment to the Income Tax Regulations “Rules for the Calculation of Tax due to the Holding and Sale of Participation Units in Oil Exploration Partnerships” from 2021 (the “**Amendment to the Income Tax Regulations**”), from 2022, a change occurred in the tax regime that applies to the Partnership, and it is taxed as a company. Following the said Amendment to the Income Tax Regulations, in the Report Period the Partnership recorded income tax expenses (deferred and current taxes) in the sum of approx. $35.7 million compared with approx. $23.5 million (deferred taxes) in the same period last year. The increase in taxes on income between the periods derives from the rise in the dollar-shekel exchange rate and temporary differences created until the date of the financial statements, mainly differences in respect of investments in oil and gas assets (including in respect of retirement of oil and gas assets).

3.2 **Current assets** as of September 30, 2022 totaled approx. $278.8 million, compared with a total of approx. $253.4 million as of December 31, 2021.

The Group's current assets as of September 30, 2022 primarily consist of cash and cash equivalents, financial assets at fair value through profit or loss, short-term deposits, joint venture operator and pledged cash. The increase mainly stems from proceeds from natural gas sales during the Report Period and drawdown of a loan from banking corporations net of payment of royalties and payments for the development and operation of the Leviathan Project, tax and balancing payments and payment of current expenses, repayment of one third of the nominal value of Series B and Series C Bonds in accordance with their terms and conditions and a distribution of profits.

Furthermore, the Partnership's current assets as of September 30, 2022 include derivative financial instruments in the sum of approx. $4.2 million a trade receivables balance of approx. $72.7 million compared with approx. $47.9 million as of December 31, 2021 for the supply of natural gas from the Leviathan Reservoir. The increase in the trade receivables balance between the periods is due to an increase in the volume of sales from the Leviathan Project.

3.3 **Non-current assets** as of September 30, 2022 totaled approx. $890.5 million, compared with approx. $891.5 million as of December 31, 2021.

Below are the main changes in the 'non-current assets' item in the Report Period:

3.3.1 Net investments in oil and natural gas assets, excluding the retirement asset, total approx. $796.9 million as of September 30, 2022, compared with approx. $792.8 million as of December 31, 2021. The change in the Report Period derived mainly from investments in the Leviathan Project of approx. $22.9 million. Conversely, the Partnership recorded depreciation and amortization expenses of approx. $18.8 million.

3.3.2 A retirement and disposal asset presented under the 'net investments in oil and natural gas assets' item totaled approx. $10.7 million as of September 30, 2022, compared with approx. $19.0 million as of December 31, 2021. The decrease mainly results from an update of the estimate of the retirement and disposal asset in the sum of approx. $7.9 million following the rise in the market interest used for capitalization.

3.3.3 Other long-term assets, net, totaled approx. $68.8 million as of September 30, 2022, compared with approx. $59.4 million as of December 31, 2021. The increase derives mainly from: 1) the recording of a royalty receivable asset in the sum of approx. $4.9 million following the Specific Directives regarding the method of calculation of the royalty value at the wellhead in the

Leviathan Project. See also Note 8A to the Financial Statements. 2) Investments in the construction of the Ashdod-Ashkelon offshore transmission section in accordance with a transmission agreement and additional development investments for the purpose of increasing the gas sales to Egypt via the EMG pipeline, which are presented net of depreciation expenses in the sum of approx. $2.9 million.

3.3.4 The Partnership holds 20% in the participation units of Ratio Petroleum. Such investment is classified as financial assets at fair value through profit or loss and is presented in the Financial Statements under non-current assets. The fair value of the investment as of September 30, 2022 is approx. $4.0 million compared with approx. $5.5 million as of December 31, 2021.

3.3.5 Restricted deposits totaled approx. $6.4 million as of September 30, 2022 compared with approx. $14.7 million as of December 31, 2021. The decrease results from classification of the Series B and Series C Bonds interest cushions as short-term in accordance with their terms and conditions.

3.3.6 Derivative financial instruments totaled approx. $3.5 million as of September 30, 2022. During Q3. The Partnership performed an IRS hedging transaction. Also see Note 5B to the Financial Statements.

3.4 **Current liabilities** as of September 30, 2022 total approx. $152.4 million compared with approx. $171.9 million as of December 31, 2021.

Below are the main changes in the 'current liabilities' item in the Report Period:

3.4.1 Provision for tax and balancing payments as of December 31, 2021 totaled approx. $13.9 million and it included tax and balancing payments which were paid in January 2022.

3.4.2 Interest payable totaled approx. $9.9 million as of September 30, 2022, compared with approx. $15.7 million as of December 31, 2021. Interest payable includes interest in respect of Series B, C and D Bonds and in respect of the bank loan. Most of the decrease derives from the dates and rate of the interest payments according to the terms of the bonds.

3.5 **Non-current liabilities** as of September 30, 2022 totaled approx. $697.2 million, compared with approx. $747.2 million as of December 31, 2021.

Non-current liabilities include the long-term balance of Series D Bonds and loans from banking corporations, a provision for an oil and gas asset retirement and disposal obligation, and a deferred tax liability.

Below are the main changes in the 'non-current liabilities' item:

3.5.1 Deferred tax liability as of September 30, 2022 totaled approx. $53.4 million compared with approx. $24.7 million as of December 31, 2021. The Partnership recognizes deferred taxes, based on the liability method, in respect of temporary differences between the amounts of the assets and liabilities, which are included in the Financial Statements, and the amounts that will be taken into account for tax purposes. The increase in the item derived mainly from an increase in differences between depreciation and amortization according to accounting standards compared with depreciation and amortization for tax purposes for oil and natural gas assets (including for oil and natural gas asset retirement and disposal) and due to the increase in the exchange rate and its impact on the temporary differences between the measurement base reported for tax purposes in shekels and the measurement base reported in the Financial Statements in dollars, in respect of oil and gas assets (including retirement of oil and gas assets).

3.5.2 A provision for an oil and natural gas asset retirement and disposal obligation as of September 30, 2022 totaled approx. $13.1 million, compared with approx. $20.8 million as of December 31, 2021. The decrease derived from an update to the retirement and disposal obligation for the Leviathan Project assets due to an increase in the market interest rate that is used for capitalization of the liability.

3.5.3 Bonds totaled approx. $90.9 million as of September 30, 2022, compared with approx. $214.6 million as of December 31, 2021. Most of the decrease derives from a decrease in Series B and Series C Bonds as a result of repayment of one third of their nominal value on August 31, 2022 in accordance with their terms and conditions.

3.5.4 Loans from banking corporations totaled approx. $539.7 million as of September 30, 2022, compared with approx. $487.1 million as of December 31, 2021. Most of the increase derives from the drawdown of $50 million on the loan facility during Q3/2022.

For further details regarding the loan agreements between the Partnership and Ratio Financing in connection with the issue proceeds received and the loan agreements between the Partnership and Leviathan Development, see Notes 24C4 and 24C6 to the Annual Financial Statements and Section 4 below.

3.6 **The Partners' equity**

As of September 30, 2022, totaled approx. $319.7 million compared with approx. $225.9 million as of December 31, 2021. The change derives from other comprehensive income of approx. $118.8 million recorded in the Report Period and a distribution of profit in the sum of approx. $25 million.

3.7 Cash flow

Net cash flow generated from operating activities totaled approx. $100.7 million in the Report Period, compared with net cash flow generated from operating activities of approx. $86.0 million in the same period last year. In Q3/2022, net cash flow generated from operating activities totaled approx. $28.1 million compared with net cash flow used for operating activities of approx. $4.2 million in the same period last year. Most of the rise resulted from an increase in the profit for the period in respect of the Leviathan Project.

It is noted that in accordance with the accounting policy of the Partnership, interest paid and interest received are classified in the cash flow statement as part of the operating activities.

Net cash flow used for investment activities totaled approx. $61.9 million in the Report Period, compared with approx. $42.1 million in the same period last year. Investment activities in the Report Period mainly consist of investments in the Leviathan Project and in other long-term assets primarily regarding the expansion of the infrastructures for transmission to Egypt, in the sum of approx. $28.1 million.

Net cash flow used for investment activities totaled approx. $41.2 million in Q3/2022, compared with approx. $1.0 million in the same period last year. Investment activities in Q3/2022 mainly consist of the deposit of restricted deposits in the sum of approx. $44 million, as required under the terms and conditions of the Series B Bonds prior to the conduct of the profit distribution as set out in Section 5 below.

Net cash flow used for financing activities totaled approx. $100.5 million in the Report Period, compared with approx. $25.5 million in the same period last year.

Net cash flow used for financing activities totaled approx. $86.6 million in Q3/2022, compared with approx. $25.5 million in the same period last year. Financing activities in the Report Period were primarily used for the repayment of the principal of Series B and Series C Bonds in the sum of approx. $111.6 million, in accordance with the terms and conditions thereof, a distribution of profit in the amount of approx. $25 million, and tax and balancing payments for the participation unit holders in the sum of approx. $13.9 million. Furthermore, financing activities in the Report Period included the drawdown of a loan from banking corporations in the sum of $50 million.

The cash and cash equivalents balance as of September 30, 2022 totaled approx. $60.7 million compared with approx. $125.4 million as of December 31, 2021.

4. Liquidity and financing sources

As of the date of approval of the Financial Statements, the Partnership's financing sources are the Partnership's equity, the loans from Ratio Financing given against the debt raisings in Ratio Financing through the public offering of the Series C and D bonds, as well as loans from banking corporations for the financing of the Leviathan Project.

4.1 Loans from banking corporations

Further to Note 11A to the Annual Financial Statements regarding a loan agreement between Leviathan Development and a consortium of local and foreign banks, a loan facility of $650 million was provided to the Partnership (through Leviathan Development, which provides the loan to the Partnership back-to-back) (the "**Loan**") (also see Note 5B to the Financial Statements regarding an amendment to the Loan agreement).
In July 2022, the lenders authorized that the total facility available for drawdown would amount to $650 million. As of September 30, 2022 and as of the date of approval of the Financial Statements, loan amounts drawn from the Loan facility total approx. $550 million.
The Partnership may use the Loan facility for any of the additional purposes defined in the agreement, mainly payment of expenses and debt repayment in connection with the Leviathan Project.
As part of the Loan agreement, the Partnership was given the option of reducing the unused Loan facility and/or early repayment (full or partial) of the Loan, throughout the entire Loan period, without penalties.

As part of the Loan agreement, the Partnership is committed to comply with the following financial covenants that were determined in the financing agreement: Liquidity Coverage Ratio ("**LCR**"), that is calculated as the ratio between the discounted cash flow from 2P reserves (as defined in the Loan agreement) and the balance of the Loan that was withdrawn (net of the reserve amount for debt service) at the end of each quarter, shall be no less than 1.2; Debt service coverage ratio ("**DSCR**") that is calculated as the ratio between the actual cash flow before debt service and debt service costs (principal, interest and non-utilization fee) for the 12 months before the test date at the end of each quarter, shall be no less than 1.05; and compliance with the liquidity test.

As of September 30, 2022, the Partnership is compliant with all the aforesaid financial covenants: LCR is 1.94 and DSCR is 8.1.

As of the date of approval of the Financial Statements, the aforesaid ratios do not materially differ from the ratios as of September 30, 2022.

As part of the Partnership's risk management, in order to reduce exposure in connection with a possible increase in the LIBOR interest rate, in respect of the Loan it has taken, the Partnership has made several hedging transactions:

a. In Q1/2022, the Partnership purchased CAP options to hedge an amount of $150 million with an expiration date in July 2023.

b. In Q3/2022, the Partnership made an IRS hedging transaction of $100 million until the final maturity date of the Loan.

For further details, see Note 5 to the Financial Statements.

4.2 Debt raising rounds by Ratio Financing

For details regarding the issue of Series B, C and D Bonds through Ratio Financing and the loans given against them to the Partnership, see Note 11B and Note 24C4 to the Annual Financial Statements.

On August 31, 2022, in accordance with the terms and conditions of Series B and Series C Bonds, one third of the nominal value of Series B and Series C Bonds was repaid, amounting to approx. $52.3 million (which is the net amount after deduction of the Partnership's share; see Note 11B4A to the Annual Financial Statements) and approx. $59.3 million, respectively, and in addition, interest was paid in the sum of approx. $19.4 million (which is the net amount after deduction of the Partnership's share) in respect of Series B Bonds and approx. $11.9 million in respect of Series C Bonds. Accordingly, on the same date, the Partnership paid Ratio Financing the Partnership's liabilities for payment of the principal and interest in respect of the Series B Bonds (net of the Partnership's share, see Note 11B4A to the Annual Financial Statements) and the Series C Bonds.

On October 19, 2022, the board of directors of the General Partner of the Partnership decided to fully prepay the outstanding loan (plus interest) that had been provided to the Partnership by Ratio Financing, pursuant to a loan agreement dated November 9, 2016, as a back-to-back loan of the entire proceeds of the issue of Ratio Financing's Series B Bonds. In accordance with the foregoing, on October 19, 2022, the board of directors of Ratio Financing resolved to fully prepay the outstanding balance of Series B Bonds, initiated by Ratio Financing, which was carried out on November 6, 2022 (the "**Prepayment Date**").

As part of a debt reduction process and in accordance with the resolutions of the board of directors of the General Partner, the Partnership intends to purchase Series C Bonds of Ratio Financing, insofar as constituting an appropriate business opportunity at that time, up to a total amount of ILS 300 million par value. Accordingly, the 'short-term deposits' item of approx. $30 million is intended for the purchase of such bonds. In accordance with the resolutions of the board of directors of the General Partner, the bonds to be acquired by the Partnership (insofar as acquired) will not be offered for sale either on or off TASE.

For further details regarding the Partnership's financing sources, see Notes 24C4 and 24C6 to the Annual Financial Statements and Note 5A to the Financial Statements.

5. **Distribution of profits, tax payments and balancing payments**

5.1 On January 9, 2022, the Partnership made a payment of approx. ILS 43.3 million (ILS 0.0385213 per participation unit). Such payment includes tax payments for individual entitled holders and balancing payments for non-individual holders.

5.2 On August 30, 2022, the board of directors of the General Partner approved an (interim) profit distribution of $25 million with the record date for distribution being September 8, 2022. The aforesaid distribution of profits was carried out on September 21, 2022.

6. **Effects of inflation and the increase in the interest rate on the Partnership's business**

Following macroeconomic developments around the world, including the Covid crisis and the military conflict between Russia and Ukraine, there has been an increase in inflation rates in the world and, as a result, also in Israel. As part of the steps taken to curb the rise in prices, the central banks in the U.S., and other countries, including Israel, began to raise the interest rate and also announced their plans for further interest rate increases in the future in order to moderate the aforementioned price index increases.

During the Report Period, there was an increase in the average price of natural gas that was sold, which was mainly due to an increase in the Brent barrel prices to which the gas export to Egypt and Jordan agreements are linked, and an increase in the electricity generation tariff, which affects some of the agreements with the private electricity producers. This increase is reflected in the 'revenues from natural gas sale' item.

The increase in prices also affects the costs of gas production and the costs of capital investments in the Leviathan Project, but in a manner that is immaterial to the results of the Partnership at this stage. However, the continued increase in price indices may increase the future capital costs for additional investments to be made in the Leviathan Project and in future projects in which the Partnership will be a partner.

The increase in the price indices had no effect on the financing expenses of the Partnership since all of the bond series of Ratio Financing and the loans from banking corporations are not linked to the price index.

Since the bonds of Ratio Financing carry a fixed interest rate, the financing expenses therefor are not affected by the changes in the interest rates. However, the increase in the interest rate has an effect on the Partnership's financial position, mainly in the assets and liabilities in the statement of financial position that contain capitalization components, as well as on the Partnership's financing expenses for the loans from banking corporations that bear LIBOR interest rate (which will be replaced by the SOFR TERM interest rate from July 2023 at the latest) which is paid once a quarter. Furthermore, and insofar as the Partnership needs to raise additional debt in the future, this may affect the financing expenses of the Partnership.

As part of the Partnership's risk management, and in order to reduce exposure in connection with a possible increase in the LIBOR interest rate on the loans taken thereby, in Q1/2022 the Partnership purchased CAP Options, and in Q3/2022 the Partnership made IRS hedging transactions. See also Section 4.1 above and Note 5B to the Financial Statements.

Caution concerning forward-looking information – The provisions of this section above regarding the impact of the inflation and the increase in the interest rate on the Partnership's business constitutes forward-looking information within the meaning thereof in Section 32A of the Securities Law, 5728-1968. This information is based, *inter alia*, on assessments and estimates of the Partnership and the information held thereby as of the date of approval of this report. Therefore, there is no certainty that the aforesaid will indeed materialize, or materialize in a manner that is similar to the aforesaid, and the results may be materially different than the results assessed or implied from such information, as a result, *inter alia*, of additional and other financial developments which may affect the Partnership's business and from various factors that are beyond the Partnership's control.

Part B – Report on exposure to and management of market risks

During the reported period there has been no material change in the areas of the Partnership's exposure or in the market risks, as reported in the board of directors' report for 2021 which was included in the Periodic Report.

Sensitivity tests

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

Description of parameters, assumptions and models

a. The fair value of marketable securities is based on quoted prices in an active market as of the balance sheet date.

b. The fair value of the bonds is based on quoted prices in an active market as of the balance sheet date. The sensitivity analysis is based on the yield of marketable bonds as of the balance sheet date, in a similar rating (with no rating) and in the Partnership's operations sector.

c. The fair value of the loans from banking corporations is based on capitalization of all of the future cash flows of the loan in the rate of yield of the marketable bonds as of the balance sheet date, in a similar rating (with no rating) and in the Partnership's operations sector.

d. The fair value of the derivative financial instruments is based on foreign exchange swap contracts using exchange rate data as well as interest rate swap contracts valuated using future interest rates that are based on an observable yield curve.

e. Shekel-dollar exchange rate is the representative rate as of September 30, 2022.

Analysis of sensitivity to market risks

Below is a breakdown of the Partnership's financial instruments as of September 30, 2022, which are sensitive to the market risks entailed therein. The liabilities and assets that are sensitive to various market risks were presented several times in accordance with the analysis of sensitivity to each one of the risks:

Report on linkage bases of the financial balances

	September 30, 2022			
	In $	In Non-Indexed ILS	In Indexed ILS	Total
	$ in thousands			
Current assets:				
Cash and cash equivalents	40,644	20,021	-	60,665
Financial assets at fair value through profit or loss	8,909	3,253	1,649	13,811
Short-term deposits	30,033	-	-	30,033
Pledged cash	3,585	72,446	-	76,031
Trade receivables	72,711	-	-	72,711
Joint venture operator	15,281	-	-	15,281
Ratio Trusts Ltd. – the Trustee – Current account	-	273	-	273
Other receivables	1,074	921	-	1,995
Derivative financial instruments	4,259	-	-	4,259
Income tax receivables	-	3,679	-	3,679
Total current assets	176,496	100,593	1,649	278,738
Non-current assets:				
Financial assets at fair value through profit or loss – Investment in Ratio Petroleum	-	4,048	-	4,048
Derivative financial instruments	3,526	-	-	3,526
Other long-term assets, net	4,861	-	-	4,861
Restricted deposits	3,940	2,462	-	6,402
Total non-current assets	12,327	6,510	-	18,837
Current liabilities:				
Trade payables	-	39	-	39
Joint venture payables	17,739	-	-	17,739
Ratio Energies Management Ltd. (formerly – Ratio Oil Explorations Ltd.) – General Partner – Current account				
Others	1,786	-	-	1,786
Current maturities of bonds	1,985	-	-	1,985
Interest payable	62,109	53,578	-	115,687
Expenses payable	9,176	745	-	9,921
Current liabilities:	4,830	387	-	5,217
Total current liabilities	97,625	54,749	-	152,374
Non-current liabilities:				
Bonds	90,932	-	-	90,932
Net loans from banking corporations	539,748	-	-	539,748
Total non-current liabilities	630,680	-	-	630,680

1. **Sensitivity to changes in the Dollar/ILS exchange rate ($ in thousands):**

Assets and Liabilities	Profit (Loss) from the Change		Fair Value	Profit (Loss) from the Change	
	10% Increase in Exchange Rate	5% Increase in Exchange Rate		5% Decrease in Exchange Rate	10% Increase in Exchange Rate
Cash and cash equivalents	(1,820)	(953)	20,021	1,054	2,225
Financial assets at fair value through profit or loss	(446)	(233)	4,902	258	545
Pledged cash	(6,586)	(3,450)	72,446	3,813	8,050
Ratio Trusts	(25)	(13)	273	14	30
Trade and other receivables	(84)	(44)	921	49	102
Income tax receivables	(334)	(175)	3,679	194	409
Financial assets at fair value through profit or loss – investment in Ratio Petroleum	(368)	(193)	4,048	213	450
Restricted deposits	(224)	(117)	2,462	130	274
Trade payables	4	2	(39)	(2)	(4)
Series B Bonds	5,096	2,670	(56,060)	(2,951)	(6,229)
Interest payable	68	35	(745)	(39)	(83)
Expenses payable	35	18	(387)	(20)	(43)
Total	**(4,684)**	**(2,453)**	**52,999**	**2,713**	**5,726**

2. **Sensitivity to changes in the shekel interest ($ in thousands)**

Sensitive Instrument	Profit (Loss) from the Change			Fair Value	Profit (Loss) from the Change		
	Extreme Test*	10% Increase in Yield	5% Increase in Yield		5% Decrease in Yield	10% Decrease in Yield	Extreme Test*
Series B Bonds	561	280	140	(56,060)	(140)	(280)	(561)

3. **Sensitivity to changes in the dollar interest ($ in thousands)**

Sensitive Instrument	Profit (Loss) from the Change			Fair Value	Profit (Loss) from the Change		
	Extreme Test*	10% Increase in Yield	5% Increase in Yield		5% Decrease in Yield	10% Decrease in Yield	Extreme Test*
Series C Bonds	999	500	250	(62,455)	(250)	(500)	(999)
Series D Bonds	6,655	3,328	1,664	(89,212)	(1,664)	(3,328)	(6,655)
Loans from banking corporations	30,472	15,105	7,625	(564,386)	(7,775)	(15,702)	(30,939)

Sensitive Instrument	Profit (Loss) from the Change			Fair Value	Profit (Loss) from the Change		
	1% Increase in Interest Rate	0.5% Increase in Interest Rate	0.25% Increase in Interest Rate		0.25% Decrease in Interest Rate	0.5% Decrease in Interest Rate	1% Decrease in Interest Rate
Derivative financial instruments – CAP options	1,428	714	270	3,794	(330)	(656)	(1,417)
Derivative financial instruments – IRS transaction	4,057	1,937	975	3,991	(987)	(2,105)	(4,265)

* According to a clarification released by the Israel Securities Authority on February 28, 2010, two additional extreme tests are required in the sensitivity to interest tests. The absolute change that was tested in the extreme tests is 20%.

Part C – Disclosure on Various Aspects of Corporate Governance

<u>Disclosure on projected cash flow for financing the repayment of the corporation's liabilities</u>

According to Section 10(b)(14) of the Reports Regulations, a corporation that holds, on the date of release of the Financial Statements, bond certificates in the turnover, will examine whether there are warning signs therein, and if there are warning signs in the corporation, the corporation will attach a disclosure regarding projected cash flow.

In view of the fact that the warning signs listed in the aforementioned section do not exist, a projected cash flow is not included in this report.

Part D – Disclosure on the Partnership's Financial Reporting

1. **<u>Key events in the Report Period</u>**

   For a comprehensive description of the key events in the Report Period see Part A hereof and the Notes to the Financial Statements.

2. **<u>The Partnership's activity, additional information and subsequent events</u>**

   2.1 For subsequent events, see Part A hereof and Note 11 to the Financial Statements.

   2.2 <u>Separate financial statements</u>

   In accordance with the provisions of Regulation 9C and the Tenth Schedule to the Reports Regulations, the Partnership has not included separate financial information in the Financial Statements, following an examination by the Partnership's management together with its legal advisors, because the additional information that would be provided as separate financial information that is attributed to the Partnership relative to the information included in the consolidated financial statements is negligible, and therefore, in accordance with the accounting rules and the securities laws, there is no need for the attachment thereof. The Partnership will continue to examine the future effect of the inclusion of separate financial information in each reporting period.

3. <u>Critical accounting estimates</u>

No material change occurred in the Report Period other than as provided in Note 3A1 to the Financial Statements with respect to current tax expenses.

Date: November 29, 2022

Ligad Rotlevy **Chairman of the Board**	**Yigal Landau** **CEO and Board Member**

Chapter B

Financial Report

As of 30.9.2022

Ratio Energies – Limited Partnership

Interim Financial Information

(Unaudited)

September 30, 2022

This report is a translation of Ratio Energies, Limited Partnership's Hebrew-language unaudited Interim Financial Information as of September 30, 2022. It is prepared solely for convenience purposes. Please note that the Hebrew version is the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

Ratio Energies – Limited Partnership

Interim Financial Information

(Unaudited)

September 30, 2022

Table of Contents

Auditor's review report
to the holders of the participation units of Ratio Energies – Limited Partnership

Introduction

We have reviewed the accompanying financial information of Ratio Energies – Limited Partnership (the "**Partnership**") and consolidated companies (the "**Group**"), which includes the Condensed Consolidated Statement of Financial Position as of September 30, 2022 and the Condensed Consolidated Statements of Comprehensive Income, the Changes in the Partners' Equity and the Cash Flows for the nine- and three-month periods then ended. The board of directors and management of Ratio Energies Management Ltd. (formerly Ratio Oil Explorations Ltd.), the Partnership's general partner (the "**GP**") are responsible for the preparation and presentation of financial information for such interim periods in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of financial information for such interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on financial information for such interim periods based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information has not been prepared, in all material respects, in accordance with IAS 34.

In addition to the statements in the previous paragraph, based on our review, nothing has come to our attention which causes us to believe that the accompanying financial information does not meet, in all material respects, the disclosure provisions under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Tel Aviv,
November 29, 2022

Kesselman & Kesselman
Certified Public Accountants
Member of PricewaterhouseCoopers International Limited

Ratio Energies – Limited Partnership

Condensed Consolidated Statement of Financial Position

as of September 30, 2022

	September 30 2022	September 30 2021	December 31 2021
	(Unaudited)	(Unaudited)	(Audited)
	$ in thousands		
Assets			
Current assets:			
Cash and cash equivalents	60,665	108,651	125,383
Financial assets at fair value through profit or loss	13,811	5,883	10,976
Short-term deposits	30,033	63,994	64,174
Pledged cash	76,031	-	-
Trade and other receivables:			
Trade receivables	72,711	51,838	47,941
Operator of joint venture	15,281	409	2,310
Ratio Trusts Ltd. – the trustee – current account	273	326	338
Ratio Energies Management Ltd. – the GP (formerly Ratio Oil Explorations Ltd.) – current account	-	1,948	883
Other receivables	1,995	2,278	1,406
Derivative financial instruments	4,259	-	-
Income tax receivable	3,679	-	-
Total current assets	278,738	235,327	253,411
Non-current assets:			
Financial assets at fair value through profit or loss – investment in Ratio Petroleum	4,048	7,325	5,509
Derivative financial instruments	3,526	-	-
Other long-term assets, net	68,847	59,444	59,393
Restricted deposits	6,402	13,511	14,707
Fixed assets, net	65	58	57
Investments in oil and natural gas assets, net	807,593	808,814	811,832
Total non-current assets	890,481	889,152	891,498
Total assets	1,169,219	1,124,479	1,144,909
Liabilities and the partners' equity			
Current liabilities:			
Trade and other payables:			
Trade payables	39	79	44
Payables of joint venture	17,739	9,689	11,462
Ratio Energies Management Ltd. – the GP (formerly Ratio Oil Explorations Ltd.) – current account	1,786	-	-
Others	1,985	92	92
Current maturities of bonds	115,687	127,112	125,772
Interest payable	9,921	7,936	15,662
Payables	5,217	4,357	4,905
Options for consultants	-	4	7
Provision for balancing and tax payments	-	-	13,920
Total current liabilities	152,374	149,269	171,864
Non-current liabilities:			
Provision for oil and natural gas asset retirement and disposal obligation	13,089	16,704	20,782
Bonds	90,932	212,257	214,560
Loans from banking corporations, net	539,748	486,233	487,112
Deferred taxes	53,414	23,517	24,723
Total non-current liabilities	697,183	738,711	747,177
Total liabilities	849,557	887,980	919,041
Partners' equity	319,662	236,499	225,868
Total liabilities and partners' equity	1,169,219	1,124,479	1,144,909

Ratio Energies Management Ltd. – the GP (formerly – Ratio Oil Explorations Ltd.), by:

Ligad Rotlevy	Yigal Landau	Amir Brami
Chairman of the Board	**CEO and Board Member**	**CFO**

Date of approval of the Interim Financial Information by the GP's board: November 29, 2022.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Ratio Energies – Limited Partnership

Condensed Consolidated Statement of Comprehensive Income

for the 9- and 3-month periods ended September 30, 2022

	9 months ended September 30		3 months ended September 30		Year ended December 31,
	2022	**2021**	**2022**	**2021**	**2021**
	(Unaudited)				**(Audited)**
	$ in thousands (other than figures of profit per participation unit)				
Revenues					
From the sale of natural gas	284,374	226,458	105,845	80,854	293,354
Net of royalties	(42,530)	(37,735)	(17,554)	(13,474)	(48,887)
	241,844	188,723	88,291	67,380	244,467
Expenses and costs					
Natural gas and condensate production cost	31,295	26,117	9,038	8,677	37,337
Depreciation and amortization expenses	22,119	21,993	7,822	7,439	27,998
Oil and natural gas exploration expenses, net	125	1,093	62	358	1,093
G&A expenses, net	6,356	3,652	1,861	1,286	6,733
Total expenses and costs	59,895	52,855	18,783	17,760	73,161
Operating income	181,949	135,868	69,508	49,620	171,306
Financial income	15,278	1,658	5,461	24	291
Financial expenses	(42,750)	(53,088)	(17,392)	(17,833)	(69,433)
Financial expenses, net	(27,472)	(51,430)	(11,931)	(17,809)	(69,142)
Income before income taxes	154,477	84,438	57,577	31,811	102,164
Income taxes	(35,686)	(23,517)	(13,137)	(23,517)	(24,723)
Net profit and comprehensive income for the period	118,791	60,921	44,440	8,294	77,441
Basic and diluted profit per participation unit (in $)	0.106	0.054	0.040	0.007	0.069

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Ratio Energies – Limited Partnership

Condensed Consolidated Statement of Changes in the Partners' Equity

for the 9- and 3-month periods ended September 30, 2022

	Equity of the Partnership	Capital Reserve from Control Holders	Loss Balance	Total Equity
	$ in thousands			
Balance as of January 1, 2022 (audited)	318,864	1,101	(94,097)	225,868
Movement in the 9 months ended September 30, 2022 (unaudited) -				
Profits distributed	-	-	(24,997)	(24,997)
Net profit and comprehensive income for the period	-	-	118,791	118,791
Balance as of September 30, 2022 (unaudited)	318,864	1,101	(303)	319,662
Balance as of January 1, 2021 (audited)	318,846	1,101	(144,387)	175,560
Movement in the 9 months ended September 30, 2021 (unaudited) -				
Exercise of Series 19 Warrants	18	-	-	18
Net profit and comprehensive income for the period	-	-	60,921	60,921
Balance as of September 30, 2021 (unaudited)	318,864	1,101	(83,466)	236,499
Balance as of July 1, 2022 (unaudited)	318,864	1,101	(19,746)	300,219
Movement in the 3 months ended September 30, 2022 (unaudited) -				
Profits distributed	-	-	(24,997)	(24,997)
Net profit and comprehensive income for the period	-	-	44,440	44,440
Balance as of September 30, 2022 (unaudited)	318,864	1,101	(303)	319,662
Balance as of July 1, 2021 (unaudited)	318,846	1,101	(91,760)	228,187
Movement in the 3 months ended September 30, 2021 (unaudited) -				
Exercise of Series 19 Warrants	18	-	-	18
Net profit and comprehensive income for the period	-	-	8,294	8,294
Balance as of September 30, 2021 (unaudited)	318,864	1,101	(83,466)	236,499
Balance as of January 1, 2021 (audited)	318,846	1,101	(144,387)	175,560
Movement during 2021 (audited):				
Exercise of Series 19 Warrants	18	-	-	18
Down payments for holders of the participation units	-	-	(13,231)	(13,231)
Balancing payments for corporations and tax payments for individuals	-	-	(13,920)	(13,920)
Net profit and comprehensive income for the year	-	-	77,441	77,441
Balance as of December 31, 2021 (audited)	318,864	1,101	(94,097)	225,868

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Ratio Oil Exploration (1992) – Limited Partnership

Condensed Consolidated Statement of Cash Flows

for the 9- and 3-month periods ended September 30, 2022

(Cont.) – 1

	9 months ended September 30		3 months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)				(Audited)
	$ in thousands				
Cash flows from operating activities:					
Net cash deriving from (used for) operations, see Annex A	99,955	85,846	27,722	(4,237)	122,118
Interest received	725	188	405	42	308
Dividend received	44	6	18	2	14
Total net cash deriving from (used for) operating activities	100,724	86,040	28,145	(4,193)	122,440
Cash flows from investment activities:					
Sale (purchase) of financial instruments at fair value through profit or loss – investment in Ratio Petroleum Energy – Limited Partnership	-	399	-	-	(4,585)
Exercise of option warrants for financial instruments at fair value through profit or loss – investment in Ratio Petroleum Energy Limited Partnership	-	(4,984)	-	-	-
Short-term deposits, net	10,245	(17,854)	9,778	3,206	(18,034)
Deposit of restricted deposits and pledged cash, net	(44,005)	(5,431)	(43,861)	(1,491)	(6,253)
Investment in other assets	(10,013)	(8,074)	(3,100)	(506)	(10,593)
Purchase of fixed assets	(20)	(3)	(7)	(3)	(6)
Investment in oil and natural gas assets	(18,062)	(6,188)	(4,026)	(2,214)	(9,288)
Total net cash used for investment activities	(61,855)	(42,135)	(41,216)	(1,008)	(48,759)
Cash flows from financing activities:					
Issuance of Series D Bonds, net	-	90,711	-	90,711	90,771
Repayment of Series B and C bond principal	(111,600)	(113,894)	(111,600)	(113,894)	(113,894)
Withdrawal of long-term loan from banking corporations	50,000	-	50,000	-	-
Profit distribution	(24,997)	-	(24,997)	-	-
Tax advances and balancing payments paid for participation unit holders	(13,920)	-	-	-	(13,231)
Purchase of Series B Bonds, net	-	(2,331)	-	(2,331)	(2,331)
Total net cash deriving from financing activities	(100,517)	(25,454)	(86,597)	(25,454)	(38,685)
Increase (decrease) in cash and cash equivalents	(61,648)	18,451	(99,668)	(30,655)	34,996
Balance of cash and cash equivalents at the beginning of the period	125,383	89,781	161,393	138,856	89,781
Profits (losses) from exchange rate differences on cash and cash equivalents	(3,070)	419	(1,060)	450	606
Balance of cash and cash equivalents at the end of the period	60,665	108,651	60,665	108,651	125,383

Ratio Oil Exploration (1992) – Limited Partnership

Condensed Consolidated Statement of Cash Flows

for the 9- and 3-month periods ended September 30, 2022

(End) – 2

	9 months ended September 30		3 months ended September 30		Year ended December 31
	2022	2021	2022	2021	2021
	(Unaudited)				(Audited)
	$ in thousands				
(A) Annex to the condensed consolidated report on cash flows -					
Net cash derived from operations:					
Net profit and comprehensive income for the period	118,791	60,921	44,440	8,294	77,441
Adjustments for:					
Interest and dividend revenues	(769)	(194)	(423)	(44)	(322)
Depreciation and amortization	22,278	21,993	7,820	7,439	27,998
Non-cash revenues and expenses:					
Losses (profits) from exchange rate differences on cash and cash equivalents	3,070	(419)	1,060	(450)	(606)
Income taxes	25,012	23,517	2,463	23,517	24,723
Expenses (revenues) of exchange rate differences in respect of restricted deposits	175	-	(1,046)	(347)	(374)
Interest and discount in respect of loans from banking corporations	5,299	2,515	2,697	1,082	3,233
Income of interest on bonds, discount and exchange rate differences	(30,516)	(28,574)	(24,464)	(39,511)	(19,724)
Provision for oil and gas asset retirement and disposal obligation	255	172	85	58	231
Profit from change in the fair value of derivative financial assets	(7,261)	-	(4,999)	-	-
Loss from change in the fair value of financial assets at fair value through profit or loss	3,745	13,044	614	2,883	14,419
	140,079	92,975	28,247	2,921	127,019
Changes in operating asset and liability items:					
Decrease (increase) in trade and other receivables:					
Trade receivables	(24,770)	(13,624)	2,473	(2,854)	(9,727)
Sale (purchase) of financial instruments at fair value through profit or loss, net	(5,119)	367	(260)	133	(4,285)
Purchase of derivative financial instruments	(524)	-	-	-	-
Change in balance with Ratio Trusts Ltd.	65	12	4	(2)	*
Royalty rate calculation differences	(4,861)	-	(85)	-	-
Other	(589)	(1,171)	519	(1,175)	(299)
Increase (decrease) in trade and other payables:					
Trade payables	(5)	58	(198)	(48)	23
Payables of joint venture	1,355	175	2,043	1	653
Other	2,198	(1,700)	1,633	(2,075)	(1,149)
Change in balance with joint venture operator	(10,487)	(178)	(7,935)	(985)	(114)
Change in balance with Ratio Energies Management Ltd. (formerly - Ratio Oil Explorations Ltd.), the GP	2,613	8,932	1,281	(153)	9,997
	(40,124)	(7,129)	(525)	(7,158)	(4,901)
Net cash derived from operations	99,955	85,846	27,722	(4,237)	122,118
(B) Information on non-cash activities:					
Investment in oil and natural gas explorations	15,914	5,898	3,599	3,057	9,492
Investment in other assets	(2,484)	-	(2,096)	-	-
Oil and gas asset retirement obligation against oil and natural gas assets	(7,948)	(2,520)	(1,614)	(702)	1,499
Declared tax and balancing payments	-	-	-	-	13,920
(C) Interest paid	49,316	62,988	37,064	53,055	69,680

* Represents a sum lower than $1 thousand

Note 1 – General:

A. On February 21, 2022, Ratio Oil Exploration (1992) - Limited Partnership changed its name to Ratio Energies - Limited Partnership (the "**Partnership**" or "**Ratio**"). Ratio is an Israeli public limited partnership primarily engaged in the exploration, development and production of natural gas and condensate from the Leviathan reservoir in the area of the I/14 "Leviathan South" and I/15 "Leviathan North" leases (the "**Leviathan Leases**" or the "**Leviathan Reservoir**" or the "**Leviathan Project**"). The Leviathan Reservoir constitutes a discovery, within the meaning thereof in the Petroleum Law, 5712-1952 (the "**Petroleum Law**"). The Partnership holds 15% of the Leviathan Project and, in addition, up to October 27, 2022, the Partnership held interests in eight other licenses in Israel together with two international energy companies (for details on the Partnership's decision to waive all of its rights in the said licenses, see Note 4B below).

B. The Partnership's income in the report period from the sale of natural gas is mainly affected by the scope of consumption and sale price of natural gas in the export markets and the domestic market. In the export markets by Jordan's National Electric Power Company ("**NEPCO**") and by Blue Ocean Energy in Egypt and in the domestic market by various customers primarily independent power producers.

The Partnership's share in the revenues and in the quantities of natural gas sold to the export markets and the domestic market:

	9 months ended September 30		3 months ended September 30		Year ended December 31
	2022	**2021**	**2022**	**2021**	**2021**
	(unaudited)				(audited)
Revenues (in millions of $)					
Export Markets	211.0	136.5	73.8	53.3	186.0
Domestic market	73.4	90.0	32.0	27.6	107.4
	284.4	**226.5**	**105.8**	**80.9**	**293.4**
Quantities (BCM)*					
Export Markets	0.84	0.68	0.27	0.25	0.93
Domestic market	0.44	0.57	0.18	0.18	0.68
	1.28	**1.25**	**0.45**	**0.43**	**1.61**

* Figures are rounded-off to 2 digits after the decimal point.

C. The Partnership was founded according to a limited partnership agreement which was signed on January 20, 1993, as amended from time to time. The participation units of the Partnership were listed on the Tel Aviv Stock Exchange Ltd. ("**TASE** in 1993. The Partnership's offices are located at 85 Yehuda Halevi St., Tel Aviv.

Note 1 – General (Cont.):

C. (Cont.)

On May 8, 2022, the GP, Ratio Oil Explorations Ltd., changed its name to Ratio Energies Management Ltd. (the "**GP**"). The ongoing management of the Partnership is carried out by the GP under the supervision of the supervisor, Adv. and CPA Simon Yaniv (the "**Supervisor**").
Ratio Trusts Ltd. (the "**LP**") acts as a trustee and holds the participation units (which confer a working interest in the rights of the LP in the Partnership).
The GP and the LP hold 0.01% and 99.99% of the Partnership's equity, respectively.

D. As of September 30, 2022, and the date of approval of the financial statements, the Partnership has a holding in several entities:

1) The Partnership is the control holder (100%) of Ratio Energies (Financing) Ltd. (formerly - Ratio Oil Exploration (Financing) Ltd.) ("**Ratio Financing**"), a special-purpose bond company (SPC) whose objects are: (1) raising debt and everything entailed thereby; (2) providing loans to the Partnership to be used by the Partnership to finance its share in the expenses in connection with the Leviathan Leases; (3) performing any and all actions entailed by the foregoing activity. Ratio Financing's bonds are traded on the TASE.
Ratio Financing's results are consolidated in the Partnership's financial statements.

2) The Partnership is the control holder (100%) of Leviathan Development (2016) Ltd. ("**Leviathan Development**"), a private special-purpose company (SPC) which was established by the Partnership for the purpose of receipt of finance to finance the Partnership's share in the development of the Leviathan Project.
Leviathan Development's results are consolidated in the Partnership's financial statements.
The Partnership, Ratio Financing and Leviathan Development shall hereinafter be referred to collectively as: the "**Group**".

3) The Partnership holds 15% of the issued and paid-up share capital of NBL Jordan Marketing Ltd. (the "**Marketing Company**"), a private company registered in the Cayman Islands, owned by the Leviathan partners, which hold it proportionately to the rate of their holdings in the Leviathan Project. The Marketing Company was established for the purpose of engagement in an agreement for the export of natural gas from the Leviathan Project to NEPCO.
As of September 30, 2022, the activity of the Marketing Company does not affect the Partnership's financial results.

4) The Partnership holds 15% of the issued and paid-up share capital of Leviathan Transmission System Ltd., a private company held by the Leviathan partners, which hold it proportionately to the rate of their holdings in the Leviathan Project, for the purpose of receipt of a natural gas transmission license from the production platform of the Leviathan Project to the northern entry point to the national transmission system of Israel Natural Gas Lines Ltd. ("**INGL**").
Leviathan Transmission System Ltd. holds the transmission license and its activity does not affect the Partnership's financial results.

The Marketing Company and Leviathan Transmission System Ltd. are accounted for by using the equity method.

Note 1 – General (Cont.):

E. The Russia-Ukraine war and the energy crisis in Europe

On February 24, 2022, the Russian army invaded Ukraine as part of an initiated campaign which included mobilizing military field forces, while also launching air and artillery assaults. As a result, the United States and the member states of the European Union imposed a series of economic punitive measures against Russia, which included, among others, sanctions on trade with Russia and Russian seniors, a decision to postpone the completion of the Nord Stream 2 project intended to double the volume of gas exported from Russia to Germany. In this context, at the end of September we learned of an explosion in the Nord Stream pipelines 1 and 2 and significant damage thereto – which will prevent the transfer of Russian gas through them to Europe in the foreseeable future. Furthermore, some collaboration with Russian entities by international companies were discontinued, including significant companies in the fields of natural gas and oil production, and more.
Following the above and in light of Russia's status as a major global supplier of natural gas and oil, a global energy crisis emerged, which is expressed, *inter alia*, in the concern of a long-term shortage of natural gas and oil, that led to a rise in energy prices. As of the date of approval of the financial statements, the Partnership cannot estimate how the aforesaid crisis will develop and what long-term effect it will have on the energy markets and the Partnership's operation, in particular. Nonetheless, in 2021, Russia supplied approx. 150 BCM of natural gas to European countries that constitute approx. $40 of the total European gas consumption.
Many European countries seek to diversify their natural gas resources in order to decrease the dependence in natural gas from Russia, which may lead to an additional significant demand for natural gas from areas with possibility to connect to natural gas pipeline to Europe and increase demand for LNG. The Partnership, together with its partners in the Leviathan Project, is examining the effect of such factors on the possibilities for development and/or expansion of the Leviathan Project.

F. The financial data in the financial statements of the joint venture, which are used by the Partnership in the preparation of its financial statements are based, *inter alia*, on accounting data and documents that were provided to the joint venture by the operator of the joint venture.

Note 2 – The Basis for Preparation of the Condensed Financial Statements:

A. The Group's financial information as of September 30, 2022 and for the 9- and 3-month interim periods then ended (the "**Interim Financial Information**") was prepared in accordance with IAS 34 "Interim Financial Reporting" ("**IAS-34**") and in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The Interim Financial Information does not include all of the information and disclosures required in annual financial statements. The Interim Financial Information should be read in conjunction with the annual financial statements for 2021 and the notes attached thereto (the "**Annual Financial Statements**"), which comply with the International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (the "**IFRS**"), and include the additional disclosure required pursuant to the Securities Regulations (Annual Financial Statements), 5770-2010.

The Interim Financial Information is reviewed and unaudited.

Note 2 – The Basis for Preparation of the Condensed Financial Statements (Cont.):

B. Functional currency and presentation currency

Items included in the financial statements of each one of the Group's companies are measured in the currency of the main economic environment in which it operates (the "**Functional Currency**"). The consolidated financial statements are presented in U.S. dollars ("**$**"), which is the Functional Currency and the presentation currency of the Group's companies.

C. Estimates and discretions

The preparation of interim financial statements requires the Group's management to exercise discretion and also requires use of accounting estimates and assumptions which affect the application of the Group's accounting policy and the reported amounts of assets, liabilities, revenues and expenses. The actual results may differ from such estimates.

In the preparation of these condensed consolidated interim financial statements, the significant discretion exercised by the management in the application of the Group's accounting policy and the uncertainty entailed by the key sources of the estimates were identical to those in the Annual Financial Statements, apart from the section on current taxes on income, which is specified below.

Furthermore, on the impact of the Russia-Ukraine war and the energy crisis in Europe on the Group and the discretion exercised by the management, see Note 1E above.

Current taxes on income

The Partnership is a tax-paying entity for tax purposes, and accordingly the Partnership's management is required to exercise significant discretion in order to determine the total provision for taxes on income. The Partnership makes many transactions and calculations, determination of the final tax liability in respect of which is uncertain in the ordinary course of business. The Partnership recognizes provisions for amounts that it is expected to bear following tax audits, based on its estimates with respect to the possibility that it will be charged with additional tax payments. If the final tax liability shall be different to the tax liability recorded on the books, the differences will affect the provisions for taxes on income and the deferred tax liabilities in the period in which the said final assessment is determined by the tax authorities.

D. Non-inclusion of separate financial information in the condensed consolidated financial statements

In accordance with the provisions of Regulations 9C, 38D of and the Tenth Schedule to the Securities Regulations (Periodic and Immediate Reports), 5730-1970, the Partnership has not included separate financial information in the Interim Financial Information, following an examination by the Partnership's management together with its legal advisors of the need to attach separate financial information, and because the additional information that would be provided as separate financial information that is attributed to the Partnership relative to the information included in the consolidated financial statements is negligible, and therefore, in accordance with the securities laws, there is no need for the attachment thereof.

Note 2 – The Basis for Preparation of the Condensed Financial Statements (Cont.):

D. Non-inclusion of separate financial information in the condensed consolidated financial statements (Cont.)

The parameters on which the Partnership's decision was based were:

1) The total assets in the separate statement (net of an investment in Ratio Financing and in Leviathan Development) out of the Partnership's total assets in the consolidated statement.
2) The total liabilities in the separate statement out of the Partnership's total liabilities in the consolidated statement.
3) The cash flow from operating activities in the separate statement out of the cash flow from the operating activities in the consolidated statement.
4) The total comprehensive income in the separate statement out of the Partnership's total other income in the consolidated statement.

The Partnership will continue to examine the future effect of the inclusion of separate financial information in each reporting period. See Note 11 and Note 24 to the Annual Financial Statements for information regarding ties and engagements with Ratio Financing and Leviathan Development.

Note 3 – Significant Accounting Policies:

A. The significant accounting policies and calculation methods that were applied in the preparation of the Interim Financial Information are consistent with those used in the preparation of the Annual Financial Statements, other than the provisions of Notes 3A1 and 3A2:

1. Current tax expenses

As stated in Note 2Y to the Annual Financial Statements, following an amendment to the Income Tax Regulations which was published during 2021, from 2022 the tax regime that applies to the Partnership has changed, such that it is taxed as a company, and therefore, from January 1, 2022, the Partnership recognizes current tax expenses in the Condensed Consolidated Statement of Comprehensive Income.
The expenses for income on taxes in the financial statements include the total current taxes and the total change in the deferred tax balances. The current tax expenses are calculated based on the Partnership's taxable income during the report period. The taxable income is different to the profit before taxes on income due to the inclusion or non-inclusion of income and expense items which either are or are not liable for tax or tax deductible in different report periods. Assets and liabilities in respect of current taxes were calculated based on the tax rates and the tax laws that were legislated or whose legislation was de facto completed by the date of the Condensed Consolidated Statement of Financial Position. The Partnership's management periodically reviews the tax aspects that apply to its taxable income, in accordance with the relevant tax laws, and creates provisions in accordance with the amounts expected to be paid to the tax authorities.

2. Derivative financial instruments

Derivative financial instruments are first recognized at fair value on the date of engagement in the derivative contract, and remeasured in subsequent periods at fair value.
The method of recognition of changes in the fair value in profit or loss, depends on whether the derivative instrument is designated as a hedging instrument, and if so, on the nature of the hedged item. Changes in the fair value of derivative financial instruments that are not hedgeable are carried to profit or loss under the 'financial expenses (income)' item.

Note 3 – Significant Accounting Policies: (Cont.)

3. New international financial reporting standards, amendments to standards and new interpretations:

At present, there are no amendments to preexisting standards and/or new standards over and above the amendments to existing standards in respect of which a disclosure was made in the consolidated Annual Financial Statements, other than the amendment specified below –

Amendments to International Accounting Standard (IAS) 1 "Presentation of Financial Statements" – "Classification of liabilities as current liabilities or non-current liabilities" and "Non-current liabilities with financial covenants" (in this section – the "**Amendments to IAS 1**").

The Amendments to IAS 1 clarify the guidelines regarding the classification of liabilities as current or non-current in the statement of financial position. The amendments clarify, *inter alia*, that:

(1) A liability will be classified as a non-current liability if the entity has a substantial right, at the end of the reporting period, to postpone the settlement of the liability for at least 12 months after the end of the reporting period.

(2) The right to postpone the settlement of a liability in respect of a loan agreement for at least 12 months after the end of the reporting period is at times subject to the entity's compliance with the terms and conditions stipulated in the loan agreement ("**Financial Covenants**"). The classification of a liability in respect of such loan agreement as a current liability or a non-current liability will be determined only on the basis of the Financial Covenants which the entity is required to meet on or before the end of the reporting period. Financial Covenants which the entity is required to meet after the end of the reporting period will not be taken into account in such determination.

(3) Where a liability in respect of a loan agreement for which the entity is required to meet Financial Covenants during the 12 months after the end of the reporting period, is classified as a non-current liability, a disclosure will be made in the notes that enables users of the financial statements to understand the risk that the liability may be payable during the 12 months after the end of the reporting period. In this context, a disclosure will be made regarding the nature of the conditions that the entity is required to meet, the date of examination thereof, the book value of the related liabilities, and the facts and circumstances that indicate that the entity may have difficulty meeting these conditions. Such disclosure may refer to certain actions taken by the entity in order to prevent a potential breach of the conditions as well as the fact that the entity is not complying with the conditions based on the circumstances that exist at the end of the reporting period.

(4) The entity's intention regarding the exercise of an existing right to postpone the settlement of the liability for at least 12 months after the end of the reporting period is irrelevant for purposes of classification of the liability.

(5) Settlement of a liability may be done by way of transfer of cash, other economic resources or capital instruments of the entity. Classification of a liability as a current liability or as a non-current liability will not be affected by an existing right

Note 3 – Significant Accounting Policies: (Cont.)

of the other party to demand the settlement of the liability by transferring capital instruments of the entity, if such right has been classified by the entity as part of the capital.

The Amendments to IAS 1 will be applied retrospectively with respect to annual periods beginning on or after January 1, 2024. According to the provisions of the Amendments, their early joint application is possible. The Partnership is considering the expected impact of the Amendments to IAS 1 on the Partnership's consolidated statements.

Note 4 – Investments in Oil and Natural Gas Assets:

A. Developments in the Leviathan Leases:

1) Further to Note 8C5 to the Annual Financial Statements regarding the Leviathan partners' decision to drill the Leviathan-8 development and production well in the area of the I/14 Leviathan South lease, it is noted that the drilling of the well was preformed as planned and was completed in June 2022. The well is expected to connect to the existing subsea production system of the Leviathan Reservoir in Q1/2023, following completion work. The cost of the drilling as of the date of the financial statements amounted to approx. $134.1 million (100%, the Partnership's share being approx. $20.1 million).

2) Further to Note 25C1.d to the Annual Financial Statements regarding an engagement with INGL for the construction of the Ashdod-Ashkelon offshore transmission system section, in November 2022 Chevron informed the Partnership that INGL had notified it that the forecast for the date of commencement of transmission was updated to June 2023.

3) Further to Note 25C1.i)2 to the Annual Financial Statements regarding the examination by the Leviathan partners, together with Energy Infrastructures Ltd. ("**PEI**"), of a possibility to transport condensate from the Leviathan Reservoir, on September 1, 2022, Chevron and PEI signed a binding agreement for the piping of crude oil from the Leviathan project through an existing 6" pipe of PEI and the systems related thereto (the "**Agreement**" and the "**Pipe**", respectively). The Agreement will take effect on the date of fulfillment of the closing conditions specified therein (the "**Effective Date**"), and the piping of the crude oil through the Pipe will begin on the date of fulfillment of various additional conditions (the "**Date of Commencement of Piping**"). The Agreement will be valid for 20 years from the Date of Commencement of Piping. The Date of Commencement of Piping will be upon completion of the connection work and receipt of the required approvals for the transmit of the crude oil through the Pipe. Each of the parties may bring the Agreement to an end if the closing conditions were not met within 12 months from the date of signing or if the Date of Commencement of Piping was not met within 12 months from the Effective Date of the Agreement. The Agreement includes provisions regarding the possibility of canceling it before the end of the period specified, in certain cases and under certain conditions. As of the date of approval of the financial statements, the full closing conditions specified in the Agreement, have not yet been met. Furthermore, in November 2022 the Leviathan partners approved a budget of approx. $27 million (100%) for the purpose of implementation of such agreement.

Note 4 – Investments in Oil and Natural Gas Assets: (Cont.)

4) In August 2022, the Petroleum Commissioner notified Chevron of the daily and monthly quantities permitted for export from the Leviathan Reservoir to Egypt in H2/2022 and that according to a letter from April 2022, in part of such period the Leviathan partners are required to guarantee supply of natural gas to the domestic market in a quantity exceeding the daily quantity that the Leviathan partners undertook to supply to the domestic market according to the gas supply agreements in which they engaged. These notifications had no material effect on the Partnership's results for 2022.

5) The Leviathan Partners are considering bringing forward construction of a third subsea transmission pipeline that will connect the Leviathan Reservoir to the production platform (the "**Third Pipeline**"), together with additional investments in the platform, to secure redundancy of the gas flow and increase the volume of production to redundancy of over 1.2 BCF per day. The construction budget for the Third Pipeline, together with the related investments as aforesaid, is estimated, according to a preliminary assessment, at approx. $550 million (100%). It is clarified that the bringing forward of the Third Pipeline construction is subject to adoption of a final investment decision (FID) by the Leviathan partners, which the operator expects to be obtained in Q1/2023. Completion of the Third Pipeline, insofar as the approvals required for its construction are obtained, is expected in H1/2025. In November 2022 the Leviathan partners approved an amount of up to $45 million (100%) to be used for long-term engagements and ensuring conditions in the engagements until such FID is presented for the partners' approval and as part of such total budget.
In addition to the aforesaid and further to Note 8C6 to the Annual Financial Statements, the Leviathan partners are continuing to examine the various options for increasing the volume of production from the Leviathan project in terms of increasing the production capacity of the Leviathan platform and the infrastructure that shall be required to transmit the natural gas to existing and potential customers.

6) During the report period until close to the date of approval of the financial statements, the Leviathan partners engaged in several agreements for the supply of natural gas to the domestic market in immaterial volumes.
In September 2022 and in November 2022, two natural gas supply agreements that were signed by the Leviathan partners with Or Power Energies (Dalia) Ltd. of November 30, 2016 and with Edeltech Ltd. of January 30, 2016, were terminated with the parties' consent and in accordance with the terms and conditions of the agreements in view of non-fulfillment of the closing conditions in the two agreements.
It is further noted that there are several agreements between the Leviathan partners and several customers in the domestic market for the supply of natural gas, which are scheduled to expire on the date of commercial operation of the Karish reservoir. In October 2022, Energean PLC, which holds the interests in the Karish reservoir, announced that first natural gas piping from the Karish reservoir had commenced. Close to the date of approval of the financial statements, some of the said customers notified the Partnership that the date of commercial operation of the Karish reservoir is estimated to occur in January 2023. The Partnership estimates that, given the volume of the demand for natural gas in the export markets, and particularly in Egypt, expiration of the agreements as aforesaid will not have a material impact on the Partnership's revenues.

Note 4 – Investments in Oil and Natural Gas Assets: (Cont.)

7) Update of evaluations of resources in the Leviathan Reservoir

In February 2022, a report was received from Netherland, Sewell & Associates, Inc. (“**NSAI**”) evaluating reserves and contingent resources in the Leviathan Leases, updated as of December 31, 2021 (the “**Reserves and Resources Report**”).
According to the Reserves and Resources Report, which was prepared according to the Society of Petroleum Engineers Petroleum Resources Management System guidelines (“**SPE-PRMS**”), the project’s maturity stage at which the natural gas and condensate reserves (Proved Reserves) are classified, is ‘on production’. The Leviathan Reservoir also has natural gas and condensate Contingent Resources, which are classified as a project at a maturity stage of Pending Development.

The following table specifies such reserves and resources according to the best estimate:

Contingent reserves and resources category	**Total (100%) in the petroleum asset (gross)**	
	Natural Gas (BCM)	**Condensate (million barrels)**
Total Proved+Probable Reserves (2P):	379.3	29.5
Estimate Contingent Resources (2C):		
Phase IA	109.6	8.5
Future development	142.3	11.1
Total Proved+Probable Reserves and Best Estimate Contingent Resources (2P+2C)	631.2	49.1

In the Reserves and Resources Report, the contingent resources were divided into two categories, which relate to each of the phases of development of the reservoir, as follows:

Phase 1A (First Stage) – resources contingent on the adoption of investment decisions to drill additional wells, to construct related infrastructures and to sign additional agreements for the sale of natural gas.
Future Development – resources contingent on the adoption of another investment decision, which will enable the increase in the processing and flow capacity, in accordance with Phase 1B and/or an additional phase, insofar as the Leviathan Reservoir development plan is updated, and on the signing of additional agreements for the sale of natural gas. See Section 10 below for details on the uncertainty in reserves and contingent resources evaluation of natural gas and condensate.

Note 4 – Investments in Oil and Natural Gas Assets: (Cont.)

8) Reserves and contingent resource evaluations of natural gas and condensate

NSAI's evaluations regarding the quantities of the natural gas and condensate reserves in the Leviathan Reservoir are based, *inter alia*, on geological, geophysical, engineering and other information received from the wells and from the operator in the Leviathan Reservoir and constitute estimates and assumptions only of NSAI, in respect of which there is no certainty. The natural gas and/or condensate quantities that shall actually be produced, may be different from the said estimates and assumptions, *inter alia* as a result of operating and technical conditions and/or regulatory changes and/or supply and demand conditions in the natural gas and/or condensate market and/or commercial conditions and/or as a result of the reservoirs' actual performance. The said estimates and assumptions may be updated insofar as additional information is accumulated and/or as a result of a gamut of factors relating to oil and natural gas exploration and production projects, including as a result of actual production data from the Leviathan Reservoir.

B. Cluster A and Cluster C licenses for offshore natural gas exploration in Israel:

Further to Note 8D to the Annual Financial Statements regarding Licenses 39, 40, 47 and 48 (Cluster A) and Licenses 45, 46, 52 and 53 (Cluster C) (collectively, the "**Licenses**"), on July 20, 2022, all of the partners in the Licenses unanimously decided to submit a notice to the Petroleum Commissioner whereby the partners in the Licenses are waiving all of their interests therein. On July 26, 2022, such notice was delivered to the Petroleum Commissioner and accordingly the Licenses expired on October 27, 2022. On October 1, 2022, the bank guarantee provided by the Partnership, in the sum of approx. $2.67 million for the Partnership's share in the aforesaid licenses, was cancelled.

Note 5 – Financing of the Leviathan Project:

The Partnership finances its share in the costs of the development of the Leviathan Reservoir, *inter alia*, by means of bank financing.

A. Bonds

On August 31, 2022, in accordance with the terms of the Series B and Series C bonds, one third of the nominal value of the Series B and Series C bonds will be repaid in the sum of approx. $52.3 million (which is the net amount after offsetting the Partnership's share, see Note 11B4A to the Annual Financial Statements) and a sum of approx. $59.3 million, respectively, and interest was paid in the sum of approx. $19.4 million (which is the net amount, net of the Partnership's share) for the Series B bonds, and a sum of approx. $11.9 million for the Series C bonds. Accordingly, the Partnership paid Ratio Financing the Partnership's liabilities for payment of the principal and interest in respect of the Series B bonds (net of the Partnership's share, see Note 11B4A to the Annual Financial Statements) and the Series C bonds.

Note 5 – Financing of the Leviathan Project: (Cont.)

A. Bonds (Cont.)

On October 19, 2022, the board of directors of the General Partner of the Partnership decided to fully prepay the outstanding loan (plus interest) that had been provided to the Partnership by Ratio Financing, according to a loan agreement dated November 9, 2016, as a Back-to-Back loan against the entire proceeds from the issuance of the Series B bonds of Ratio Financing. In accordance with the foregoing, on October 19, 2022, the board of Ratio Financing resolved to prepay the outstanding balance of the Series B bonds, initiated by Ratio Financing, which was carried out on November 6, 2022 (the "**Prepayment Date**").

In accordance with Section 9.2 of the Series B bonds indenture, the amount paid to the bondholders in the event of prepayment is the higher of: (1) The market value of the balance of the bonds in circulation, which is determined based on the average closing price of the bonds in the thirty (30) trading days preceding the date of the board's decision on the prepayment; (2) The liability value of the bonds in circulation that are due for prepayment, namely, the principal of the bonds plus outstanding interest as of the actual Prepayment Date; (3) The outstanding cash flow of the bonds due for prepayment (principal plus interest) capitalized according to the ILS government bond yield (as defined in the indenture) plus 1.9%. In accordance with the aforesaid, the amount paid to the holders of the Series B bonds is the market value of the balance of the Series B bonds in circulation (net of the bonds that were purchased by the Partnership), which is determined based on the average closing price of the Series B bonds in the thirty (30) trading days preceding the date of the board's decision regarding the performance of prepayment and in total approx. ILS 235.6 million. Out of such amount, the balance of principal for the Series B bonds in circulation amounted to approx. ILS 205.9 million plus an amount for the prepayment amounting to approx. ILS 22.7 million, plus interest in the sum of approx. ILS 7 million.

For the purpose of the full prepayment of the Series B bonds, and in accordance with the trustee's approval, Ratio Financing made use of the money deposited in the Interest Cushion Account as defined in Section 7.5 of the Series B bonds indenture, which was deposited in accordance with the provisions of the indenture.
With the full prepayment of the Series B bonds, Ratio Financing paid its full obligations to the holders of the Series B bonds of Ratio Financing and the Series B bonds were delisted from the stock exchange. Further to Note 11B4b and Note 11B4d2 to the Annual Financial Statements, as of the date of approval of the financial statements, Ratio Partnership and Ratio Financing are working to remove the pledges registered in favor of the holders of the Series B bonds according to the indenture.

The difference between the amount paid to the holders of the Series B bonds according to the aforementioned prepayment rate and the obligation value according to which the Series B bonds were presented in the books on the Prepayment Date, will be carried to the Consolidated Statement of Comprehensive Income of the Partnership in Q4/2022 as a loss from prepayment (net of the Partnership's share) in the amount of approx. \$1.3 million (approx. ILS 4.8 million).

Note 5 – Financing of the Leviathan Project: (Cont.)

B. Further to Note 11A to the Annual Financial Statements regarding a loan agreement between Leviathan Development and a consortium of local and foreign banks (the "**Financing Agreement**"), a loan facility of $650 million was provided to the Partnership (through Leviathan Development, which provides the loan to the Partnership Back-to-Back) (the "**Loan**").

As of September 30, 2022, the Partnership is in compliance with all financial covenants assumed thereby under the Financing Agreement, and whose highlights were specified in the Annual Financial Statements.

In July 2022, it was confirmed by the lenders that the total amount available for withdrawal would amount to the full facility of $650 million.
As part of the Financing Agreement, the Partnership is given the possibility to reduce the unused facility of the Loan and/or for (full or partial) early redemption of the loan, throughout the entire period of the Loan, with no penalties.

As of September 30, 2022 and as of the date of approval of the financial statements, the loan amounts that have been drawn down from the Loan facility total $550 million. The book value of the Loan from banking corporations is a reasonable approximation of its fair value.

On August 1, 2022, an amendment to the Financing Agreement was signed which includes several amendments and updates in connection with the ongoing operation of the Financing Agreement and includes, among others, the main changes below:

1) **Changing the base interest from Libor to TERM SOFR (Secured Overnight Financing Rate)**

The Financing Agreement stipulated a mechanism to determine an alternative base interest rate instead of the Libor interest, after the use thereof is discontinued on June 30, 2023 (the "**Official Transition Day**")). In the amendment to the Financing Agreement, provisions were set in connection with the transition so that starting from the actual transition date, the Loan will be linked to the TERM SOFR interest which is published by an authorized body, the CME GROUP (Chicago Mercantile Exchange) plus a credit margin. This interest is a forward-looking periodic interest rate based on the SOFR interest. The date of application of the new interest will be at the borrower's choice and with the approval of the majority of lenders as specified in the Financing Agreement, and no later than the Official Transition Date. As of the date of approval of the financial statements, the Partnership expects the transition date to be the Official Transition Day.

2) **Determining appropriate provisions in connection with hedging transactions to protect the Loan interest rate**

Further to the general provisions stipulated in the Financing Agreement in connection with the borrower's hedging options, it was agreed in the amendment to the Financing Agreement on the language of a framework agreement for future hedging transactions in relation to the Loan interest. Provisions have been established that the hedging entities with which the borrower will be allowed to enter into hedging transactions, will be exclusively from among the lenders or affiliates thereof. In addition, agreements were reached on the language of an intercreditor agreement between the lenders and the hedgers, which includes the arrangements according to which the lenders and hedgers will be able to exercise their rights in the joint collateral in accordance with the enforcement rights already established in the Financing Agreement.

Note 5 – Financing of the Leviathan Project: (Cont.)

As part of the Partnership's risk management, and in order to reduce the exposure regarding a possible increase in the LIBOR interest rate on the Loan taken thereby, the Partnership performed several hedging transactions:

a. In Q1/2022, the Partnership bought CAP options to hedge $150 million, which expire in July 2023. The options' exercise price ranges between 1.25% and 1.7352% against LIBOR interest for a period of 3 months. The fair value of the options as of September 30, 2022, in the sum of approx. $3.8 million, is presented under the 'derivative financial instruments' item under 'current assets' in the Condensed Consolidated Statement of Financial Position. Income from revaluation of the options' fair value for the 9- and 3- month periods ended September 30, 2022 amounted to approx. $3.3 million and $1 million, respectively, and presented under 'financial income' item in the Condensed Consolidated Statement of Comprehensive Income.

b. In Q3/2022, the Partnership entered into an IRS hedging transaction in the sum of $100 million until the Loan's maturity date. The average interest rate is fixed at approx. 2.82% in lieu of variable interest (LIBOR until July 2023 and Term SOFR from July 2023 until the maturity date). The fair value of the hedging transaction as of September 30, 2022 is approx.. $4 million. Approx. $3.5 million are presented under the 'derivative financial instruments' item under 'non-current assets' in the Condensed Consolidated Statement of Financial Position, and approx. $0.5 million are presented under the 'derivative financial instruments' item under 'current assets' in the Condensed Consolidated Statement of Financial Position. Income from revaluation of the hedging transaction's fair value for the 9- and 3- month periods ended September 30, 2022 totaled approx. $4 million and presented under 'financial income' item in the Condensed Consolidated Statement of Comprehensive Income.

Note 6 – Related Parties:

Further to Note 24 to the Annual Financial Statements, transactions with interested parties and related parties, which derive from the Partnership agreement, are specified below:

	9 months ended September 30		3 months ended September 30		Year ended Dec. 31
	2022	2021	2022	2021	2021
	(Unaudited)				(Audited)
	$ in thousand				
Operator fees to the GP	-	771	-	-	771
Management fees to the GP	855	500	285	285	785
Geological advice	108	108	36	36	144
Overriding royalties	15,370	12,238	7,270	4,370	15,855
Director fees and related expenses	316	316	83	118	423
Expenses entailed by the management of the Partnership’s business	-	36	-	-	36
Fees to and expenses of the LP, the trustee	1.5	1.5	0.5	0.5	2

Short-term deposits in the Condensed Consolidated Statement of Financial Position are used for the purchase of Series C bonds of Ratio Financing, for the Partnership, in accordance with the resolution of the General Partner's board.

Note 7 – Contingent Liabilities:

Legal Proceedings

A. C.A. Olir Trade and Industries. Ltd. v. Ratio Oil Exploration (1992) Limited Partnership *et al.*

Further to Note 25D3 to the Annual Financial Statements, on March 31, 2022, a preliminary hearing of the appeal was held at the Supreme Court, during which the court made a proposal to the parties on how to end the dispute, but the appellant did not accept the proposal. On September 6, 2022, the respondents filed their response to the appeal, in which it was argued, *inter alia*, that according to case law, the appellate jurisdiction does not usually intervene with the costs ruling of the trial court, and in particular in this case where there is no justification to intervene. On the contrary, the respondents argued that the ruling on costs was lower than what is appropriate considering the costs they actually incurred during the hearing in the district court, such that in any case there is no room to interfere therewith by way of reducing them. A date was set for the hearing on the appeal.

Although the appeal is in a very early stage, the Partnership estimates, based on its legal counsel, already in this stage, that the chances of the appeal being denied is higher than being granted.

Note 7 – Contingent Liabilities: (Cont.)

B. Class certification motion – Sapir v. Ratio Oil Exploration (1992) Limited Partnership *et al.*

As stated in Note 25D4 to the Annual Financial Statements, on February 27, 2022, the respondents' response was filed to the certification motion claiming, *inter alia*, that the contractual stipulation at the center of the certification motion was not a material stipulation that was required to be disclosed, according to the tests determined therefor in statutory and case law, and especially given the low foreseeable probability of the Brent price falling below $50 per barrel on annual average, and the low foreseeable impact of the stipulation on the value of the Partnership's assets.

The respondents further argued that even if the stipulation had been fully disclosed to the public, it would not have added any material information that would have been relevant to the "reasonable investor", *inter alia*, in view of the lack of supplementary details that would have contributed to an understanding of its impact on the value of the participation units.

On June 14, 2022, the petitioner filed his response to the respondents' answer. In the response, it is argued in essence that the legal test stated in the answer, the "expectancy test", is not the relevant test for reports regarding contractual clauses in signed agreements. The petitioner claims that a stricter legal test should be used for contractual stipulations, and further claims that the stipulation at the core of the certification motion was, in any case material and fundamental. A supplementary opinion was also attached to the response, which includes a response to the claims raised in the opinion on behalf of the respondents.

The hearing on the certification motion is scheduled for June 2023.

The Partnership, based on its legal counsel, estimate that the chances of the motion being denied is higher than being certified.

C. Oil Fields Exploration (1992) – Limited Partnership (in liquidation) v. Eitan Aizenberg Ltd. *et al.*
Oil Fields Ltd. v. Eitan Aizenberg Ltd. *et al.*

Further to Notes 25D6 and 25D7 to the Annual Financial Statements, during April-May, pretrial sessions were held. In a decision of April 28, 2022, the court ruled that the events covered by the two lawsuits, which are described in the said notes, are, to a great extent, overlapping (if not identical), and ordered consolidation of the hearing as sought.

Dates for pretrial sessions were scheduled and a concluding pretrial hearing was scheduled for February 2023.

In view of the preliminary stage of the proceeding, it is impossible to estimate the chances of the claim being accepted. However, based on its legal counsel, the Partnership estimates that the chances of the claim being accepted are lower than the chances of the claim being denied.

D. HCJ Noble Energy Mediterranean Limited *et al.* v. the Natural Gas Commission – the Ministry of Energy

As stated in Note 25D8 to the Annual Financial Statements, on January 30, 2022, the court's decision was issued whereby the petition will be referred to a panel.

A hearing of the petition is scheduled for February 2023.

Note 7 – Contingent Liabilities (Cont.):

E. A.P. Adam Teva V'Din - Israel Union for Environmental Defense v. the Tax Authority

Further to Note 25D9 to the Annual Financial Statements, on February 22, 2022, a judgment was issued on the petition, in which it was ruled that the Tax Authority's decision to refuse to provide the information requested in the freedom of information application will be revoked, to issue a new decision on the application as decisions are made on other freedom of information applications.

F. Motion for approval of a derivative suit - Nof v. Rotlevy *et al.*

Further to Note 25D10 to the Annual Financial Statements, on February 14, 2022, the Partnership received a motion for approval of a derivative suit which was filed by a petitioner who claims to hold participation units of the Partnership (the "**Petitioner**") against Messrs. Ligad Rotlevy (Chairman of the Board of the Partnership's GP) and Yigal Landau (CEO and director of the Partnership's GP), Landlan Investments Ltd. and D.L.I.N Ltd. (private companies controlled by entities which the Partnership and the GP treat as control holders of the GP and the Partnership), Ratio Energies Management Ltd. (the Partnership's GP) (the "**Respondents**") and the Partnership (the "**Motion for Approval**"). The amount of the claim whose approval is sought was set at approx. ILS 1,024 million. The Petitioner asserts that in the period between December 2007 and December 2009, the Respondents were ostensibly an "Insider", a "Key Insider" and a "Principal Shareholder" of the Partnership, within the meaning of these terms in the Securities Law, 5728-1968, and performed transactions in securities of the Partnership (each for himself), while ostensibly using inside information. The amount of the claim is the profit that the Respondents ostensibly derived (in the aggregate) from such transactions.

In June 2022, the Partnership filed a motion for summary dismissal of the Motion for Approval, due to the prescription of the claim (the "**Dismissal Motion**") and in July-August 2022 the parties filed their responses and answers to the Dismissal Motion (the "**Responses to the Dismissal Motion**").
Concurrently with the filing of the Dismissal Motion, the Partnership filed a motion for stay of the Motion for Approval proceedings, claiming *lis alibi pendens* (the "**Motion for Stay of Proceedings**"). The primary ground for the Motion for Stay of Proceedings is that two additional proceedings are pending before the court, the hearing of which has been consolidated, as detailed in Sections C above. The Partnership claims that the main issue in all of these proceedings is essentially the same and therefore the hearing of the Motion for Approval should be stayed pending completion of the hearing in the parallel proceedings.

In July 2022, the Petitioner and the other respondents filed their answers to the Motion for Stay of Proceedings

In a decision dated September 13, 2022, the court denied the Dismissal Motion, since in accordance with its ruling, a decision on the parties' prescription claims requires a factual investigation, for which no sufficient evidentiary foundation has yet been laid. In its decision, the court clarified that the defendants reserve their prescription claims for the stage of hearing of the Motion for Approval, in which a broader factual foundation will be presented to the court.

In another decision dated September 13, 2022, the court denied the Motion for Stay of Proceedings, since in accordance with its determination: (a) there is no similarity between the issues in dispute that are expected to be clarified in the Motion for Approval and those that are expected to be clarified in the parallel proceedings; and (b) the existing partial overlap between the issues in dispute does not justify delaying the hearing on the Motion for Approval.

Note 7 – Contingent Liabilities (Cont.):

In the decisions dated November 13, 2022 and November 15, 2022, the court ordered, following several motions on behalf of the Respondents, that the Respondents are required to file their responses to the Motion for Approval by no later than December 15, 2022.

At this stage, in view of the preliminary stage of the proceeding, the Partnership and its legal counsel are unable to estimate the chances of the motion being granted. However, based on the information that the Partnership and its legal counsel currently have in their possession as of the date of approval of the financial statements, the Partnership estimates, based on its legal counsel, that the chances of the claim being accepted are lower than the chances of the claim being denied.

G. Proceedings against the operator in the Leviathan Project in connection with the Leviathan platform's activity

1) Further to Note 25D11(a) to the Annual Financial Statements, regarding motion for class certification filed by a resident of the Dor Beach area, on March 2, 2022, the court ordered that the case be transferred to the Haifa District Court.
On May 16, 2022, a pretrial was held, at the end of which the court ordered Chevron to file a response to the motion for a discovery order. In a decision dated July 26, 2022, the court denied most of the discovery motion and granted a small portion of it, ordering Chevron to disclose the decisions of the Ministry of Environmental Protection on the imposition of the sanctions and minutes of hearings held ahead of the imposition of the sanctions. In August 2022, a response on behalf of the petitioner to an argument on behalf of Chevron and several clarifications were filed with the court. A date for trial hearing is scheduled for February 5, 2023.

2) Further to Note 25D11b to the Annual Financial Statements, regarding a claim filed by the Haifa Port Company Ltd. and that deals with the unloading of cargo by Chevron directly on the territory of the Leviathan reservoir platform, on September 11, 2022, a pretrial hearing was held in the Haifa District Court in the framework of which it was determined that the parties will negotiate in order to try and reach agreements regarding the completion of the preliminary proceedings. If they do not reach such agreements, they will submit motions by December 19, 2022.
An additional pretrial hearing date was set for January 2023.

3) On October 30, 2022, the Haifa Port Company Ltd. filed an administrative petition according to Section 17 of the Freedom of Information Law, 5758-1998 (the "**Freedom of Information Law**") with the Jerusalem Court for Administrative Matters against the Israel Tax Authority and against Chevron.
The petition was filed after the Israel Tax Authority denied Haifa Port's request for information which mainly concerns the negotiations between Chevron and the Israel Tax Authority approvals regarding the coordination of cargo unloading directly on the platform, the given by the Israel Tax Authority for the unloading of goods outside an authorized port and the procedures and instructions according to which the said approvals were given.

Since the requested information includes details about Chevron, Chevron was joined as an additional respondent to the petition.
The respondents are required to file a preliminary response to the petition and a date was set for a preliminary hearing of the petition.

Note 7 – Contingent Liabilities (Cont.):

At this preliminary stage, Chevron's attorneys are unable to assess the chances of the petition. However, in the opinion of Chevron's attorneys, it is more likely that the petition will be denied rather than accepted.

4) Further to Note 25D11(h) to the Annual Financial Statements regarding a hearing held before the Ministry of Environmental Protection for non-compliance with the conditions of the sea discharge permit given to the Leviathan platform and violation of the Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988 (the "**Prevention of Sea Pollution Law**") alleging that Chevron has deviated from the specified criteria for discharge into the sea from the open system, it is noted that on June 28, 2022, Chevron received a letter of demand for details on annual sales turnover according to Section 5(c)(b)(2) of the Prevention of Sea Pollution Law. The letter stated that the information is required for the purpose of determining the amount of the financial sanction that the Ministry of Environmental Protection intends to impose on Chevron for violating terms of marine discharge permit (gas production) no. 24/2021, in connection with the discharge of wastewater that exceeds the marine discharge standards. Chevron submitted the documents to the Ministry of Environmental Protection on July 31, 2022. It is not possible at this stage to estimate the violations for which the financial sanction will be imposed and the amount of the financial sanction that will be imposed, if any**.**

Note 8 – Additional Information:

Further to the notes to the Annual Financial Statements, below is a description of developments that occurred in the report period until the date of approval of the financial statements:

A. Royalties

Further to Note 18 to the Annual Financial Statements regarding instructions for the calculation of the royalty value at the wellhead, on July 24, 2022, the Director of Natural Resources at the Ministry of Energy released specific instructions for the calculation of the royalty value at the wellhead in the Leviathan Project (the "**Specific Instructions**"), setting forth the rate of deductible expenses in the calculation of the royalty at the wellhead from the Leviathan Reservoir. On September 1, 2022, the response of the partners in the Leviathan Project to such Specific Instructions was filed. As a result, in Q2/2022, the Partnership made an adjustment to the royalty expenses recorded in the Partnership's financial statements starting from the date of commencement of supply of gas from the Leviathan Reservoir until the report date to reflect the Specific Instructions.

According to a calculation based, *inter alia*, on the principles of the directives mentioned in Note 18 to the Annual Financial Statements, and the Specific Instructions, the Partnership estimates that the actual rate of the state royalty should be approx. 10.68% in 2020, approx. 10.79% in 2021 and approx. 10.99% in the 9 months ended September 30, 2022. The accumulated difference between the state royalties actually paid according to the rate of advances that was set (11.26%) and such effective State royalty rate, amounted to approx. $3.3 million and was included in the Condensed Consolidated Statement of Financial Position under the 'other long-term assets, net' item as of September 30, 2022.

The manner of calculating the royalties to the State serves also for calculating the market value at the wellhead of the overriding royalty paid by the Partnership. The accumulated difference between the overriding royalties actually paid and such effective overriding royalty rate, amounted to approx. $1.6 million and was included in the Condensed Consolidated Statement of Financial Position under the 'other long-term assets, net' item as of September 30, 2022.

Note 8 – Additional Information: (Cont.)

B. Shelf prospectus

On February 13, 2020, the Partnership released a shelf prospectus for the offering of various securities: participation units conferring the right to participate in the rights of the LP (the trustee) of the Partnership, which are held and operated by the LP in escrow for the benefit of the unit holders, under the supervision of the Supervisor (the "**Participation Units**"), non-convertible bonds, bonds convertible into Participation Units, warrants exercisable for Participation Units, warrants exercisable for non-convertible bonds, warrants exercisable for convertible bonds, commercial paper and any other securities issuable by law under the shelf prospectus at the relevant time. On February 6, 2022, the ISA decided to extend the period for the offering of securities under the shelf prospectus by one year, i.e., until February 13, 2023.

C. Cash-settled options for consultants

Further to Note 15G to the Annual Financial Statements regarding options granted on October 16, 2017 under the "Phantom Plan – Officers and Consultants 2016" (the "**Plan**"), on June 2, 2022, 472,244 options were exercised according to the terms and conditions of the Plan and the option agreement. After the exercise date, no options remain outstanding under the Plan.

D. Profit distribution

On August 30, 222, the GP's board approved a profit distribution (interim) in the sum of $25 million, while the effective date for distribution is September 8, 2022. Such profit distribution was on September 21, 2022.

In accordance with the terms of the Series B bonds issued by Ratio Financing, prior to the above profit distribution, the Partnership made a deposit for the remaining balance of the loan amount (principal and interest) for the Series B bonds in the interest cushion account for the Series B bonds. As of September 30, 2022, the total deposit amounted to approx. $72 million and is presented under the 'pledged cash' item in the Condensed Consolidated Statement of Financial Position. It is noted that after the balance sheet date, on November 6, 2022, the Series B bonds were repaid and the aforesaid deposit was released.

Note 9 – Taxes on Income

A. Further to Note 14A to the Annual Financial Statements regarding the Income Tax Regulations published in the Official Gazette in September 2021 whereby, starting from the 2022 tax year, the Partnership will be taxed as a company for the taxable income. As a result of such change, starting from 2022, the holders of the participation units will be subject to tax regime for profit distributions made by the Partnership, similarly to taxation applicable to a company's shareholder for dividend distributions (namely, the two-phase system). As a result of such amendment, starting from September 30, 2021, the Partnership recognized deferred taxes on income and, starting from 2022, recorded current tax expenses on income in the Condensed Consolidated Statement of Comprehensive Income.

B. Further to Note 15F to the Annual Financial Statements, in December 2021 the Partnership made payments in the sum of approx. \$13.2 million (approx. ILS 41.5 million) for corporate tax advances for the tax year 2021. Furthermore, in January 2022 the Partnership made additional payments, such that a fixed and uniform amount was paid as a tax payment for each participation unit for an individual holder, and as a balancing payment for a corporate holder in the amount of approx. \$13.9 million (approx. ILS 43.3 million). In total, the Partnership paid approx. \$27.1 million (approx. ILS 84.8 million).

Note 10 – Financial Instruments and Financial Risks

Fair value disclosures

A. Set forth below are figures regarding the fair value hierarchy of the financial assets and financial liabilities of the Partnership, measured at fair value which were recognized in the Condensed Consolidated Statements of Financial Position:

	September 30, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
	$ in thousands			
Assets:				
Financial assets at fair value through profit or loss:				
Securities held for trading	17,859	-	-	17,859
Derivatives used for hedging	-	7,785	-	7,785
Total assets	**17,859**	**7,785**	**-**	**25,644**

	September 30, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	$ in thousands			
Assets:				
Financial assets at fair value through profit or loss-				
Securities held for trading	13,208	-	-	13,208
Total assets	**13,208**	**-**	**-**	**13,208**

Note 10 – Financial Instruments and Financial Risks (Cont.)

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
	$ in thousands			
Assets:				
Financial assets at fair value through profit or loss-				
Securities held for trading	16,485	-	-	16,485
Total assets	**16,485**	**-**	**-**	**16,485**

During the 9- and 3-month periods ended September 30, 2022, and the 12-month period ended December 31, 2021, no transfers were made between Level 1 and Level 2.

B. Description of valuation techniques and data used for measurements classified at level 2 of the fair value scale

Derivatives used for hedging include interest rate swaps. The interest rate swaps were valued using future interest rates based on an observable yield curve. The classification of the data, which was used to calculate the fair value of the derivatives, can be viewed at level 2.

The fair value of financial assets and financial liabilities measured at amortized cost

The book value of the financial assets and the financial liabilities as of September 30, 2022, including cash and cash equivalents, other receivables, short-term investments, short-term deposits, trade payables, other payables, loans from banking corporations and other liabilities, with the exception of liabilities in respect of bonds, is consistent with or reasonably proximate to the fair value thereof.

The fair value of liabilities in respect of bonds is specified below. The fair value measurement is based on the price of the bonds on the TASE as of such date:

	As of September 30		As of Dec. 31
	2022	2021	2021
	(Unaudited)		(Audited)
	$ in thousands		
Fair value:			
Series B Bonds*	56,060	132,523	138,901
Series C Bonds	62,455	130,427	131,953
Series D Bonds	89,212	93,215	96,434
Total	207,727	356,165	367,288

* Net of Series B Bonds that were purchased by the Partnership

Note 10 – Financial Instruments and Financial Risks (Cont.)

Management of financial risks

The Group's operations expose it to a variety of financial risks: Market risk (including currency risk, fair value risk in respect of interest rate, cash flow risk in respect of interest rate, price risk, natural gas and condensate price risk), credit risk and liquidity risk.

As noted above, the Interim Financial Information does not include the information and disclosures required in annual financial statements, *inter alia*, with respect to the Group's financial risk management, and the Interim Financial Information should be read in conjunction with the Annual Financial Statements.
There have been no material changes in the Group's financial risk management policy relative to the policy reported thereby in the Annual Financial Statements.

Note 11 – Subsequent Events

A. Third Subsea Transmission Pipeline

See Note 4A5 for subsequent development.

B. Cluster A and Cluster C licenses for offshore natural gas exploration in Israel

See Note 4B for subsequent development.

C. Early redemption of Series B bonds

See Note 5A for subsequent development.

D. Nof v. Rotlevy – Motion for approval of a derivative suit

See Note 7F for subsequent development.

E. Proceedings against the operator in the Leviathan Project in connection with the Leviathan platform's activity

See Note 7G for subsequent development.