

Ratio Energies

Financial Report 2022

As of 31/12/22



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.

March 29, 2023

Report of the Board of Directors of the General Partner
on the State of the Partnership's Business for the Year ended
December 31, 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 December 31, 2022 and for the year 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 periodic report for 2022 including all parts thereof. The entire periodic report should be read as a single whole.

The Partnership presents consolidated financial statements for 2022 (the "**Financial Statements**") which consolidate the financial statements of Ratio Financing and Leviathan Development. As of December 31, 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.

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**"). 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 for export began such that from 2020, and for the first time since its establishment, the Partnership has significant revenues from the sales of natural gas to customers in the domestic market and in Jordan and Egypt. The Partnership holds 15% of the Leviathan Project and in addition, in the Report Period,

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.



the Partnership was engaged in oil and gas exploration in eight other licenses in Israel, together with two international energy companies however, such activity ceased.

During the Report Period, a total quantity of approx. 11.4 BCM of natural gas (100%) was sold from the Leviathan Reservoir. In addition, from the beginning of 2023 until shortly before the date of approval of the report, approx. 2.8 BCM of natural gas was sold from the Leviathan Reservoir (100%). The Partnership's revenues in the Report Period totaled approx. \$380 million; the EBITDA in the Report Period totaled approx. \$270 million. For details regarding the results of operations, see Section 2.1 below.

Based on the Partnership's financial results for 2022, the board of directors of the General Partner approved a profit distribution at a total sum of \$60 million as follows:

On August 30, 2022, the board of directors of the General Partner approved an (interim) profit distribution in the total sum of \$25 million. On March 28, 2023, the board of directors of the General Partner approved a profit distribution at a sum total of \$35 million.

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.

1. Key information out of the Description of the Corporation's Business

- 1.1 The Partnership, together with its partners in the Leviathan Project, Chevron Mediterranean Limited ("**Chevron**" or the "**Operator**") and NewMed Energy - Limited Partnership ("**NewMed**", and collectively with Chevron and the Partnership: the "**Leviathan Partners**") engaged, in 2022 until shortly before the date of release of the report, in several agreements for the supply of natural gas to the domestic market in immaterial amounts.

In addition, agreements were cancelled which did not take effect in view of non-fulfillment of the conditions precedent and there are several agreements between the Leviathan Partners and several customers in the domestic market which are scheduled to expire on the date of commercial operation of the Karish reservoir.

- 1.2 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 1.4 BCF per day, as part of Phase 1A. The construction budget for the Third Pipeline, together with the additional investments as aforesaid, is estimated, according to a preliminary assessment, at approx. \$562 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 Q2/2023. Completion of the Third Pipeline, insofar as the approvals required for its construction are obtained, is expected in H1/2025. In November 2022, the partners approved a preliminary budget of approx. \$45 million (in terms of 100%) for engineering planning and securing supply dates by initial engagements with suppliers. The partners also approved, as part of the approval of the 2023 budget, approx. \$163 million more (in terms of 100%) for budgeting the Third Pipeline project. The total budgets approved up to the date of approval of this report is approx. \$208 million (in terms of 100%) out of a budget of approx. \$562 million as aforesaid.

In addition, 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.

- 1.3 The “Leviathan-8” development and production well in the area of the I/14 “Leviathan South” lease, was drilled as planned and completed in June 2022. The completion stage of the well commenced in February 2023 and is expected to end with the connection to the existing subsea production system of the Leviathan Reservoir in Q2/2023.
- 1.4 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 the national transmission system of Israel Natural Gas Line Ltd. (“**INGL**”) between the Israeli transmission system and Egypt at the Nitzana area.

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.



- 1.5 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.
- 1.6 The Leviathan Partners engaged in several agreements that will allow for an alternative for the piping and sale of the condensate produced from the Leviathan Reservoir. For details see Notes 25C7 25C8 to the Financial Statements.
- 1.7 For details regarding the engagement with INGL for the construction of the Ashdod-Ashkelon offshore transmission system section, and INGL's notice regarding the postponement of at least 6 months in the completion of the section, see Note 25C5 to the Financial Statements.
- 1.8 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) unanimously decided to submit a notice to the Petroleum Commissioner at the Ministry of Energy 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.

For a comprehensive description of the Partnership's business and the developments that occurred in the Report Period until shortly before the release thereof, see Chapter A (Description of the Corporation's Business) to the Periodic Report and the notes to the Financial Statements.



2. Results of operations and financial position

2.1 Below is the main breakdown regarding the Partnership's statements of comprehensive income, in dollars in millions:

	1-3/2022	4-6/2022	7-9/2022	10-12/2022	2022	10-12/2021	2021
Revenues							
From natural gas sales	82.0	96.5	105.9	95.6	380.0	66.9	293.4
Net of royalties	(13.7)	(11.3)	(17.5)	(15.5)	(58.0)	(11.2)	(48.9)
Net revenues	68.3	85.2	88.4	80.1	322.0	55.7	244.5
Expenses and costs:							
Cost of natural gas and condensate production	(10.7)	(11.6)	(9.0)	(11.3)	(42.6)	(11.2)	(37.4)
Depreciation and amortization expenses	(7.0)	(7.3)	(7.8)	(7.6)	(29.7)	(6.0)	(28.0)
oil and gas exploration costs	-	*	(0.1)	*	(0.1)	-	(1.1)
G&A expenses	(2.0)	(2.5)	(1.9)	(3.1)	(9.5)	(3.1)	(6.7)
Operating income	48.6	63.8	69.6	58.1	240.1	35.4	171.3
Net financing expenses	(8.9)	(6.7)	(12.0)	(15.8)	(43.4)	(17.7)	(69.1)
Profit before taxes on income	39.7	57.1	57.6	42.2	196.7	17.7	102.2
Taxes on income	(11.3)	(11.3)	(13.1)	(11.5)	(47.2)	(1.2)	(24.7)
Profit and other comprehensive income for the period	28.4	45.8	44.5	30.7	149.5	16.5	77.5
Sales of natural gas in BCM ³	2.72	2.80	3.02	2.84	11.38	2.41	10.72
Condensate production in Israel barrels in thousands ⁴	215.3	220.6	239.75	225.88	901.53	189.5	837.7

*Represents an amount lower than \$100 thousand.

2.1.1 **Net revenues** – Revenues from the sale of natural gas in the Report Period totaled approx. \$380.0 million compared with approx. \$293.4 million in the same period last year, an increase rate of approx. 30%. The increase between the periods derives mainly from the increase in the quantities of natural gas that were sold from the Leviathan Reservoir, from a quantity of approx. 10.7 BCM (100%) in the same period last year to a quantity of approx. 11.4 BCM (100%) in the year of the report, as well as 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 aforesaid, there was an 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. From the date of commencement of the supply of gas from the Leviathan Reservoir, the Leviathan Partners make

³The data refers to sales of natural gas from the Leviathan Project (100%), rounded off to two digits after the decimal point.

⁴The data refers to the production of condensate from the Leviathan Project (100%) rounded off to thousands of barrels, see also Note 25C6 and 25C8 to the Financial Statements regarding agreements in connection with the sales of condensate from the Leviathan Reservoir.



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%⁵. 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 Financial Statements. Royalty expenses in the Report Period totaled approx. \$58 million compared with approx. \$48.9 million in the same period last year. The increase between the periods derives from the increase in revenues from the sale of natural gas which was offset from the adjustment that was made as aforesaid, in view of the specific directives.

Below is a breakdown of the quantities of natural gas⁶ sold from the Leviathan Reservoir in the Report Period according to the customers' geographic location:

	For the year ended December 31	
	<u>2022</u>	<u>2021</u>
	BCM	
Israel	3.77	4.55
Jordan	2.71	2.74
Egypt	4.90	3.43
Total	11.38	10.72

Net revenues totaled in Q4/2022 approx. \$95.6 million compared with a total of approx. \$66.9 million in the same period last year, an increase of approx. 43%. The increase is mainly due to the increase in the quantities of natural gas sold from the Leviathan reservoir and the average price per output unit in Q4/2022, which amounted to approx. 2.84 BCM (the Partnership's share approx. 0.43 BCM), compared with approx.

⁵ 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 Financial Statements.

⁶The data refers to sales of natural gas from the Leviathan Project (100%), rounded off to two digits after the decimal point.



2.41 BCM (the Partnership's share approx. 0.36 BCM) in the same period last year and due to an increase in the average price in Q4 compared with the same period last year. As aforesaid, in accordance with the increase in the volume of sales, there was also an increase in royalty expenses between the periods.

2.1.2 **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 gas and condensate production in the Report Period totaled approx. \$42.6 million, compared with approx. \$37.4 million in the same period last year, an increase of approx. 14%. The increase in the Report Period, relative to the same period last year, mainly derives from the increase in natural gas sales to Egypt and consequently an increase in transportation and shipping expenses and the costs of transmission of the gas to Egypt, as can be seen in the above table, which was partially offset mainly from a decrease in the cost of maintenance in the period.

In Q4/2022, the cost of natural gas and condensate production totaled approx. \$11.3 million compared with approx. \$11.2 million in the same quarter last year.

2.1.3 **Depreciation and amortization expenses** in the Report Period totaled approx. \$29.7 million, compared with approx. \$28.0 million in the same period last year. In Q4/2022, depreciation and amortization expenses totaled approx. \$7.6 million compared with approx. \$6.0 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. The increase in depreciation and amortization expenses derives mainly from the increase in the quantities of natural gas sold from the Leviathan Reservoir in between the periods.

2.1.4 **Oil and gas exploration expenses** in the Report Period totaled approx. \$0.1 million compared with expenses of approx. \$1.1 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 8D to the Financial Statements.



It is noted that expenses for operator fees to the General Partner were included in the 'oil and natural gas exploration expenses' item, until April 22, 2021, see also Note 24C1B to the Annual Financial Statements.

2.1.5 **G&A expenses** in the Report Period totaled approx. \$9.5 million, compared with approx. \$6.7 million in the same period last year. These mostly consist of expenses in respect of professional services, payroll expenses, D&O insurance 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 24C1C to the Financial Statements. It is noted that from April 23, 2021, the payments for operator fees have been cancelled (as specified in Note 24C1B to the Financial Statements) which were included in the 'oil and natural gas exploration expenses,' item, as provided in Section 2.1.4 above and were not presented under the 'G&A expenses' item.

G&A expenses in Q4/2022 totaled approx. \$3.1 million in Q4/2022 and Q4/2021.

2.1.6 **Net financial expenses** in the Report Period totaled approx. \$43.4 million compared with net financial expenses of approx. \$69.1 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. \$42.0 million, compared with approx. \$55.0 million in the same period last year.
- b. Total financial costs, as provided in Section (a) above, 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 Report Period totaled approx. \$13.2 million compared with exchange rate differentials of approx. \$3.6 million in the same period last year, due to the decrease in the Dollar exchange rate.



- c. During the Report Period, as part of the Partnership's risk management, the Partnership made several hedging transactions, CAP options and an [Interest Rate Swap) IRS)] hedging transaction. The fair value of the hedging transactions increased by approx. \$8.0 million in the Report Period. For further details, see Note 11A2E 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. \$1.4 million. During the same period last year, expenses from revaluation of the Partnership's investment in Ratio Petroleum totaled approx. \$15.2 million.
- e. During the Report Period, expenses of exchange rate differentials totaled approx. \$6.9 million, compared with revenues from exchange rate differentials of \$0.7 million in the same period last year, due to changes in the dollar exchange rate.

Net financial expenses in Q4/2022 totaled approx. \$15.8 million compared with net financial expenses of approx. \$17.7 million in the same period last year.

The main decrease between the comparison periods derives from the recording of expenses from the revaluation of the Partnership's investment in Ratio Petroleum in the amount of approx. \$2.0 million in the same period last year.

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.

2.1.7 **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.



\$47.2 million compared with approx. \$24.7 million (deferred taxes) in the same period last year. The increase in the taxes on income item between the periods derives from the rise in the deferred tax item of approx. \$31.5 million in the Report Period and recording current tax expenses of approx. \$15.7 million. The change in the deferred taxes derives mainly from the rise in the dollar-shekel exchange rate and temporary differences that increased in the Report Period mainly in respect of oil and gas assets (including in respect of retirement of oil and gas assets).

In Q4/2022, income tax expenses totaled approx. \$11.5 million compared with approx. \$1.2 million in the same quarter last year. Tax expenses in Q4/2022 include current taxes and a deferred taxes update mainly due to oil and gas assets (including in respect of retirement of oil and gas assets). The tax expenses in the same quarter last year derive only from an update to the 'deferred taxes' item further to the aforesaid Amendment to the Income Tax regulations.

- 2.2 **Current assets** as of December 31, 2022 totaled approx. \$232.9 million, compared with a total of approx. \$253.4 million as of December 31, 2021.

The Group's current assets as of December 31, 2022 primarily consist of cash and cash equivalents, financial assets at fair value through profit or loss and short-term deposits (which was mainly intended to be used for the purchase of Series C Bonds of Ratio Financing, for the Partnership. For further details, see also Note 11B5 to the Financial Statements). The decrease in the Report Period mainly stems from proceeds from natural gas sales during the Report Period which were offset for 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, prepayment of the Series B Bonds and a distribution of profits.

Furthermore, the Partnership's current assets as of December 31, 2022 include derivative financial instruments in the sum of approx. \$5.0 million as of December 31, 2022 (see also Section 3.1 above) as well as a trade receivables balance of approx. \$65.3 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. For details regarding the composition of the liquid assets of the Partnership (including the composition of the marketable securities), see Notes 4, 5, 6 and 7 to the Financial Statements.



- 2.3 **Non-current assets** as of December 31, 2022 totaled approx. \$885.6 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:

- 2.3.1 Net investments in oil and natural gas assets, excluding the retirement asset, total approx. \$794.0 million as of December 31, 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. \$26.2 million. Conversely, the Partnership recorded depreciation and amortization expenses of approx. \$25.0 million.
- 2.3.2 A retirement and disposal asset presented under the 'net investments in oil and natural gas assets' item totaled approx. \$9.8 million as of December 31, 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. \$8.6 million following the rise in the market interest used for capitalization.
- 2.3.3 Other long-term assets, net, totaled approx. \$68.2 million as of December 31, 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 2022 in the sum of approx. \$5 million following the release of Specific Directives regarding the method of calculation of the royalty value at the wellhead in the Leviathan Project, on July 24, 2022. See also Note 18 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. \$6.1 million.
- 2.3.4 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 December 31, 2022 is approx. \$4.2 million compared with approx. \$5.5 million as of December 31, 2021.
- 2.3.5 Restricted deposits totaled approx. \$6.5 million as of December 31, 2022 compared with approx. \$14.7 million as of December 31, 2021. The decrease results from classification of the interest



cushion in respect of the short-term Series C Bonds in the sum of approx. \$3.7 million (presented as current asset as of December 31, 2022) according to their terms and conditions, and from the release of the increased deposit of the Series B Bonds interest cushion (a total of approx. \$4 million) as a result of an early redemption of the Series B Bonds during the Report Period. For further details, see Note 11B4 to the Financial Statement.

2.3.6 Derivative financial instruments totaled approx. \$2.8 million as of December 31, 2022. Also see Section 3.1 below.

2.4 **Current liabilities** as of December 31, 2022 total approx. \$108.7 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:

2.4.1 For 2022 there was no provision for tax and balancing payments compared with a provision of approx. \$13.9 million as of December 31, 2021.

2.4.2 Provision for current taxes for 2022 totaled approx. \$3.7 as of December 31, 2022. As of December 31, 2021, there was no provision for current taxes.

2.4.3 Current maturities of bonds totaled approx. \$72.5 million as of December 31, 2022 compared with approx. \$125.8 million as of December 31, 2021. The decrease mainly derives from the early redemption of the Series B Bonds in the Report Period.

2.4.4 Interest payable totaled approx. \$11.3 million as of December 31, 2022, compared with approx. \$15.7 million as of December 31, 2021. Interest payable includes interest in respect of the bonds and in respect of the bank loan. Most of the decrease derives from a decrease in interest payable on the Series C Bonds as a result of repayment of one third of the Series C Bonds par value, in accordance with their conditions and for early redemption of the Series B Bonds in the Report Period, which was offset from an increase in interest payable of the loans from banking corporations as a result of an increase in LIBOR interest during the Report Period.

2.5 **Non-current liabilities** as of December 31, 2022 totaled approx. \$659.4 million, compared with approx. \$747.2 million as of December 31, 2021.



Non-current liabilities include the long-term balance of 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:

- 2.5.1 A provision for an oil and natural gas asset retirement and disposal obligation as of December 31, 2022 totaled approx. \$12.5 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.
- 2.5.2 Bonds as of December 31, 2022 totaled approx. \$80.1 million compared with approx. \$214.6 million as of December 31, 2021. The main decrease is due to a decrease in the Series C Bonds as a result of the repayment of one third of their par value on August 31, 2022 in accordance with their terms and early redemption of the Series B Bonds in the Report Period.
- 2.5.3 Loans from banking corporations as of December 31, 2022 totaled approx. \$510.6 million compared with approx. \$487.1 million as of December 31, 2021. The main increase derives from a drawdown of \$20 million from the loan facility in the Report Period.
- 2.5.4 Deferred tax liability as of December 31, 2022 totaled approx. \$56.2 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.



2.6 The Partners' equity

As of December 31, 2022, totaled approx. \$350.4 million compared with approx. \$225.9 million as of December 31, 2021. The change derives from other comprehensive income of approx. \$149.5 million which was offset by profit that was distributed in the sum of approx. \$25 million. For specification of changes in equity in the Report Period, see the consolidated statements of changes to the Partners' equity in the Financial Statements.

2.7 Cash flow

Net cash flow generated from operating activities totaled approx. \$151.4 million in the Report Period, compared with net cash flow generated from operating activities of approx. \$122.4 million in the same period last year. In Q4/2022, net cash flow generated from operating activities totaled approx. \$50.7 million compared with net cash flow that derived from operating activities of approx. \$36.4 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 derived for investment activities totaled approx. \$0.6 million in the Report Period, compared with approx. \$48.8 million net cash flow used for investment activities 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. \$37.6 million. Conversely, short-term deposits and restricted deposits in the sum total of approx. \$38.3 million were repaid, which mainly served for redemption of the Series B Bonds in the Report Period.

Net cash flow derived from investment activities totaled approx. \$62.5 million in Q4/2022, compared with approx. \$6.6 million net cash flow used for investment activities in the same period last year. Investment activities in Q4/2022 mainly consist of the repayment of pledged cash in the sum of approx. \$72.4 million, as a result of early redemption of the Series B Bonds. Conversely, approx. \$10.4 million were invested in gas and oil assets.

Net cash flow used for financing activities totaled approx. \$183.6 million in the Report Period, compared with approx. \$38.7 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, for early redemption of the Series B Bonds, for 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. Conversely, the Report Period included the drawdown of approx. \$20 million from the banking loan facility.

The net cash flow used for financing activities totaled approx. \$83.1 million in Q4/2022 compared with approx. \$13.2 million in the same period last year.

The cash and cash equivalents balance as of December 31, 2022 totaled approx. \$91.2 million compared with approx. \$125.4 million as of December 31, 2021.

3. Liquidity and financing sources

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 bonds, as well as loans from banking corporations for the financing of the Leviathan Project.

3.1 Loans from banking corporations

Further to Note 11A to the 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").

In July 2022, the lenders authorized that the total facility available for drawdown would amount to \$650 million. As of December 31, 2022 and as of the date of approval of the Financial Statements, loan amounts drawn from the Loan facility total approx. \$520 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



reserves⁷ (as defined in the Loan agreement) and the balance of the Loan that was withdrawn (net of the principal reserve amount for debt service) at each inspection date, shall be no less than 1.2⁸; Debt service coverage ratio ("DSCR") that is calculated as the ratio between the actual cash flow before debt service and debt service amounts (principal, interest and non-utilization fee) for the 12 months before the test date at the end of each inspection date, shall be no less than 1.05; and compliance with the liquidity test.

As of December 31, 2022, the Partnership is compliant with all the aforesaid financial covenants: LCR is 2.03 (based on Cash Flow from 2P Reserves figures as of December 31, 2021) and DSCR is 7.94.

As of the date of release of the report, the LCR is expected to increase due to the rise in the reserves as of December 31, 2022 in accordance with the reserve report of March 2023, while the DSCR does not materially differ in terms of its results as of December 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 11A to the Financial Statements.

3.2 **Debt raising rounds by Ratio Financing**

3.2.1 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) 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

⁷ Cash flow from 2p reserves until December 31, 2034 is calculated according to a bank scenario that is based on stricter and more conservative assumptions than those used in the discounted cash flow released by the Partnership in resource reports pursuant to the provisions of the Securities Law, including in relation to the amount and timing of the capital expenditures, the sale prices of natural gas (according to a price deck of the technical banks). The cash flow as aforesaid is before debt service costs and is discounted at 7% ("**Cash Flow from 2P Reserves**").

⁸ Insofar as the LCR shall be between 1.2 and 1.4, part of the Loan principal shall be repaid by part of the cash balance remaining in the Partnership's income account at such rates out of the cash balance as determined in the agreement (LCR Cash Sweep).



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 and the Series C Bonds). See Note 11B5C to the Financial Statements.

- 3.2.2 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, in connection with the 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 (plus interest), initiated by Ratio Financing, which was carried out on November 6, 2022 (the "**Prepayment Date**").

On the Prepayment Date, the highest amount out of the three alternatives specified in the deed of trust for the Series B Bonds was paid for the early redemption of the Series B Bonds, in the amount of approx. \$66.5 million (approx. ILS 235.6 million). For further details, see Note 11B4 to the Financial Statements.

- 3.2.3 In January 2023, the Partnership acquired 4,659,575 par value Series C Bonds of Ratio Financing (which constitutes, as of the date of approval of the Financial Statements), approx. 2.2% of the total par value of the Series C Bonds of Ratio Financing) for the consideration of approx. ILS 4.8 million (approx. \$1.4 million). As of the date of approval of the Financial Statements, the Partnership holds approx. 2.2% of the total par value of the Series C Bonds of Ratio Financing. For further details, see Note 11B5A.

As part of a debt reduction process and in accordance with a resolution of the board of directors of the General Partner of March 28, 2023, the Partnership intends to purchase Series C Bonds and Series D 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 (beyond the amount of Series C Bonds held as of the date of the board resolution). Accordingly, the 'short-term deposits' item in the Consolidated Statements of Financial Position of approx. \$30 million is intended for the purchase of such Series C Bonds and Series D Bonds as aforesaid. In accordance with the resolution of the board of directors of the General Partner, the Series C Bonds and Series D 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 11 and 15 to the Financial Statements and Notes 24C5 and 24C7.

4. Distribution of profits, tax payments and balancing payments

- 4.1 On January 9, 2022, the Partnership made a payment of approx. ILS 43.3 million (ILS 0.0385213 per participation unit) for 2021. Such payment includes tax payments for individual entitled holders and balancing payments for non-individual holders.

It should be stated that until the taking effect, in tax year 2022, of the change in the tax regime that applies to the Partnership, as determined in the amendment to the Income Tax Regulations, the Partnership was not a taxpayer according to the Income Tax Ordinance (New Version), 5721-1961, and all revenues, expenses, profit and loss of the Partnership were attributed to the unit holders that are an "entitled holder" as defined in the Income Tax Regulations (Tax Calculation) according to their rate of holdings in the Partnership. As part of the tax regime that applied until the change in the tax regime as aforesaid, according to the provisions of Section 19 of the Natural Resources Law, 5771-2011 ("**Section 19**"), the General Partner was required to submit to the Assessing Officer, a report on the Partnership's taxable income or its losses, and pay the tax derived therefrom, at the expense of the tax owed by the partners in the Partnership as being on December 31 of such tax year. According to the provisions of Section 19, the tax which the General Partner is required to pay as aforesaid, shall be calculated according to the share in the Partnership of the entitled holders, who are a body corporate and the share in the Partnership of the entitled holders who are individuals. See also Note 14B2 to the Financial Statements.

- 4.2 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 set for September 8, 2022. The aforesaid distribution of profits was carried out on September 21, 2022.
- 4.3 On March 28, 2023, the board of directors of the General Partner approved the distribution of profits in a sum total of \$35 million, with the record date for distribution being set for April 10, 2023. The distribution of profits will be carried out on April 24, 2023.



5. **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. 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, the Partnership made hedging transactions in the Report Period. See also Note 11A2E to the Financial Statements.

In 2022, the Partnership recorded interest expenses in the statement of profit or loss of approx. \$28.2 million, reflecting an average LIBOR interest rate of



approx. 1.97%. For the effect of the increase in the LIBOR rate on the Partnership's profit for 2022, see Note 4A2B2.

In addition, the table below summarizes a possible effect of the increase in the LIBOR rate on the Partnership's interest expenses for the loans from banking corporations starting in 2023 until the maturity date. The analysis is based on the assumption that in calculating the base interest rate on the loans from banking corporations, a fixed LIBOR interest rate of approx. 4.83% (the LIBOR interest rate for 3 months determined on January 17, 2023) was taken into account throughout the remaining loan period.

	For the year ended December 31				
	2023	2024	2025	2026	2027
	\$ in millions				
Base interest	40.6	44.0	43.7	38.8	26.0
5% increase in base interest	41.3	45.0	44.7	39.7	26.5
10% increase in base interest	42.0	46.1	45.8	40.6	27.1

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

1. The person in charge of market risk management in the Corporation

The persons in charge of market risk management at the Partnership are the chairman of the board of the General Partner, Mr. Ligad Rotlevy, and CEO of the General Partner, Mr. Yigal Landau. For details regarding Messrs. Rotlevy and Landau, see Regulation 26 of Chapter D (Additional Details about the Corporation) to the Periodic Report.

2. Description of the market risks

2.1 The exchange rate risk

Changes in the ILS/Dollar exchange rate may affect the Partnership's results in several ways, as follows: (a) The Partnership's functional currency is the U.S. Dollar since most of the Partnership's activity, assets and liabilities are in US dollars. Exposure to ILS/Dollar exchange rate risk results from the fact that some of the Partnership's assets, liabilities and expenses are denominated in ILS. (b) Since the gas prices in the agreements for the sale of gas from the Leviathan Reservoir are determined by price formulas that include various linkage components, and, *inter alia*, linkage to the ILS/Dollar exchange rate and linkage to the electricity production tariff, which is partly affected by the ILS/Dollar exchange rate. A weakening of the ILS against the Dollar may have an immaterial negative effect on the Partnership's revenues. (c) Since the Partnership reports and pays its taxable income in ILS, changes in the ILS/Dollar exchange rate affect the amount of the Partnership's taxable income and the cash flow which is used, *inter alia*, for payment of the tax.

2.2 The price risk

The Partnership invests part of its cash surplus in marketable securities classified in the Statement of Financial Position as a financial asset at fair value through short-term profit or loss. The yield on these instruments depends on the performance of such papers. The Group is diversifying its holdings portfolio in such securities, in order to manage the price risk arising from investments in marketable securities.

Also, the Partnership has an investment in the securities of Ratio Petroleum (see Note 6 to the Financial Statements) which is classified in the Statement of Financial Position as a financial asset at fair value through long-term profit or loss.

Diversification of the holdings portfolio and investment decisions are made in accordance with the investment policy established by the investment committee of the General Partner based on the

recommendations of professional advisors and in accordance with the investment policy restrictions set forth in the Partnership agreement.

2.3 The natural gas and condensate price risk

The price of gas in agreements for natural gas supply, was determined according to price formulas that include various linkage components, including linkage to the Brent barrel price, linkage to the electricity production tariff, to which the gas agreements for private electricity customers are linked, as well as linkage to the ILS/Dollar exchange rate. For details regarding the various linkages in the natural gas price formulas, see Note 25C to the Financial Statements. In the vast majority of the agreements for natural gas supply in which the Partnership engaged, floor prices were set alongside the price formulas, which to some extent limit the exposure to fluctuations in the linkage components. However, there is no certainty that the Partnership will be able to set floor prices as aforesaid also in new agreements to be signed thereby in the future .

With respect to the electricity production tariff, it is noted that the frequent methodological changes made by the PUA-E to the method of calculation thereof make its predictability difficult, and may lead to disputes between gas suppliers and customers in connection with the method of calculation thereof. In this context, it is noted that in relation to some of the private power plants (including plants which were sold by the IEC), the PUA-E instituted SMP regulation (System-Marginal Price) according to which every half hour the wholesale electricity tariff is determined by the marginal cost for the production of one additional kWh in the sector, based on half-hour tenders that are held by the manager of the electricity system between the various electricity producers, every day. The aforesaid pricing method may have an effect on the prices of the natural gas which is sold by the Partnership to the electricity producers in the domestic market, in the event that the gas prices are linked to the aforesaid pricing in futures contracts.

A decrease in the Brent prices and/or in the electricity production tariff and/or an increase in the ILS/Dollar exchange rate (devaluation of the Shekel against the Dollar) may adversely affect the Partnership's revenues from the existing and future gas sale agreements. In addition, a significant change in the prices of other energy sources (including coal, LNG and other gas substitutes) and/or in the availability of renewable energy, the increase of competition in the supply of gas to the domestic, regional and global economy, reforms and regulatory decisions related, *inter alia*, to the electricity sector, gas exports, taxation of oil and gas profits , in the environmental protection laws, may cause a change in the natural gas consumption model of large customers, which may reduce demand and lead to a decrease in natural gas prices and adversely affect the Partnership, its financial



condition and the results of its operations. In addition, material events in the global economy, such as economic slowdown, recession, inflation, unusual volatility in foreign exchange rates, trade wars, damage to the efficient functioning of the global production and supply chains in general, and in the engineering, production and supply segments of components for the oil and gas industry in particular, as well as weather conditions, including global warming, outbreaks of pandemics, such as Covid, and natural disasters, may also reduce the demand for the natural gas sold by the Partnership and/or affect its price and/or adversely affect the Partnership's revenues from existing and future gas sales agreements, as well as on making investment decisions in new natural gas projects and/or expansion of existing projects.

As of the date of the report, the condensate was sold to ORL for no consideration. The Leviathan Partners engaged in several agreements so as to allow an alternative for the flow and sale of condensate produced from the Leviathan Reservoir.

2.4 Linkage to Index risk

The Group invests part of its cash balances in index-linked bonds and ETFs that are classified in the Statement of Financial Position as financial assets at fair value through profit or loss that expose the Partnership to changes in the index.

2.5 Cash flow risk and fair value for interest rate

The Group has interest rate risk arising from investments in bonds and loans taken and bonds issued. Loans/bonds bearing variable interest rates expose the Group to cash flow risk (with respect to the bonds in circulation as of the date of the report, in the event of prepayment, there is an impact on the calculation of the prepayment amount since one of the options for the aforesaid calculation is the capitalization of the cash flow balance (principal plus interest) being capitalized, *inter alia*, according to the yield of government dollar bonds) while loans/bonds bearing fixed interest rates expose the Group to risk for fair value. Changes in the interest rates may also affect the cost of financing of the Partnership's future investments in oil and gas assets, including the development of Phase 1B of the Leviathan Project. In addition, the Partnership's liquid financial assets are invested, as of the date of approval of the Financial Statements, in dollar deposits. Changes in interest rates may affect the deposits' current yield.

For details regarding the risk factors pertaining to the Partnership, including the risks that characterize the oil and gas exploration industry, see Section 28 of Chapter A (Description of the Corporation's Business).



3. **The Corporation's policy on market risk management**

The Group's activity exposes it to a variety of financial risks, *inter alia*, to market risks as specified in Note 4A2 to the Financial Statements.

The Group's overall plan for risk management focuses on the fact that the conduct of the financial markets cannot be predicted and trying to minimize possible negative effects on the Group's financial performance.

The Group's finance department identifies and evaluates the financial risks in accordance with the guidance of the investment committee of the General Partner and in close cooperation therewith.

See Section 4 below with respect to supervision on market risk policy and method of realization thereof.

4. **The supervision on the market risk management policy and the method of realization thereof**

The General Partner identifies and assesses the market risks in close cooperation with the investment committee of the General Partner.

The investment committee of the General Partner examines the market risks and decides on a course of action, and all subject to the Partnership's investment policy set forth in the Partnership agreement.

The investment committee holds, *inter alia*, a discussion on the Partnership's investment portfolio, a discussion regarding the method of investment of the cash balances, determines the correct mix regarding its portfolio of holdings, sets quantitative limitations on the exposure in the various investment channels considering the status in the markets and the liquidity needs of the Partnership and considers the need for hedging according to changes in the market (see Note 4A2E2 to the Financial Statements regarding hedging in connection with LIBOR exposure).

The General Partner conducts an ongoing follow up on the changes in the various investment channels.

5. **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".

5.1 **Description of parameters, assumptions and models**

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

5.1.2 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.

5.1.3 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.

5.1.4 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 valued using future interest rates that are based on an observable yield curve.

5.1.5 Shekel-dollar exchange rate is the representative rate as of December 31, 2022.

5.2 Analysis of sensitivity to market risks

Below is a breakdown of the Partnership's financial instruments as of December 31, 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:

5.2.1 **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	(1,793)	(939)	19,723	1,038	2,191
Financial assets at fair value through profit or loss	(1,429)	(749)	15,723	828	1,747
Restricted short-term deposits	(332)	(174)	3,657	192	406
Ratio Trusts	(24)	(13)	269	14	30
Trade and other receivables	(71)	(37)	784	41	87
Financial assets at fair value through profit or loss – investment in Ratio Petroleum	(378)	(198)	4,153	219	461
Restricted long-term deposits	(358)	(188)	3,940	207	438
Trade payables	9	5	(99)	(5)	(11)

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
Expenses payable	54	28	(597)	(31)	(66)
Provision for current taxes	335	175	(3,685)	(194)	(409)
Total	(3,987)	(2,090)	43,868	2,309	4,874

5.2.2 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	763	381	191	(63,572)	(191)	(381)	(763)
Series D Bonds	6,059	3,029	1,515	(86,309)	(1,515)	(3,029)	(6,059)
Loans from banking corporations	25,452	12,535	6,318	(554,118)	(6,421)	(12,948)	(25,381)

Sensitive Instrument	Profit (Loss) from the Change			Fair Value	Profit (Loss) from the Change		
	5% Increase	2% Increase	0.5% Increase		0.5% Decrease	2% Decrease	5% Decrease
Derivative financial instruments – CAP options	5,476	1,927	362	3,649	(536)	(2,089)	(2,634)
Derivative financial instruments – IRS transaction	16,360	6,922	1,793	4,235	(722)	(8,019)	(21,387)

* 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%.

5.2.3 Report on linkage bases of the financial balances

See Note 16 to the Financial Statements for report on linkage bases of the financial balances.



Part C – Disclosure on Various Aspects of Corporate Governance

1. Directors having accounting and financial expertise

The board of directors of the General Partner has determined that the minimum appropriate number of directors having accounting and financial expertise that hold office in the board shall be two, taking into account the obligations and duties of the board of directors according to the law, including its responsibility for preparation of the Financial Statements and approval thereof and the character of the accounting issues involved in the field of operation. The determination of the aforesaid minimum number takes into account the close accounting support provided to the General Partner by the accountants (who are from the four largest firms), including their participation in the board meetings where the Financial Statements are discussed.

Messrs. Ligad Rotlevy, Yigal Landau, Kuti Gavish and Ms. Galia Maor have accounting and financial expertise. With respect to their education and business experience, see Section 26 of Chapter D (Additional Details regarding the Corporation).

The limited partnership agreement does not determine a provision regarding the number of independent directors.

2. Disclosure on the internal auditor at the Corporation

a. **Details of the internal auditor**

Internal auditor's name: CPA Gil Rogozinsky.

Date of commencement of office: March 13, 2013.

His qualifications for the position: The internal auditor fulfills the terms and conditions set forth in Section 3(a) of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**"). The internal auditor is an accountant with a degree in business administration and accounting from the College of Management, a partner responsible for the field of internal audit at Foucs Financial Operation Consulting Services.

To the best of the General Partner's knowledge and in accordance with the statement of the internal auditor, the internal auditor fulfills the provisions of Section 146(b) of the Companies Law, 5759-1999 and the provisions of Section 8 of the Internal Audit Law.

As of the date of release of the report, the internal auditor does not hold securities of the Partnership or of entities related thereto.

The internal auditor is not an employee of the Partnership, but rather provides internal audit services thereto by outsourcing.

It is noted that the internal auditor also provides internal audit services to Ratio Financing and Ratio Petroleum. His service as the internal auditor of Ratio Financing and Ratio Petroleum does not create a

conflict of interests with his function as the internal auditor at the Partnership.

b. **Appointment procedure**

The appointment of the internal auditor was approved by the board of directors of the General Partner on March 13, 2013, in accordance with the proposal of the supervisor of the Partnership at such time.

Among the reasons for approval of the auditor's appointment are his education, skills and extensive experience in internal auditing, which are appropriate for the performance of his duties.

c. **Identity of the supervisor of the internal auditor**

The organ supervising the internal auditor is the chairman of the board of directors of the General Partner, Mr. Ligad Rotlevy.

d. **The work plan**

The work plan of the internal audit in the Partnership is on an annual basis. In accordance with the provisions of the Partnerships Ordinance, the audit plans are determined by the audit committee of the General Partner.

The annual work plan of the internal auditor is determined according to the following considerations: the size of the partnership, its organizational structure, the nature and scope of its business activity and regulation and directives that apply to the Partnership, including reliance on a risk assessment survey.

The work plan leaves discretion to the internal auditor to deviate therefrom subject to the approval of the audit committee. In the Report Period, the internal auditor performed, *inter alia*, an audit on material transactions, while examining these transactions and their approval processes.

e. **Scope of engagement**

The scope of engagement of the internal auditor and the staff who report to him from his firm, amounted in 2022 to approx. 650 hours. The scope of engagement is reasonable considering the size of the Partnership. The audit committee has the option of expanding the scope depending on the circumstances.

f. **Conduct of the audit**

The audit is conducted according to the internal audit standards that are accepted in Israel and worldwide, and in accordance with professional directives in the field of internal auditing including standards of the Internal Auditors Office and in accordance with the Internal Audit Law. The General Partner's board of directors is satisfied

that the auditor met all of the requirements in the conditions stated above, taking into account the update provided by the internal auditor to the audit committee.

g. **Access to information**

The internal auditor has powers to receive any information, explanation and document required for the fulfillment of his duties, as well as full, unlimited and constant access to the Partnership's information systems, including financial figures for the purpose of the audit pursuant to Section 9 of the Internal Audit Law.

h. **The internal auditor's report**

The internal audit reports are submitted in writing. After submission of the audit reports to the General Partner's management and receipt of its position, the reports are submitted to the audit committee and are discussed at length at its meetings.

In 2022, internal audit reports were submitted to the members of the audit committee in February, May, September and December. Further reports will be submitted in the near future. Discussions on the reports are held in proximity to their submission.

i. **Board of directors' assessment of the internal auditor's activity**

The board of directors estimates that the scope, nature and continuousness of the activity and work plan of the internal auditor are reasonable, considering the size of the Partnership, its organizational structure, the nature and scope of its business activities, and achieve the objectives of the internal audit.

j. **Compensation**

The compensation of the internal auditor is based on actual working hours. In 2022, the engagement of the internal auditor and his staff amounted to approx. ILS 150 thousand.

In the assessment of the board of directors, the compensation is reasonable and does not affect or impair the exercise of the internal auditor's professional discretion.

3. **Disclosure on the auditors' fees**

The auditors are the firm of PwC.

The board of directors of the General Partner approved the remuneration of the auditor for 2022 and determined that it is reasonable considering the assessment of the scope of his activities. The accountant's fee is determined by the lump sum method. The fees amounted to approx. ILS 588 thousand in 2022 (approx. ILS 458 thousand in 2021). Fee expenses for the accountants for



additional services such as: tax work and contacting regulatory authorities totaled approx. ILS 66 thousand in 2022 (approx. ILS 140 thousand in 2021). The Partnership's share in the fee expenses for the accountants in connection with the audit of the joint transaction in 2022, for audit services totaled approx. ILS 210 thousand (approx. ILS 210 thousand in 2021).

The Partnership's share in the fee expenses for the other accountants auditing the joint transaction totaled approx. ILS 74 thousand in 2022 (approx. ILS 80 thousand in 2021).

The General Partner bore the costs of the accountants' fees for the Partnership until April 22, 2021.

4. **General meetings**

For details regarding general meetings of holders of participation units of the Partnership in the Report Period, see Section 29 of Chapter D (Additional Details of the Corporation) to the Periodic Report.

5. **Disclosure on projected cash flow for financing the repayment of the corporation's liabilities**

According to Section 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, 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.

The board of directors examined the warning signs listed in the aforementioned section and found that they do not exist in the Partnership and therefore a projected cash flow is not included in this report.

6. **The Partnership's policy on donations and community aid**

The Partnership attaches importance in promoting investment moves in the community that are in line with its business strategy while responding to the needs of the communities in which it operates.

The board of directors of the General Partner appointed a donation committee consisting of board representatives which outlines the Partnership's policy on donations and community aid.

According to such policy, the activity of the Partnership in the community is built from donations and financial aid alongside individual or group voluntary activity of the managers and employees of the Partnership and the General Partner. As aforesaid, donations and aid are made in a variety of areas that include activities related to the sea, including water sports, maritime education, etc., alongside financial aid for special populations such as children and youth at risk, people with special needs, lone soldiers and more.



In addition, as part of its share in the Leviathan Project, the Partnership also takes part in the project's social investment program.

This program includes support for settlements and spaces open to the marine environment, geology and more, by supporting the projects adjacent to the Leviathan platform.

The projects are aimed at creating a connection between the various fabrics in Israeli society, through cooperation that enables effective networking that contributes to innovation and activities in the fields of the marine environment.

In the Report Period, the Partnership donated, directly and through its share in the Leviathan Project, a sum total of approx. \$385 thousand.

7. **ESG at the Partnership**

From the date of its establishment, the Partnership incorporates social, community and environmental considerations into its business activity and works to promote the same in various ways based on the implementation of the Partnership's corporate governance rules.

Accordingly, the Partnership built a comprehensive and orderly work plan to promote these issues within the framework of an Environmental Social and Governance (ESG) report which is posted on the Partnership's 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 the world-leading international reporting standard of the GRI organization (Global Reporting Initiative).



Part D – Disclosure on the Partnership's Financial Reporting

1. Key events in the Report Period

For a comprehensive description of the key events in the Report Period see Chapter A (Description of the Corporation's Business) and the Notes to the Financial Statements.

2. The Partnership's activity, additional information and subsequent events

2.1 For subsequent events, see Note 26 to the Financial Statements.

2.2 Separate financial statements

In accordance with the provisions of Regulation 9C and the Tenth Schedule to the Securities Regulations (Periodic and Immediate Reports), 5730-1970, 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.

Date: March 28, 2023

Ligad Rotlevy
Chairman of the Board

Yigal Landau
CEO and Board Member

Chapter B

Financial Report

Ratio Energies – Limited Partnership

2022 Annual Financial Statement

This report is a translation of Ratio Energies, Limited Partnership's Hebrew-language Consolidated Financial Statements as of December 31, 2022. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

Ratio Energies – Limited Partnership

2022 Annual Financial Statement

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Auditor's Report
to the holders of the participation units and the partners of
Ratio Energies – Limited Partnership
on the audit of components of internal control over financial reporting
pursuant to Section 9B(c) of the Securities Regulations
(Periodic and Immediate Reports), 5730-1970

We have audited components of internal control over financial reporting of Ratio Energies – Limited Partnership and subsidiaries (jointly below, the “**Partnership**”) as of December 31, 2022. These components of control were determined as explained in the following paragraph. The Board of Directors (the “**Board**”) and Management of the Partnership’s GP are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the components of internal control over financial reporting, attached to the periodic report as of the above date. Our responsibility is to express an opinion on the components of internal control over financial reporting of the Partnership, based on our audit.

We did not examine the effectiveness of IT general controls of a consolidated joint venture whose assets and income that are included in the consolidation constitute approx. 73% and approx. 100%, respectively, of the respective amounts in the consolidated financial statements as of December 31, 2022 and the year then ended. The effectiveness of IT general controls of the aforesaid joint venture was audited by other auditors, whose reports were provided to us, and our opinion, insofar as it relates to the effectiveness of IT general controls of the aforesaid joint venture, is based on the reports of the other auditors.

The components of internal control over financial reporting that were audited by us were determined pursuant to Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel “Audit of Components of Internal Control over Financial Reporting”, (“**Audit Standard (Israel) 911**”). These Components are: (1) Entity-level controls, including controls over the financial reporting and closing process and ITGCs; (2) Controls over the investment and cash management process; (3) Controls over the process of the investments in oil and/or gas explorations; (4) Controls over the bonds process; (5) Controls over the process of loans from banking corporations; (6) Controls over the process of income from the sale of gas (all hereinafter jointly referred to as: the “**Audited Components of Control**”).

We conducted our audit pursuant to Audit Standard (Israel) 911. This Standard requires that we plan and perform the audit with the purpose of identifying the Audited Components of Control, and obtain reasonable assurance about whether these components of control were effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the Audited Components of Control, assessing the risk that a material weakness exists in the Audited Components of Control, and testing and evaluating the design and operating effectiveness of such components of control, based on the assessed risk. Our audit of such components of control also included performing such other procedures as we considered necessary in the circumstances. Our audit only referred to the Audited Components of Control, as opposed to internal control over all of the material processes in connection with the financial reporting, and therefore our opinion refers only to the Audited Components of Control. In addition, our audit did not address mutual effects between the Audited Components of Control and non-audited controls, and therefore, our opinion does not take into consideration such possible effects. We believe that our audit and the other auditors’ reports provide a reasonable basis for our opinion in the context described above.

Because of inherent limitations, internal control over financial reporting in general and components thereof in particular, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit and the other auditors' reports, the Partnership effectively maintained, in all material respects, the Audited Components of Control as of December 31, 2022.

We have also audited, based on Generally Accepted Auditing Standards in Israel, the Consolidated Financial Statements of the Partnership as of December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022, and our report of March 28, 2023, included an unqualified opinion on such Financial Statements.

Tel Aviv,
March 28, 2023

Kesselman & Kesselman
Certified Public Accountants
Member of PricewaterhouseCoopers International Limited



Auditor's Report
to the holders of the participation units and the partners of
Ratio Energies – Limited Partnership

We have audited the accompanying Consolidated Statements of Financial Position of Ratio Energies – Limited Partnership (formerly – Ratio Oil Exploration (1992) – Limited Partnership) (the “**Partnership**”) as of December 31, 2022 and 2021 and the Consolidated Statements of Profit or Loss and Other Comprehensive Profit, of Changes in the Equity, and of Cash Flows for each of the years in the three-year period ended December 31, 2021. The Board and Management of the Partnership’s GP are responsible for these Financial Statements. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Israel, including standards set in the Accountants Regulations (Mode of Operation of Accountants) 5733-1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board and Management of the Partnership’s GP, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of the Partnership and the consolidated companies thereof as of December 31, 2022 and 2021 and the results of their operations, the changes in their capital and cash flows for each of the years in the three-year period ended December 31, 2022 in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

Key audit matters

The key audit matters specified below are matters that were communicated, or should have been communicated, to the board of directors of the Partnership’s GP, and which, in our professional judgement, were highly significant to the audit of the consolidated financial statements in the current period. These matters include, *inter alia*, any matter that: (1) refers or may refer to material sections or disclosures in the financial statements, and (2) our judgment in respect thereof was especially complicated, subjective or challenging. These matters will be addressed in our audit and the formation of our opinion regarding the consolidated financial statements as a whole. The communication of the following matters does not change our opinion regarding the consolidated financial statements as a whole and we are not using it as a means to provide a separate opinion regarding these matters or regarding the sections or disclosures to which they refer.

(1) Evaluation of gas and condensate reserves

As described in Note 8A to the Partnership's financial statements, the balance of investments in oil and gas assets as of December 31, 2022 is \$803,803 thousand. The expenses for depreciation of oil and gas assets (in the depletion method) for the year ended December 31, 2022 total \$25,564 thousand. Investments in oil and gas assets are presented in the Statement of Financial Position by cost, and are depreciated in the Statement of Comprehensive Profit from the date of production as described below.

According to the Partnership's accounting policy, from the date of commencement of commercial production, oil and gas assets are depreciated in the Statement of Comprehensive Income in the depletion method, based on the quantity of gas units actually produced relative to the estimated quantity of proved and probable (2P) reserves in the same assets, as estimated by an external expert (Netherland, Sewell and Associates, Inc.). In calculating the depreciation of oil and gas assets based on 2P reserves quantities, the Partnership takes into account also the future amount (in non-discounted values) of the investments required to produce such quantities.

Estimation of the gas and condensate reserves is a subjective process involving a significant degree of discretion based on the management's judgment and assumptions, via external experts having relevant knowledge and understanding regarding geological data, price estimation, future production costs, expected production rate and future development costs, if required.

Investments in oil and gas assets, the evaluation of reserves and the depletion expenses of oil and gas assets of the Partnership are described in Notes 2K and 3C of the consolidated financial statements. Due to the size of the effect of the gas and condensate reserves estimate on the financial statements, and due to the judgments and subjectivity involved in such estimate, we identified this issue as a Key Audit Matter.

The audit procedures applied to address this key audit matter

The main procedures we applied to this key audit matter in the framework of the audit are as follows:

- Achieving an understanding of the Partnership's existing processes and procedures regarding the estimate of the evaluation of gas and condensate reserves, and auditing the planning and implementation of controls used in the process;
- Evaluating the qualifications of the experts on behalf of the Partnership, including their skill and objectivity in performing the gas and condensate estimate, and considering whether they have professional qualifications to carry out reserves estimates for gas and oil reservoirs;
- Checking the completeness of the data underlying the evaluation of the reserves, *inter alia*, by analyzing the key changes in 2022 and comparing the reserves estimated by the Partnership to, and checking their agreement with, the information included in the gas and condensate reserves report prepared by the external experts on behalf of the Partnership;
- Checking that the updated estimates of gas and condensate reserves were properly included in the accounting treatment for determination of the depletion rate of the gas and oil assets;
- Checking the agreement of the calculations and adequacy of disclosures in the Partnership's financial statements.

(2) Provision for current taxes and deferred tax balances

As described in Notes 14A(2) and 14A(3) to the Partnership's financial statements, the current tax expenses for the year ended December 31, 2022 totaled \$15,706 thousand and the deferred tax balances as of December 31, 2022 totaled \$56,167 thousand.

As detailed in Notes 2Y, 3D and 14 to the financial statements, the management of the Partnership's GP is required to exercise broad discretion in order to determine the Partnership's tax consequences. The Partnership recognizes liabilities for its tax consequences based on management's estimate in connection with the taxes on income, which the Partnership will, more likely than not, be liable to pay. Such estimate involves significant uncertainty and is based on management's subjective assessment.

A change in such estimate or assessments may have a material effect on the amount of the Partnership's tax provision.

The main estimates used as a basis for calculating the provision for current taxes and deferred tax balances:

When calculating the provision for current taxes and deferred tax balances, the Partnership exercises judgment regarding the assets eligible for discounting and the method of depreciation thereof, as well as the differences between the required accounting principles and the tax laws.

The Partnership uses the following assumptions to determine its provision for current taxes and deferred tax balances:

- Determination of the assets which may be discounted for tax purposes .
- Determination of the method of depreciation of the assets for tax purposes.
- Review of the deductible expenses.
- Mapping of the gaps between the asset and liability balances on the books and the asset and liability balance for tax purposes and calculation of the deferred taxes thereon.

We identified the estimates used as a basis for calculation of the provision for current taxes and deferred tax balances as a Key Audit Matter. An audit of the provision for current taxes and deferred tax balances requires judgment by the auditor, as well as knowledge and experience, in order to review the reasonableness of the assumptions and data used by management to determine the provision for current taxes and deferred tax balances.

The response given to the Key Audit Matter

The main procedures we applied to this key audit matter in the framework of the audit are as follows:

The procedures implemented included, *inter alia*, an assessment of the design and implementation of the Partnership's controls of taxes on income, including audit of the effectiveness of such controls; audit of the integrity and accuracy of the data underlying the income tax calculation, including current tax balances and deferred tax balances in the Statement of Financial Position; examining the opinion of the experts on behalf of the Partnership; checking the underlying assumptions used by the Partnership in the assessment of the tax provision; review of the relevant experience and qualifications of the experts used by the Partnership; and performance of an independent calculation of the total tax provision and deferred tax balances.

We have also audited, pursuant to Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", components of the Partnership's internal control over financial reporting as of December 31, 2022 and our report as of March 28, 2023 included an unqualified opinion on the effective maintenance of such components.

Tel Aviv,
March 28, 2023

Kesselman & Kesselman
Certified Public Accountants
Member of PricewaterhouseCoopers International Limited

Ratio Energies – Limited Partnership
Consolidated Statements of Financial Position

	Note	December 31	
		2022	2021
		Dollars in Thousands	
Assets			
Current assets:			
Cash and cash equivalents	5, 2M	91,253	125,383
Financial assets at fair value through profit or loss	6	24,966	10,976
Short-term deposits	2N	30,355	64,174
Restricted deposits	10	3,657	-
Derivative financial instruments	6, 11A	5,035	-
Trade and other receivables:			
Trade receivables	17B	65,329	47,941
Operator of the joint venture	8C	10,737	2,310
Ratio Trusts Ltd. – the trustee – current account	24	269	338
Ratio Energies Management Ltd. (formerly – Ratio Oil Explorations Ltd.) – the GP – current account	24	-	883
Other receivables	7	1,304	1,406
Total current assets		232,905	253,411
Non-current assets:			
Financial assets at fair value through profit or loss – investment in Ratio Petroleum	6	4,153	5,509
Derivative financial instruments	6, 11A	2,849	-
Other long-term assets, net	9	68,209	59,393
Restricted deposits	10	6,507	14,707
Fixed assets, net	2G	104	57
Investments in oil and gas assets, net	8	803,803	811,832
Total non-current assets		885,625	891,498
Total assets		1,118,530	1,144,909
Liabilities and the partners' equity			
Current liabilities:			
Trade and other payables:			
Trade payables		118	44
Payables of a joint venture	8C	13,277	11,462
Ratio Energies Management Ltd. (formerly – Ratio Oil Explorations Ltd.) – the GP – current account	24	1,056	-
Others		599	92
Current maturities of bonds	11B	72,456	125,772
Interest payable	12	11,278	15,662
Payables		6,223	4,905
Options for consultants	15H	-	7
Provision for current taxes	14	3,685	-
Provision for balancing and tax payments	15E, 15F	-	13,920
Total current liabilities		108,692	171,864
Non-current liabilities:			
Provision for oil and gas asset retirement and disposal obligation	13	12,488	20,782
Bonds	11B	80,139	214,560
Loans from banking corporations, net	11A	510,627	487,112
Deferred taxes	14	56,167	24,723
Total non-current liabilities		659,421	747,177
Total liabilities		768,113	919,041
Contingent liabilities and engagements	25	-	-
Partners' equity	15	350,417	225,868
Total liabilities and partners' equity		1,118,530	1,144,909

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

Ligad Rotlevy
Chairman of the Board

Yigal Landau
CEO and Board Member

Amir Brami
CFO

Date of approval of the consolidated financial statements by the GP's board: March 28, 2023.

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

Ratio Energies – Limited Partnership
Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Note	Year ended December 31		
		2022	2021	2020
		Dollars in Thousands		
(Except for profit per participation unit figures)				
Income				
From sale of natural gas	17	379,944	293,354	195,164
Net of royalties	18	(57,951)	(48,887)	(32,520)
		<u>321,993</u>	<u>244,467</u>	<u>162,644</u>
Expenses and costs				
Cost of natural gas and condensate production	19	42,584	37,337	27,250
Depreciation and amortizations expenses	2K	29,674	27,998	23,419
Oil and natural gas exploration expenses	20	131	1,093	1,506
G&A expenses	21	9,545	6,733	3,173
Total expenses and costs		<u>81,934</u>	<u>73,161</u>	<u>55,348</u>
Operating income		240,059	171,306	107,296
Financial income	22	16,020	291	253
Financial expenses	22	(59,383)	(69,433)	(100,602)
Financial expenses, net		<u>(43,363)</u>	<u>(69,142)</u>	<u>(100,349)</u>
Income before taxes on income		196,696	102,164	6,947
Taxes on income	14, 15E	(47,150)	(24,723)	-
Total income and comprehensive income for the year		<u>149,546</u>	<u>77,441</u>	<u>6,947</u>
Basic and diluted profit per participation unit (in Dollars)	23	<u>0.133</u>	<u>0.069</u>	<u>0.006</u>

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

Ratio Energies – Limited Partnership
Consolidated Statements of Changes in the Partners' Equity

	Note	The Partnership's equity	Warrants	Capital reserve from control holders	Profit (loss) balance	Total equity
Dollars in Thousands						
Balance as of December 31, 2019		316,418	2,403	1,101	(151,334)	168,588
Movement in 2020:						
Exercise of Series 18 Warrants	15D	26	(1)	-	-	25
Exercise of Series 19 Warrants	15D	*	*	-	-	*
Expiration of Series 18 Warrants	15D	2,402	(2,402)	-	-	-
Income and comprehensive income for the year		-	-	-	6,947	6,947
Balance as of December 31, 2020		318,846	0	1,101	(144,387)	175,560
Movement in 2021:						
Exercise of Series 19 Warrants	15D	18	-	-	-	18
Tax payments for holders of the participation units	15E, 15F	-	-	-	(13,231)	(13,231)
Balancing payments for corporations and tax payments for individuals	15E, 15F	-	-	-	(13,920)	(13,920)
Income and comprehensive income for the year		-	-	-	77,441	77,441
Balance as of December 31, 2021		318,864	0	1,101	(94,097)	225,868
Movement in 2022:						
Distributed profit	15F	-	-	-	(24,997)	(24,997)
Income and comprehensive income for the year		-	-	-	149,546	149,546
		318,864	0	1,101	30,452	350,417

* A sum lower than \$1 thousand

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

Ratio Energies – Limited Partnership
Consolidated Statements of Cash Flows

	Year ended December 31		
	2022	2021	2020
	Dollars in Thousands		
Cash flows from operating activity:			
Net cash derived from operations, see Annex A	150,108	122,118	38,958
Interest received	1,232	308	258
Dividend received	58	14	5
Total net cash derived from current operations	<u>151,398</u>	<u>122,440</u>	<u>39,221</u>
Cash flows from investment activity:			
Operator of the joint venture	-	-	9,444
Purchase of financial instruments at fair value through profit or loss - Investment in Ratio Petroleum Energy – Limited Partnership	-	(4,585)	-
Repayment (deposit) of short-term deposits, net	9,932	(18,034)	(46,140)
Repayment (deposit) of restricted deposits	28,369	(6,253)	5,689
Investment in other assets	(9,122)	(10,593)	(6,343)
Purchase of fixed assets	(64)	(6)	-
Investment in oil and gas assets	(28,470)	(9,288)	(53,172)
Total net cash derived from investment activity (used for the activity)	<u>645</u>	<u>(48,759)</u>	<u>(90,522)</u>
Cash flows from financing activity:			
Loans from banking corporations, net, see Note 4B2	20,000	-	52,977
Issuance of Series D Bonds, net	-	90,771	-
Repayment of Series B and C bond principal	(111,600)	(113,894)	-
Tax advances and balancing payments paid for holders of participation units	(13,920)	(13,231)	-
Long-term derivative financial instruments	-	-	1,240
Distributed profits	(24,997)	-	-
Purchase of Series B Bonds, net	-	(2,331)	(25,144)
Early redemption of Series B Bonds	(53,107)	-	-
Total net cash deriving from financing activity (used for the activity)	<u>(183,624)</u>	<u>(38,685)</u>	<u>29,073</u>
Increase (decrease) in cash and cash equivalents	(31,581)	34,996	(22,228)
Cash and cash equivalents balance at the beginning of the year	125,383	89,781	111,703
Profits(losses) from exchange rate differences due to cash and cash equivalents	(2,549)	606	306
Cash and cash equivalents balance at year end	<u>91,253</u>	<u>125,383</u>	<u>89,781</u>

Ratio Energies – Limited Partnership
Consolidated Statements of Cash Flows

	Year ended December 31		
	2022	2021	2020
	Dollars in Thousands		
(a) Annex to the Consolidated Statements of Cash Flows -			
Net cash derived from operations:			
Income for the year	149,546	77,441	6,947
Adjustments for:			
Interest and dividend income	(1,290)	(322)	(263)
Depreciation and amortizations	29,674	27,998	23,440
Loss from change of terms due to loans from banking corporations	-	-	2,625
Income from change in fair value of derivative financial instruments	(7,360)	-	(1,240)
Losses (profits) from exchange rate differences due to cash and cash equivalents	2,546	(606)	(306)
Taxes on income	35,129	24,723	-
Expenses(revenues) of exchange rate differences in respect of restricted deposits	61	(374)	(409)
Interest and discount in respect of loans from banking corporations	8,054	3,233	8,117
Exchange rate differences, discount and interest on bonds	(31,951)	(19,724)	14,690
Provision for oil and gas asset retirement and disposal obligation	342	231	290
Loss from a change in fair value of financial instruments at fair value through profit or loss	3,409	14,419	24,846
	<u>188,160</u>	<u>127,019</u>	<u>78,737</u>
Changes in operating asset and liability items:			
Decrease (increase) in trade and other receivables:			
Trade receivables	(17,388)	(9,727)	(38,214)
Sale (purchase) of financial instruments at fair value through profit or loss, net	(16,567)	(4,285)	1,722
Change in balance with Ratio Trusts Ltd.	69	*	(19)
Royalties' differences	(5,365)	-	-
Others	102	(299)	591
Increase (decrease) in trade and other payables:			
Trade payables	74	23	(14)
Payables of a joint venture	4,025	653	440
Trade and other payables	1,311	(1,057)	3,199
Others	507	(92)	-
Change in balance with joint venture operator	(6,687)	(114)	7,139
Change in balance with Ratio Management Ltd. (formerly - Ratio Oil Explorations Ltd.) – the GP	1,867	9,997	(14,623)
	<u>(38,052)</u>	<u>(4,901)</u>	<u>(39,779)</u>
Net cash derived from operations	<u>150,108</u>	<u>122,118</u>	<u>38,958</u>
(b) Information on non-cash flow investment and financing activities:			
Investment in oil and gas exploration	7,282	9,492	8,402
Investments in other assets	(1,740)	-	-
Asset retirement obligation against oil and gas assets	(8,636)	1,499	4,078
Declared tax and balancing payments	-	13,920	-
(c) Interest paid	<u>62,353</u>	<u>69,680</u>	<u>52,235</u>
(d) Taxes paid	<u>12,532</u>	<u>-</u>	<u>-</u>

* Represents a sum lower than \$1 thousand

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

Ratio Energies – Limited Partnership

Notes to the Consolidated Financial Statements

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 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, until October 27, 2022 the Partnership held rights in eight other licenses in Israel together with two international energy companies (see Note 8D below on details regarding the Partnership’s decision to waive its rights in all the said licenses).
- 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. The scope of consumption in the export markets is affected by Jordan’s National Electric Power Company (“**NEPCO**”) and by Blue Ocean Energy in Egypt (an affiliate of Dolphinus Holdings Limited) (“**Blue Ocean**”) and in the domestic market by various customers, mainly independent power producers.

Below is the Partnership’s share in the revenues and in the quantities of natural gas sold to the export markets and the domestic market:

	Year ended December 31		
	2022	2021	2020
Revenues (in millions of \$)			
Export markets	284.2	186.0	107.1
Domestic market	95.7	107.4	88.1
	<u>379.9</u>	<u>293.4</u>	<u>195.2</u>
Quantities (BCM)*			
Export markets	1.14	0.93	0.57
Domestic market	0.57	0.68	0.52
	<u>1.71</u>	<u>1.61</u>	<u>1.09</u>

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

- C.** The Partnership was founded according to a limited partnership agreement 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 in 85 Yehuda Halevi St., Tel Aviv.
- On May 8, 2022, the general partner, Ratio Oil Exploration Ltd., changed its name to Ratio Energies Management Ltd. (the “**GP**”). The ongoing management of the Partnership is conducted by the GP and overseen by the supervisor, Simon Yaniv, Adv. and CPA (the “**Supervisor**”).
- Ratio Trusts Ltd. (the “**LP**”) acts as 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.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 1 - General (Cont.):

D. As of December 31, 2022 and as of the date of approval of the Financial Statements, the Partnership has holdings in several entities:

1) The Partnership is the control holder (100%) of Ratio Energies (Financing) Ltd. (“**Ratio Financing**”), a bond 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 in 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 SPC which was established by the Partnership for the purpose of receipt of project 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, held 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 the national electric company of Jordan.

As of December 31, 2022, the said Marketing Company’s activity 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 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 on the equity basis.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 1 - General (Cont.):

E. Russia-Ukraine War

On February 24, 2022, the Russian army invaded Ukraine as part of an initiated campaign which included mobilizing ground forces, alongside 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 suspend the completion of the Nord Stream 2 project, which is intended to double the volume of gas exported from Russia to Germany, discontinuation of some collaboration with Russian entities by international companies, 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 above crisis will develop and what long-term effect it will have on the energy markets and the Partnership's business in particular. Many European countries are seeking to diversify their natural gas sources, with the aim of reducing dependency on Russian natural gas. This may lead to an additional significant demand for natural gas from areas that can be connected to a natural gas pipeline to Europe, and to increase demand for LNG. The Partnership, together with its partners in the Leviathan Project, are examining the influence of such factors on the development and/or expansion options 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 operators of the joint venture.

Note 2 - Significant Accounting Policies

A. The basis for the presentation of the Financial Statements

- 1) The financial statements of the Group (the "**Financial Statements**" or "**Consolidated Financial Statements**") as of December 31, 2022 and 2021 and for each of the years in the period ended on December 31, 2022, comply with the International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standard Board (the "IFRS"), and include the additional disclosure required under the Securities Regulations (Annual Financial Statements), 5770-2010.

The below-described significant accounting policies were consistently applied with respect to all of the presented years unless stated otherwise.

The Financial Statements were prepared in accordance with the historic cost convention, subject to adjustments due to revaluation of financial assets (including derivatives) at fair value through profit or loss presented at fair value.

The preparation of financial statements in accordance with the IFRS requires use of specific material accounting estimates. In addition, it requires the Group's management to exercise discretion in the process of application of the Group's accounting policy. Note 3 discloses the areas in which a great deal of discretion or complexity is involved, or areas in which assumptions and estimates have a material effect on the Consolidated Financial Statements. Actual results may materially differ from the estimates and assumptions used by the Group's management.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

- 2) The period of the Group's operating cycle is 12 months.
- 3) The Group analyzes the expenses that were recognized in the statement of comprehensive profit or loss according to a classification method based on the activity characteristic of the expenses.

B. Consolidated Financial Statements

A subsidiary is an entity that is controlled by the Partnership. The Partnership controls the entity when the Partnership has power to influence the investee entity, it has exposure or rights to variable yield from its involvement in the entity and has the ability to use its power to influence the investee entity in order to influence the amount of the yield that it will derive from such entity. A subsidiary is included in the consolidation, in full, starting from the date on which control thereof is gained by the Partnership. Its consolidation is discontinued on the date on which the control discontinues.

Inter-Group transactions and balances, including revenues and expenses due to transactions between the Group companies are cancelled. The accounting policy implemented in the subsidiaries was adopted in such manner that will ensure consistency with the accounting policy adopted by the Partnership.

C. Associates

An associate is an entity in which the Group has material influence but not control, which is mostly demonstrated by holding 20% to 50% of the voting rights. An investment in an associate is treated according to the book value method.

According to the book value method, the investment is initially recognized according to its cost, and the book value changes such that the Group recognizes its share of the profit or loss of the associate from the purchase date.

Goodwill which relates to associates is included in the book value of the investment and is examined for the purpose of recognition of impairment as part of the investment as a whole.

The Group's share of the profit or loss of associates subsequently to the purchase date is carried to profit or loss and its share of the transactions in other comprehensive profit subsequently to the purchase date is carried to other comprehensive profit, against the book value of the investment.

When the Group's share of an associate's losses is equal to or, exceeds its rights in the investment (including all of the other non-secured debt balances), the Group does not recognize additional losses, unless the Group has a legal or an implicit obligation to bear the losses of the associate, over and above its rights therein or to the extent that payments were made for the associate.

Profits or losses deriving from transactions between the Group and the associates are recognized in the Group's statements, only in the amount of the share of the associate held by the investors who are not affiliated with the Group. The Group's share of profits or losses of the associate due to such transactions is cancelled. However, such losses from transactions between the Group and the associate may indicate an impairment of assets which is examined and treated as specified in Section L below.

The accounting policy of the associates was modified as needed to ensure consistency with the accounting policy implemented by the Group.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

The Group stops using the book value method starting from the date on which the investment is no longer an associate and from such date forth, treats the investment as a financial asset according to International Financial Reporting Standard 9 – Financial Instruments (“IFRS 9”), provided that the associate did not become a subsidiary (see Section B above).

D. Joint ventures

A joint venture is a contractual arrangement, according to which two or more parties assume economic activity of oil and gas exploration in a jointly owned asset. Certain joint ventures often involve joint activity by the venture participants in one or more assets that were invested in the joint venture. Ventures that do not have a formal requirement of unanimous consent by the venture partners, do not fulfill the definition of joint control according to International Financial Reporting Standard 11 – Joint Arrangements. As for the treatment in the context of joint operating agreements (“JOA”), see Section O below.

E. Non-inclusion of separate financial information in the Consolidated Financial Statements

In accordance with the provisions of Section 9C and the Tenth Schedule to the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and after the Partnership’s management examined this matter together with its legal advisors, the Partnership did not include in the Financial Statements, separate financial information, 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 accounting principles and securities law, there is no need for the inclusion thereof.

The parameters which constituted a basis for the Partnership’s decision are:

- 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 financial statements.
- 2) The total liabilities in the separate statement out of the Partnership’s total liabilities in the consolidated financial statements.
- 3) The total comprehensive income in the separate financial statements out of the Partnership’s total comprehensive income in the consolidated financial statements.
- 4) The cash flow from operating activity in the separate financial statements out of the cash flow from operating activity in the consolidated financial statements.

The Partnership will continue to examine the future effect of inclusion of separate financial information in each reporting period.

See Note 11 and Note 24C below for information regarding ties and engagements with Ratio Financing and Leviathan Development.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

F. Translation of foreign currency transactions and balances

1) Functional currency and presentation currency

Items included in the financial statements of each of the Group's companies are measured in the currency of the main economic environment in which the Partnership and the Group's companies operate (the "**Functional Currency**"). The Consolidated Financial Statements are presented in U.S. dollars ("**Dollar**" or "**\$**"), which is the Functional Currency and the presentation currency of the Group.

2) Transactions and balances

Transactions in a currency other than the Functional Currency ("**Foreign Currency**") are translated into the Functional Currency through use of the exchange rates that are valid as of the transaction dates. Exchange rate differences, deriving from settlement of transactions as aforesaid and from translation of assets and financial liabilities stated in a Foreign Currency, according to the exchange rates as of the end of the period, are carried to profit or loss.

Profits and losses due to a change in the exchange rates are presented in the statement of comprehensive income under the "financial income (expenses), net" item.

G. Fixed assets

The fixed assets are included for the first time according to the purchase cost. Subsequent costs are included, when incurred, at the asset's book value or recognized as a separate asset, as the case may be, only when the expectation is that future economic benefits attributed to the fixed assets item will be gained by the Group and the item's cost may be reliably measured. All of the fixed assets items are presented at the historic cost, net of accumulated depreciation and accumulated losses from impairment. The depreciation is calculated according to the straight line method, in order to amortize their cost to their residual value over their estimated useful life, as follows:

Electronic equipment	6-15 years
Furniture	6-20 years
leasehold improvements	10 years
Computers and software	3 years

Leasehold improvements are amortized according to the straight-line method, over the period of the lease contract or the estimated useful life of the improvements, whichever is shorter. As for oil and gas assets, see Section K below.

The assets' residual values, useful life and depreciation method are reviewed and updated as needed, at least once a year. A decrease in the book value of an asset to its recoverable amount is recognized immediately, insofar as the book value of the asset is higher than the estimate of the recoverable amount (see Section L below). Amortization and impairments with respect to the fixed assets are carried to profit or loss.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

H. Borrowing costs

Costs due to specific and general borrowings that are directly attributable to the acquisition, construction or production of a qualifying asset (an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the asset cost, less any income earned on the temporary investment of specific borrowings, in the period from the date on which all of the following conditions are fulfilled for the first time: (a) the Group incurs expenses due to the asset; (b) the Group incurs borrowing costs; and (c) the Group performs activities that are required to get the asset ready for its intended use or sale. The capitalization of the borrowing costs as aforesaid is discontinued when all of the activities required in order to get the asset ready for its intended use have been substantially completed.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are such borrowing costs that would have been avoided if the expense due to the qualifying asset would not have been incurred. The development activity of oil and gas assets is a qualifying asset.

I. Financial assets

1) Classification

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss and financial assets at amortized cost. The classification depends on the business model in which the financial assets are held and on the contractual terms and conditions of the cash flows due to them.

a) Financial assets at amortized cost

Financial assets at amortized cost are financial assets that are held in the context of a business model whose purpose is to hold financial assets in order to collect contractual cash flows and whose contractual terms and conditions provide entitlement on defined dates to cash flows that are only interest and principal payments due to the outstanding principal.

The aforesaid assets are classified as current assets, other than maturities for a period of more than 12 months subsequently to the date of the statement of financial position that are classified as non-current assets. The Group's financial assets at amortized cost are included in the items: cash and cash equivalents, short-term deposits, trade receivables, operator of the joint venture, Ratio Trusts Ltd. - the Trustee – current account, Ratio Oil Exploration Ltd. – the GP – current account, other receivables and restricted deposits, that appear in the statement of financial position.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets that are not classified in one of the other categories. They are classified as non-current assets, unless management intends to realize the investment therein within a period of up to 12 months subsequently to the date of the statement of financial position, or the date of their maturity does not exceed 12 months subsequently to the date of the statement of financial position, in which case they are classified as current assets.

2) Recognition and measurement

Ordinary sales and purchases of financial assets are recorded on the Group's books on the date of clearance of the transaction, which is the date on which the asset is delivered to or, by the Group.

Financial assets measured at fair value through profit or loss are initially recognized at fair value, and the transaction expenses are carried to profit or loss. Financial assets at amortized cost are initially recognized at fair value plus transaction costs. Financial assets are written off when the rights to receive cash flows from the investments expired or were transferred, and the Group transferred all of the risks and yield due to the ownership of such assets.

Financial assets at fair value through profit or loss are measured in subsequent periods at fair value.

Financial assets at amortized cost are measured according to amortized cost, on the basis of the effective interest method.

Profits or losses deriving from changes in the fair value of financial assets at fair value through profit or loss are presented in the statement of comprehensive income (loss) in the context of "financial expenses (income), net" in the period in which they were generated. Dividend revenues from financial assets at fair value through profit or loss are recognized in the statement of comprehensive income (loss) as part of "financial expenses (income), net" when the Group's right to receive payment is established.

With regard to the manner of determination of the fair value of the financial instruments, see Note 4.

3) Impairment of financial assets measured at amortized cost

On the date of every statement of financial position the Group examines whether a significant increase has occurred in the credit risk of the financial asset, from the date of its initial recognition, on an individual basis or a group basis. To this end, the Group compares the risk of occurrence of a default on the financial instrument on the reporting date with the risk of occurrence of a default on the financial instrument on the date of initial recognition, while taking into account any and all reasonable and supportable information, including forward-looking information.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

For financial assets in which a significant increase in the credit risk has occurred from the date of their initial recognition, the Group measures the provision for loss in the amount equal to the projected credit losses throughout the entire life of the instrument. Otherwise, the provision for loss will be measured in the amount equal to projected credit losses in a 12-month period. Notwithstanding the aforesaid, the Group always measures the provision for loss in the amount equal to projected credit losses throughout the entire life of the instrument for trade receivables. The amount of the projected credit losses (or cancellation thereof) is recognized in profit or loss under “losses (profits) from impairment (reversal of impairment) of financial assets”. For financial instruments with a low credit risk, the Group assumes that the credit risk did not significantly increase from the date of initial recognition thereof.

J. Investments in, and expenses of oil and gas exploration

The provisions of IFRS 6 – Exploration for and Evaluation of Mineral Resources (“**IFRS 6**”) determine the accounting treatment of gas and oil exploration expenses. The Group applies the successful efforts method with regard to its investments and expenses that pertain to oil and gas explorations. Below are the main principles thereof:

- 1) Expenses of participation in the performance of seismic and geological surveys and tests that take place in the preliminary stages of the exploration are carried to profit or loss immediately when they are incurred, up to the stage of the formulation, pursuant to the performance of such surveys and tests, of a specific drilling plan.
- 2) Investments in oil and gas wells that are in drilling stages due to reservoirs with regard to which it has not yet been proven whether they produce oil or gas and that have not yet been determined to be non-commercial, are defined as exploration and evaluation assets, and presented in the statement of financial position at the cost model.

Evaluation and exploration assets are not amortized systematically. With regard to examining the impairment of exploration and evaluation assets, see Section L below.

- 3) Investments in oil and gas drillings, due to reservoirs that were proven dry and abandoned or determined to be non-commercial or regarding which no development plans were made in the near future, are fully amortized to profit or loss.
- 4) Investments in oil and natural gas wells due to reservoirs in respect of which it was determined that gas or oil production are technically feasible and commercially viable (that are examined in an entirety of events and circumstances, the main part of which is obtaining approval from the Petroleum Commissioner in the Energy Ministry (the “**Commissioner**”) that the reservoir is a commercial discovery and receipt of a lease deed from the Commissioner in the license area) are defined as oil and gas assets and classified, subject to performance of an impairment assessment, from definition thereof as “investments in exploration and evaluation assets” to definition thereof as “investments in oil and gas assets”, and presented in the statement of financial position at cost.

The aforesaid oil and gas assets item includes, *inter alia*, engineering planning costs, reservoir development planning costs, planning and performance of development drillings, acquisition and construction of production facilities and gas transmission pipelines and construction of a terminal. The oil and gas assets item also includes capitalization of borrowing costs in the construction period.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

K. Investments in oil and gas assets

The balance sheet item “investments in oil and gas assets” includes costs accrued in respect of proven oil and gas assets of the Partnership.

Such costs mainly consist of exploration and confirmation wells, engineering plans, development wells, the construction of production facilities and pipeline for the transmission of oil and gas to the onshore delivery point as well as an onshore terminal and a storage facility and condensate transmission pipes and an estimate of the expected asset retirement costs.

From the date of commencement of commercial production, oil and gas assets are depreciated to the income statement according to the depletion method based on the actually-produced gas units relative to the total proved and probable reserves (“2P”) as evaluated by an outside expert. In the calculation of the depreciation of the oil and gas assets based on the quantities of 2P reserves, the Group also takes into account the future amount (at non-discounted values) of the investments required for the production of such quantities.

L. Impairment of non-financial assets

The Partnership examines the need for impairment of non-financial assets when there are signs as a result of events or changes in circumstances that indicate that the balance in the financial statements is non-recoverable.

In cases where in view of the examination of impairment as aforesaid, it transpires that the balance in the financial statements of the non-financial assets exceeds their recoverable amount, the assets are amortized to their recoverable amount. The recoverable amount is the higher of fair value net of sale costs and usage value. Upon evaluating the usage value, the expected cash flows are capitalized according to a discount rate net of tax that reflects the specific risks for each asset. For an asset that does not generate independent cash flows, the recoverable amount is determined for the cash producing unit to which the asset belongs. Losses from impairment, if any, are carried to profit or loss.

Loss from impairment of an asset is only cancelled when changes have occurred in the estimates that were used to determine the recoverable amount of the asset from the date on which the impairment loss was last recognized.

As for assets that were classified as exploration and evaluation assets (see Section J above), unique criteria that were specified in the context of IFRS 6 are applied for examining their impairment.

Such assets are examined for impairment when facts and circumstances may attest that their book value exceeds the recoverable amount that is attributed to them. Such facts and circumstances may include, *inter alia*:

- 1) The period in which the entity is entitled to explore a specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- 2) Substantive expenditures for mineral resources due to the continued exploration in the specific area and the evaluation thereof are neither budgeted nor planned.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

- 3) Exploration for mineral resources in the specific area and their evaluation did not lead to a discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue these activities in the specific area.
- 4) Even though it is likely that the development in the specific area will continue, there is enough information which indicates that it is unlikely that the book value of the exploration and evaluation asset will be fully recovered due to successful development or through sale.

M. Cash and cash equivalents

In the context of the consolidated statements of cash flows, the cash and cash equivalents include: cash on hand, cash in checking accounts and short-term bank deposits whose term of deposit does not exceed 3 months.

In cases where the Partnership paid cash calls to the operator of the joint venture (see Section O below), when the operator in the venture has not yet used the aforesaid amounts, the Partnership recognizes its share in the payments that were transferred in the context of the trade and other receivables item, since the aforesaid amounts do not fulfill the definition of cash and cash equivalents.

N. Short-term deposits

Short term deposits held by the Partnership were designed to be used for the purchase of Series C Bonds of Ratio Financing.

O. Joint operation agreements

The oil and gas exploration activity in a petroleum asset is regulated in the JOA. The JOA is a contractual arrangement pursuant to which, two or more parties undertake oil and gas exploration activity in a jointly held asset. The ownership of the petroleum asset and all of the tangible and intangible assets pertaining thereto (the “**Petroleum Asset**”) remains in the hands of the parties to the JOA and is not transferred or assigned to any entity or joint venture. The JOA determines the parties’ rights and obligations in relation to the activities within the jointly held asset.

Each party to the JOA is obligated to bear its share of the joint operating costs of the Petroleum Asset (which includes the oil/gas exploration, drilling, development and production activities).

In view of the aforesaid, the JOA is treated as an undivided right in the Petroleum Asset. Accordingly, in its Financial Statements, the Partnership recognizes its share in the Petroleum Asset (net of amortizations and impairments, if any) and its share in the products deriving therefrom. In addition, and since the Partnership is obligated to bear its proportionate share in the resulting operating costs, the Partnership also recognizes its share in the costs at the time they are incurred (and consequently, also recognizes its share in the liabilities incurred due to such costs).

P. Partners’ equity

The participation units of the Partnership are classified as the partners’ equity.

Where warrants were issued, and the amount of the exercise price to be received and the number of participation units to be issued upon the exercise thereof, are fixed and known, they were classified in the partners’ equity as “warrants”.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

Incremental transaction costs that are directly attributed to the issue of participation units or new warrants are presented in the partners' equity as a deduction from the issue proceeds.

Q. Bonds and loans from banking corporations

- 1) The bonds are initially recognized at fair value, net of transaction costs. In subsequent periods, each of the bond series is measured at amortized cost. The difference between the amount at which the bonds were initially recognized and their maturity value is recognized in profit or loss over the bond period according to the effective interest method.

With regard to Series B Bonds of Ratio Financing that were issued in a package together with warrants of the Partnership: the difference created between the total proceeds received from the aforesaid issues and the fair value of the bonds, as of the date of initial recognition, constitutes the element of the proceeds attributable to the issue of the warrants that is carried, net of respective transaction costs, to the partners' equity. The respective transaction costs have been split between the two aforesaid elements in accordance with the ratios of the amounts at which they were initially recognized before the attribution of these costs.

- 2) Loans are initially recognized at fair value, net of transaction costs. In subsequent periods, the loans are measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the maturity value is recognized in the income statement over the loan period, according to the effective interest method.

Fees that are paid due to the receipt of a loan facility, other than fees that are calculated based on the amount of the unused facility, are recognized as transaction costs that are attributed to the relevant loan, if it is probable that part or all of the loan facility will be used. In such a case, the recognition of the fee is postponed until the actual drawing of the money in the context of the loan and upon the drawing, constitutes part of the respective transaction costs of the loan that was drawn. If there is no evidence that it is probable that part or all of the loan facility will be used, the fee is capitalized as an advance payment for financing services, and amortized over the respective loan facility period.

Such fees that are calculated based on the amount of the undrawn facility, are carried to the income statement when they are incurred.

Loans and bonds are classified as current liabilities, unless the Group has an unconditional right to postpone their payment for at least 12 months subsequently to the expiration of the reporting period, in which case they are classified as non-current liabilities.

R. Trade payables

The trade payables balances include the Group's undertakings to pay for services acquired from suppliers in the ordinary course of business. The trade payables balances are classified as current liabilities, when payment is to be made within one year or less, otherwise they are presented as non-current liabilities.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

S. Recognition of revenues

- 1) The Group applies the financial reporting standard on recognition of revenue from contracts with customers (IFRS 15).

The core principle of IFRS 15 is that revenue from contracts with customers should be recognized to reflect the transfer of control of the goods or services provided to the customers under the contracts, in amounts that reflect the consideration to which the entity expects to be entitled to receive for such goods or services in accordance with the terms and conditions of the contract.

The recognition of revenues in accordance with the aforesaid core principle is performed by implementing five steps: (a) Identification of the contract with the customer; (b) Identification of the performance obligations in the contract; (c) Determination of the transaction price; (d) Allocation of the transaction price to the various performance obligations in the contract; and (e) Recognition of revenue upon satisfaction of each of the performance obligations.

IFRS 15 addresses the accounting treatment in a wide range of issues relating to the application of the aforesaid model, including recognition of revenue from variable consideration determined in a contract, adjustment of the transaction price determined in the contract in order to reflect the time value of money.

The Group generates its revenues from the sale of natural gas and condensate to a variety of customers, usually in the context of long-term contracts. The Group's revenues from the sale of natural gas are measured according to the sum of the consideration which the Group expects to be entitled for its own behalf only. Accordingly, the entitlement of the State and third parties to royalties at a certain rate of the gas discovery is presented as an expense which is directly deducted from the revenues from the sale of natural gas. Revenues from the sale of natural gas are recognized by the Group when the customer receives the natural gas (in the various delivery points as determined in the sale agreements), which is also when control of such goods is passed on to the customer and the customer's debt is recognized.

Credit in such sales does not exceed one year and the Group applies the relief which does not require the isolation of a financing component in such circumstances. The Group has no additional performance obligations after the goods are transferred as noted.

- 2) Interest revenues

Interest revenues are carried on a periodic basis according to the effective interest method.

- 3) Dividend revenues

Dividend revenues are recognized when the right to receive the same is established for the Partnership.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

T. Profit (loss) per participation unit

The calculation of the basic profit (loss) per participation unit is generally based on the profit (loss) attributable to holders of the participation units, divided by the weighted average of the number of participation units in circulation in the period.

In the calculation of the diluted profit (loss) per participation unit, the weighted average of the number of additional participation units that would have been in circulation assuming that all of the potential diluting participation units were converted is added to the weighted average of the number of participation units in circulation.

The potential participation units are taken into account as aforesaid, only when they have a diluting effect (reduce the profit or increase the loss per participation unit).

U. Cash-settled share-based payment

The Partnership operates a cash-settled option plan for consultants (the “**Phantom Options**”), in the context of which the Partnership receives services from consultants, *inter alia*, in consideration for Phantom Options of the Partnership (with each of the options exercisable into a monetary bonus in the amount that is equal to the difference between the price of the Partnership’s participation unit on the exercise date and the option exercise price).

The Partnership measures the services purchased and the liability incurred by the Group at the fair value of the liability. Pending the settlement of the liability, the Partnership re-measures the fair value of the liability at the end of each reporting period and on the settlement date, while any changes in the fair value are recognized in profit or loss for the period.

The Partnership recognizes the received services, and the undertaking to pay therefor upon the rendering of the services by the consultants in that period (throughout the vesting period), while taking into consideration the terms and conditions of the Phantom Options and the scope of the service provided by the consultants until such date. For details on the option plans, see Note 15H.

V. Provisions

Provisions are recognized when the Group has an existing, legal or implied, liability as a result of past events, it is probable that a negative flow of resources will be required in order to retire the liability and a reliable estimate of the liability amount may be made. The amount that is recognized as a provision is the best estimate of the expense that is required in order to retire the liability that exists on the date of the statement of financial position.

Provisions are measured according to the present value of the projected cash flows that will be required to settle the liability, calculated through the use of a cap rate before tax, that reflects current market estimations with regard to the time value of the money and the risks that are specific to the liability.

With regards to provision for asset retirement and disposal upon expiration of the period in which they are used - the Group recognizes such provision (and at the same time, the asset). The liability is measured for the first time at its current value and the expenses that derive from its increase over time are carried to the statement of profit or loss. The provision is recognized as part of the asset cost. The asset is depreciated over time to the statement of comprehensive income starting from the date of commercial production.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

Changes in the timing and amount of the economic resources that are required for settlement of the obligation, and a change in the cap rate are either added to or subtracted from the asset in the current period concurrently with the change in the liability (the cap rate as of December 31, 2022 and 2021 is approx. 6.7% and 3.8% per annum, respectively). The statement of financial position states the balance of the liability (under the “provision for oil and gas asset retirement and disposal obligation” item) and the balance of the asset (under the “investments in oil and gas assets, net” item).

W. Government levies

Levies that will be imposed on the Partnership by government institutions through legislation, will be treated according to the interpretation of IFRIC 21, whereby the obligation to pay the levy will only be recognized when the event establishing the payment obligation occurs (the “**Obligating Event**”).

Pursuant to the Taxation of Profits from Natural Resources Law, 5771-2011 the Partnership is subject to payment of a petroleum profit levy on its profits from the various oil and gas reservoirs. The rate of the levy is progressive and increases the more the profitability increases. For additional details see Note 14 below.

The Partnership will recognize an expense due to the levy in accordance with the Obligating Event method, i.e. only on the date that the obligation to pay the same will be established.

X. Derivative financial instruments

Derivate financial instruments are initially recognized at fair value on the date of engagement in the derivative contract and re-measured in subsequent periods at their fair value.

The method for recognizing profit or loss due to changes in fair value depends on the question whether the derivative instrument meets the requirements for hedge accounting recognition, and if it does, on the nature of the hedged item. Changes in the fair value of derivative financial instruments that do not satisfy the aforesaid requirements are recoded in profit or loss as financial income or expenses. The Group has no financial instruments that satisfy the requirements for hedge accounting recognition.

Y. Current and deferred taxes

The financial statements for 2021 and 2020 do not include current income taxes expenses, since the tax liability on the Partnership’s profits applies to its partners. Income tax payments made by the Partnership are on account of the tax for which the holders of the Partnership’s participation units are liable, and are deducted from the retained earnings item of the Partnership’s equity. Following an amendment to the Income Tax Regulations that was published during 2021, starting from the year 2022, the tax regime applicable to the Partnership has changed such that it is taxed as a company. See Notes 14A and 15E below. Therefore, as of December 31, 2021, the Partnership recognized a deferred tax liability due to temporary differences in its financial statements.

Income tax expenses in the 2022 financial statements include current and deferred taxes. The taxes are recognized in the Income Statement. The amount recorded as current taxes is calculated on the basis of tax laws enacted, or whose legislation has been de facto completed as of the date of the Statement of Financial Position, in countries in which the Partnership and the subsidiaries operate and generate taxable income.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

The Group's management periodically reviews the tax aspects applicable to its taxable income, according to the relevant tax laws, and records provisions according to the amounts expected to be paid to the tax authorities. Current taxes also include required adjustments to current taxes for previous years.

The Group recognizes deferred taxes, based on the liabilities method, for temporary differences between the amounts of the assets and liabilities included in the financial statements, and the amounts taken into account for tax purposes. However, deferred taxes are not recognized if the temporary differences are created at the time of initial recognition of the asset or liability, other than in the context of a business combination which, on the date of the transaction, have no effect on the profit or loss – either in terms of accounting or as reported for tax purposes.

The amount of the deferred taxes is determined according to the tax rates (and tax laws) enacted or whose enactment has been completed in practice as of the date of the Statement of Financial Position, and which are expected to apply when the deferred tax assets are realized or when the deferred tax liabilities are settled.

Deferred tax assets are recognized for temporary differences which are deductible for tax purposes, and for carried losses for tax purposes and unused carried tax credits, up to the amounts expected to be utilizable in the future against taxable revenues.

The deferred taxes are presented in the Statement of Financial Position as a non-current item, also if their date of reversal is expected within the 12 months following the date of the Statement of Financial Position.

Deferred tax assets and deferred tax liabilities are offset if and only if:

- There is an enforceable legal right to offset current tax assets against current tax liabilities.
- The deferred tax assets and the deferred tax liabilities relate to taxes on income which are imposed by the same tax authority on the same taxable entity or on different taxable entities which intend to settle the balances on a net basis.

The tax implications of the change in the Partnership's tax status were included in the income statement, because such implications do not concern transactions or events that were directly attributed to equity or to other comprehensive income (see Notes 14A and 15E).

Z. New international financial reporting standards; amendments to the standards and new interpretations:

New standards and amendments to preexisting standards that have not yet taken binding effect and with respect to which the Partnership has not chosen early application:

- 1) 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**").

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

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:

- a) 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.
- b) 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.
- c) 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.
- d) 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.
- e) 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 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 application is possible. The Partnership is considering the expected impact of the Amendments to IAS 1 on the Partnership's consolidated statements.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 2 - Significant Accounting Policies (Cont.):

- 2) Amendment to IAS 1 Presentation of Financial Statements, "Disclosure of Accounting Policies" (in this section: the "**Amendment to IAS 1**")

The Amendment to IAS 1 requires companies to disclose their material accounting policies rather than their significant accounting policies. According to the amendment, accounting policy information is material if, when considered together with other information included in the financial statements, it can reasonably be expected to influence decisions that the primary users of the financial statements make on the basis of those financial statements.

The Amendment to IAS 1 also clarifies that information about the accounting policy is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. The amendment further clarifies that there is no need to disclose information about a non-material accounting policy. However, insofar as such information is disclosed, it should not obscure material information about accounting policy.

The Amendment to IAS 1 will be applied with respect to annual periods commencing on or after January 1, 2023. According to the provisions of the amendment, early application is possible. The Partnership examines the effect of the application of the Amendment to IAS 1 on the information given regarding its accounting policy in the Partnership's consolidated statements.

- 3) Amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (the "**Amendment to IAS 8**")

The Amendment to IAS 8 clarifies how entities should distinguish between changes in accounting policies and changes in accounting estimates. This is a material distinction since changes in accounting estimates are applied prospectively, for transactions and other events in the future, whereas changes in accounting policies are generally applied retrospectively for transactions and other events in the past, as well as for events and transactions in the current period.

The Amendment to IAS 8 will be applied retrospectively with respect to annual periods commencing on or after January 1, 2023. According to the provisions of the amendment, early application is possible. Initial application of the Amendment to IAS 8 is not expected to have a material effect on the Partnership's consolidated financial statements.

Note 3 - Significant Accounting Estimates and Judgements:

Estimates and judgements are examined on an ongoing basis, and are based on past experience and on other factors, including expectations of future events, which are deemed reasonable, in view of the existing circumstances.

The Partnership forms estimates and assumptions with regard to the future. By their very nature, it is rare for the accounting estimates obtained to be identical to the actual respective results. The estimates and assumptions, in respect of which there is a significant risk of performance of material adjustments in the book value of assets and liabilities in the course of the subsequent financial year are specified below:

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 3 - Significant Accounting Estimates and Judgements (Cont.):

A. Legal proceedings

Upon estimation of the chances of the results of the legal claims that were filed against the Partnership, the Partnership relied on the opinion of its legal counsel. Such estimations by legal counsel are based on the best of their professional judgement, considering the stage of the proceedings, and the legal experience accumulated in the various issues. Since the results of the claims will be determined by the courts, such results may differ from these estimations.

B. Provision for an asset retirement obligation

The Partnership recognizes the asset concurrently with a liability in respect of its oil and gas asset retirement obligation at the end of the period of use thereof. The timing and amount of the economic resources that are required for settlement of the obligation are based on the Partnership's estimation, and are determined, *inter alia*, according to an opinion by independent external experts. Such amounts are examined periodically to ensure the fairness of such estimations. See Note 2V.

C. Estimate of gas reserves

The estimate of the gas reserves is used, *inter alia*, in determining the rate of amortization of the producing assets serving the operations during the reported period, as well as in the examination of a potential impairment. Investments related to the discovery and production of proved gas reserves are amortized according to the depletion method as stated in Section 2K above.

The estimated gas quantity in the proven reservoirs in the reported period is determined every year, *inter alia*, according to an opinion by outside experts in the evaluation of reserves of oil and gas reservoirs.

The evaluation of the proved gas reserves according to the aforesaid principles is a subjective process and evaluations of different experts may occasionally materially differ from one another. For further details, see Note 8C.

D. Current taxes and deferred taxes on income

On August 3, 2021, the Knesset's Finance Committee approved an amended version of the draft Income Tax Regulations (Rules for Calculation of the Tax on Holding and Sale of Participation Units of Oil Exploration Partnerships) (Amendment), 5781-2020 (the "**Amended Version of the Regulations**"). According to the Amended Version of the Regulations, *inter alia*, the Partnership is taxed as a company (i.e., according to a two-stage method) as of the 2022 tax year (*in lieu* of the 2021 tax year in the draft regulations). On September 14, 2021, the regulations were published in the Official Gazette.

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.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 3 - Significant Accounting Estimates and Judgements (Cont.):

The Partnership recognizes deferred tax assets and deferred tax liabilities based on the differences between the amounts of the assets and liabilities on the books and the amount thereof which is taken into account for tax purposes. The Partnership regularly examines the ability to recover the deferred tax assets included in its accounts, based on projected taxable income, the expected timing of reversal of temporary differences and the implementation of tax planning strategies. If the Partnership is unable to derive future taxable income in a sufficient amount, or in the event of a material change in the effective tax rates in the period during which the respective temporary differences become taxable or deductible, the Partnership may be required to cancel some of the deferred tax assets or increase the deferred tax liability, which may increase the Partnership's effective tax rate and adversely affect the results of its operations. See Notes 14 and 15E below.

Note 4 - Financial Instruments and Financial Risk Management:

A. Financial risk management:

1) Financial risk factors

The Group's operations expose it to a variety of financial risks: market risks (including currency risks, price risks and fair value and cash flow risk due to interest rate), credit risks and liquidity risks. The Group's comprehensive risk management plan focuses on the fact that the behavior of financial markets cannot be predicted and on an attempt to minimize possible negative effects on the Group's financial performance.

The Group's Finance Department identifies, assesses and hedges the financial risks in close cooperation with the GP's investment committee.

2) Market risks:

a) Exchange rate risks

The Partnership is exposed to exchange rate risks deriving from changes of the Dollar/ILS exchange rate.

The exchange rate risks derive mainly from the ILS liability balance in respect of Series B Bonds that were issued in 2016 and were fully early redeemed during 2022, from the fact that the Partnership is taxed based on an ILS measurement as well as additional expenses that are not fully linked to the Dollar.

The gas prices in the agreements for the sale of gas from the Leviathan Reservoir are determined based on price formulas that include various linkage components, and, inter alia, linkage to the ILS-Dollar exchange rate and linkage to the PUA tariff ("Electricity Production Tariff") which is partially affected by the ILS-Dollar exchange rate.

In addition, the Partnership has exposure to profit/loss from exchange rate changes resulting from ILS assets and liabilities of cash and cash equivalent balances, restricted deposits, financial assets and liabilities and other assets.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 4 - Financial Instruments and Financial Risk Management (Cont.):

If the ILS strengthened or weakened by 5% against the Dollar, whereas all other variables remained constant, the profit (loss) for the year and the Partnership's equity would change as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
	<u>Dollar in thousands</u>			<u>Dollar in thousands</u>		
	<u>5% Increase in the ILS/Dollar Exchange Rate</u>			<u>5% Decrease in the ILS/Dollar Exchange Rate</u>		
Increase (decrease) in equity	(2,089)	2,884	8,563	2,309	(3,188)	(7,748)
Increase (decrease) in profit per year	(2,089)	2,884	8,563	2,309	(3,188)	(7,748)

b) Price risk

The Partnership invests some of its cash surplus in marketable securities, which are classified in the statement of financial position as a short-term financial asset at fair value through profit or loss. The yields in these instruments depend on the performances of such securities. The Group diversifies its holdings portfolio with such securities with the aim of managing the price risk deriving from investments in marketable securities.

In addition, the Partnership has an investment in securities of Ratio Petroleum (see Note 6 below) which is classified in the statement of financial position as a long-term financial asset at fair value through profit or loss.

The holdings portfolio and the investment decisions are diversified in accordance with the investment policy determined by the GP's investment committee, based on the recommendations of professional consultants and in accordance with the investment policy limitations set forth in the partnership agreement.

The following table summarizes the effect of the increase/decrease in the prices of securities on the Group's profit (loss) for the year and on its equity. The analysis is based on the assumption that the securities indices rose/dropped by 5%, with all other variables remaining constant, and all of the fluctuations in the prices of the Group's marketable securities correlated with the fluctuations in the rate of the index:

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
	<u>Dollar in thousands</u>			<u>Dollar in thousands</u>		
	<u>5% Increase in the Securities Indices</u>			<u>5% Decrease in the Securities Indices</u>		
Increase (decrease) in equity	1,456	825	1,102	(1,456)	(825)	(1,102)
Increase (decrease) in profit per year	1,456	825	1,102	(1,456)	(825)	(1,102)

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 4 - Financial Instruments and Financial Risk Management (Cont.):

c) The natural gas and condensate price risk:

Natural gas supply agreements determine the gas price according to price formulas which include various linkage components, including linkage to the Brent barrel price, linkage to the electricity production tariff to which the gas agreements for private electricity customers are linked, and linkage to the ILS/dollar exchange rate. For details regarding the various linkages in the natural gas price formulas, see Note 25C below. A considerable portion of the natural gas supply agreements in which the Partnership has engaged determine, alongside the price formulas, also floor prices which limit, to a certain extent, the exposure to fluctuations in the linkage components. However, there is no certainty that the Partnership will be able to determine such floor prices also in new agreements that shall be signed thereby in the future.

With regards to the electricity production tariff, it is noted that the frequent methodological changes made by the Electricity Authority to the method of calculation thereof hinder the ability to predict the same and may lead to disputes between the gas suppliers and customers in connection with the method of calculation thereof. In this context it is noted, with respect to some of the private power plants (including plants that were sold by the IEC), that the Electricity Authority has introduced regulation called the System Marginal Price, whereby every half hour the wholesale electricity price is determined according to the marginal cost of production of an additional kWh in the market, based on half-hour tenders conducted by the manager of the electricity system between the various power producers, each day. The said pricing method may impact the prices of the natural gas that shall be sold by the Partnership to power producers in the domestic market in a case where the gas prices in future contracts are linked to the said pricing.

A decrease in the Brent barrel price and/or in the electricity production tariff and/or an increase in the ILS/dollar exchange rate (a weakening of the ILS against the dollar) may have an adverse effect on the Partnership's revenues from the existing and future gas sale agreements. In addition, a significant change in the prices of other energy sources (including coal, LNG and other gas substitutes) and/or in the availability of renewable energy, increased competition in the supply of gas to the domestic, regional and global market, reforms and regulatory decisions relating, *inter alia*, to the electricity market, the export of gas, the taxation of oil and gas profits, environmental laws, may cause a change in the natural gas consumption model of large customers, which may reduce demand and lead to a decrease in the natural gas prices and have an adverse effect on the Partnership, its financial position and its results of operations. In addition, material events in the global economy, such as an economic slowdown, a recession, inflation, irregular fluctuations in currency exchange rates, trade wars, damage to the efficient functioning of the global production and supply chains in general, and to the segments of engineering, production and supply of components for the oil and gas industry in particular, as well as weather conditions, including global warming, the outbreak of pandemics such as Covid, and natural disasters, may also reduce the demand for natural gas sold by the Partnership and/or impact its price and/or have an adverse effect on the Partnership's revenues from the existing and future gas sale agreements, as well as on the making of decisions to invest in new natural gas projects and/or expansion of existing projects.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 4 - Financial Instruments and Financial Risk Management (Cont.):

As of the date of the report, the condensate is sold for no consideration to ORL. The Leviathan partners engaged in several agreements that will enable an alternative for the piping and sale of condensate produced from the Leviathan Reservoir. See also Note 25C(6-8) below.

d) Index-linked risk

The Group invests part of its cash balances in index-linked bonds and exchange traded funds that are classified in the Statement of Financial Position as financial assets at fair value through profit or loss that expose the Partnership to changes in the index.

e) Cash flow and fair value interest rate risk

The Group's interest risk derives from investments in bonds and from loans that have been taken and bonds that were issued.

Loans/bonds that bear variable interest rates expose the Group to cash flow risk, while loans/bonds that bear fixed interest rates expose the Group to fair value risk.

(1) Investments in bonds

The Group invests part of its cash balances in bonds bearing fixed interest that are classified in the Statement of Financial Position as financial assets at fair value through profit or loss. This item is presented at fair value, on the basis of quoted market prices. Accordingly, there is an exposure to changes in the value of these investments as a result of changes in the market's interest rate.

Since the Partnership is investing in bonds with short-medium average lifespan and also in high ratings no less than (A-) in Israel, in the estimation of the Group's management, as pertains to these investments, it does not have a material exposure to fair value interest rate risk.

(2) Loans taken

The partnership has taken a loan at a dollar variable interest rate and is therefore exposed to possible changes in cash flow that may result from changes in the LIBOR interest rate.

As part of the Partnership's risk management, and in order to reduce the exposure in connection with an increase in the LIBOR interest rate on the loan taken thereby (see Note 11A2 below), in 2022 the Partnership bought options to hedge \$250 million.

The following table summarizes the effect of the increase/decrease in the 3-month LIBOR on the Group's profit for the year and on its equity. The analysis is based on the assumption that the LIBOR rose/dropped by 5% with all other variables remaining constant:

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 4 - Financial Instruments and Financial Risk Management (Cont.):

	2022	2021	2020	2022	2021	2020
	Dollar in thousands			Dollar in thousands		
	5% Increase in the LIBOR			5% Decrease in the LIBOR		
Increase (decrease) in equity	(343)	(43)	(218)	343	43	218
Increase (decrease) in profit per year	(343)	(43)	(218)	343	43	218

3) Credit risk

Credit risk is the risk that one party to financial instruments will cause a financial loss to the other party by failure to meet liabilities. A credit risk derives mainly from trade accounts receivable and deposits in banks. For details on the Partnership's principal customers, see Section (a) below and Note 17B.

The trade receivables balance as of December 31, 2022 and 2021 is a current balance. The Partnership estimates that the credit risk vis-à-vis the local customers is low and that the credit risk in relation to gas produced vis-à-vis Blue Ocean and NEPCO is low in view of past experience and because the current balances outstanding against them are backed up in part by collateral provided thereby. In addition, until the date of approval of the financial statements, the Partnership received from its customers all of the income recorded in the trade receivables balance as of the date of the financial statements.

a) Receivables turnover and ageing:

	Revenues for the year ended December 31, 2022	Trade receivables balance as of December 31, 2022		
		Total	Current balance	Disputed balance
Dollar in thousands				
Blue Ocean	107,443	18,073	18,073	-
NEPCO	176,803	43,160	43,160	-
Other customers – domestic market	95,698	4,096	4,096	-
Total	379,944	65,329	65,329	-

	Revenues for the year ended December 31, 2021	Trade receivables balance as of December 31, 2021		
		Total	Current balance	Disputed balance
Dollar in thousands				
IEC	30,141	43	43	-
NEPCO	87,370	11,984	11,984	-
Blue Ocean	98,665	29,560	29,560	-
Other customers – domestic market	77,178	6,354	6,354	-
Total	293,354	47,941	47,941	-

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 4 - Financial Instruments and Financial Risk Management (Cont.):

- b) The Group deposits its cash balances and cash equivalents in banking corporations and other financial corporations that have independently been assigned a rating of at least A1 and therefore the Partnership estimates that the credit risk with respect to such balances is low.

4) Liquidity risk

The cash flow forecast is prepared by the Group both at the level of the various entities of the Group and on a consolidated basis. The Group's Finance Department examines current forecasts of liquidity requirements at the Group. Such forecasts have taken several factors into account, such as the Group's plans to use debt and/or equity for the purpose of financing its operations.

As part of the management of the Partnership's liquidity risks, the Partnership examines, within the means available thereto, in a number of scenarios, the existence of sufficient liquidity to meet its obligations on time.

- 5) The following table presents an analysis of the Group's financial liabilities, classified into relevant maturity categories, according to the period remaining until their contractual due date, as of the date of the statement of financial position.

The sums presented in the table are undiscounted contractual cash flows.

	Less than 1 Year	Between 1 and 2 Years	Between 2 and 5 Years	More than 5 Years
	Dollar in thousands			
Balance as of December 31, 2022:				
Trade payables	118	-	-	-
Payables of a joint venture	13,227	-	-	-
Ratio Energies Management Ltd. – the GP	1,056	-	-	-
Others	599	-	-	-
Payables	6,223	-	-	-
Provision for balancing and tax payments	3,685	-	-	-
Loan from banking corporations*	-	-	520,000	-
Interest on loan from banking corporations*	40,189	42,035	101,726	-
Interest in respect of Series C Bonds	6,040	-	-	-
Series C Bonds	60,396	-	-	-
Interest in respect of Series D Bonds	5,244	4,615	10,068	2,753
Series D Bonds	11,040	11,040	37,718	32,199
Total	147,817	57,690	669,512	34,952

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 4 - Financial Instruments and Financial Risk Management (Cont.):

	<u>Less than 1 Year</u>	<u>Between 1 and 2 Years</u>	<u>Between 2 and 5 Years</u>	<u>More than 5 Years</u>
	<u>Dollar in thousands</u>			
Balance as of December 31, 2021:				
Trade payables	44	-	-	-
Payables of a joint venture	11,462	-	-	-
Others	92	-	-	-
Payables	4,905	-	-	-
Options for consultants	7	-	-	-
Provision for balancing and tax payments	13,920	-	-	-
Loan from banking corporations*	-	-	165,343	334,657
Interest on loan from banking corporations*	20,287	20,287	55,668	15,773
Interest in respect of Series B Bonds**	20,660	10,331	-	-
Series B Bonds**	55,829	55,846	-	-
Interest in respect of Series C Bonds	12,077	6,040	-	-
Series C Bonds	60,378	60,396	-	-
Interest in respect of Series D Bonds	5,244	5,244	11,956	5,479
Series D Bonds	-	11,040	33,119	47,837
Total	<u>204,905</u>	<u>169,184</u>	<u>266,086</u>	<u>403,746</u>

* Sums relating to a loan from banking corporations assume repayment by installments of the balance of the loan principal and on the maturity date, i.e., in 2027, without additional sums on account of the loan principal in variable rates in accordance with certain debt coverage ratio (DSCR Cash Sweep) that were set in the loan agreement (see Note 11A2). Furthermore, in calculating the interest on a loan from banking corporations as of December 31, 2022 and 2021, a fixed LIBOR interest rate was used as of October 19, 2022 and October 14, 2021 and is 4.20126% and 0.122250%, respectively, throughout the loan period. The cash flow calculation for December 31, 2022 also takes into account the hedges against the LIBOR interest rate.

** The calculation of the balance of the undiscounted contractual cash flows in respect of the series B Bonds as of December 31, 2021 takes into account the Dollar exchange rates for such date.

6) Capital management

The Group's capital risk management goals are to preserve the Group's ability to continue acting as a going concern with the aim of generating for the participation unit holders a yield on their investment and maintaining an optimal capital structure for the purpose of reducing the costs of capital.

The Partnership may take various measures for the purpose of maintaining or adjusting its capital structure, including the repayment of capital to the participation unit holders and the issue of new units and/or the issue of warrants and/or a change of the terms and conditions of the warrants. For further details, see Note 15A.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 4 - Financial Instruments and Financial Risk Management (Cont.):

7) Fair value estimates

Following is an analysis of the financial instruments measured at fair value according to valuation techniques. The various levels have been defined as follows:

- Quoted prices (unadjusted) in active markets in which identical assets or liabilities are traded (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., deriving from the prices) (Level 2).
- Inputs with respect to the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The table below represents the Group's financial assets that are measured at fair value as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>Dollar in thousands</u>			
Balance as of December 31, 2022:				
Assets:				
Financial assets as fair value through profit and loss:				
Financial assets as fair value through profit or loss	24,966	-	-	24,966
Financial assets as fair value through profit or loss - investment in Ratio Petroleum	4,153	-	-	4,153
Derivative financial assets	-	7,884	-	7,884
Total assets	<u>29,119</u>	<u>7,884</u>	<u>-</u>	<u>37,003</u>

The table below represents the Group's financial assets that are measured at fair value as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>Dollar in thousands</u>			
Balance as of December 31, 2021:				
Assets:				
Financial assets as fair value through profit and loss:				
Financial assets as fair value through profit or loss	10,976	-	-	10,976
Financial assets as fair value through profit or loss - investment in Ratio Petroleum	5,509	-	-	5,509
Total assets	<u>16,485</u>	<u>-</u>	<u>-</u>	<u>16,485</u>

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 4 - Financial Instruments and Financial Risk Management (Cont.):

a) Financial instruments at level 1

The fair value of financial instruments traded in active markets is based on the quoted market price as of the date of the statement of financial position. A market is deemed active when transactions in the asset or liability occur therein in sufficient frequency and in volume to provide price information regarding on an ongoing basis (for example, a stock exchange).

b) Financial instruments at level 2

Derivatives financial instrument include interest rate swaps. Interest rate swaps were assessed using future interest rates based on a foreseeable yield curve. The classification of the figures used for the calculation of the fair value of the derivatives are foreseeable at level 2.

Over the course of the reported years, no reclassifications were made between the fair value levels.

B. Financial Instruments:

1) Financial instruments by categories

The accounting policy on the treatment of financial instruments has been applied to the following items:

December 31, 2022:

	Financial assets at amortized cost	Assets at fair value through profit or loss		Total
		Assets held for trading	Equity instruments not designated at fair value through other comprehensive income	
Dollar in thousands				
Current assets:				
Cash and cash equivalents	91,253	-	-	91,253
Financial assets at fair value through profit or loss	-	24,966	-	24,966
Short-term deposits	30,355	-	-	30,355
Restricted deposits	3,657	-	-	3,657
Derivative financial instruments	-	5,035	-	5,035
Trade receivables	65,329	-	-	65,329
Operator of the joint venture	10,737	-	-	10,737
Ratio Trusts Ltd. - the Trustee -				
Current account	269	-	-	269
Other receivables	1,048	-	-	1,048
Total current assets	202,648	30,001	-	232,649

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 4 - Financial Instruments and Financial Risk Management (Cont.):

	Assets at fair value through profit or loss			Total
	Financial assets at amortized cost	Assets held for trading	Equity instruments not designated at fair value through other comprehensive income	
Dollar in thousands				
Non-current assets:				
Financial assets at fair value through profit or loss - investment in Ratio Petroleum	-	-	4,153	4,153
Derivative financial instruments	-	2,849	-	2,849
Other long-term assets, net*	5,365	-	-	5,365
Restricted deposits	6,507	-	-	6,507
Total non-current assets	11,872	2,849	4,153	8,874

* Royalties receivable from the Ministry of Energy and interest parties, see Note 18 below.

	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
	Dollar in thousands		
Current liabilities:			
Trade payables	-	118	118
Payables of a joint venture	-	13,277	13,277
Ratio Energies Management Ltd. - the GP	-	1,056	1,056
Other	-	599	599
Current maturities of bonds	-	72,456	72,456
Interest payable	-	11,278	11,278
Payables	-	6,223	6,223
Provision for tax and balancing payments	-	3,685	3,685
Total current liabilities:	-	108,692	108,692

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 4 - Financial Instruments and Financial Risk Management (Cont.):

	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
	Dollar in thousands		
Non-current liabilities:			
Bonds	-	80,139	80,139
Loans from banking corporations, net	-	510,627	510,627
Total non-current liabilities	-	590,766	590,766

December 31, 2021:

	Assets at fair value through profit or loss			
	Financial assets at amortized cost	Assets held for trading	Equity instruments not designated at fair value through other comprehensive income	Total
	Dollar in thousands			
Current assets:				
Cash and cash equivalents	125,383	-	-	125,383
Financial assets at fair value through profit or loss	-	10,976	-	10,976
Short-term deposits	64,174	-	-	64,174
Trade receivables	47,941	-	-	47,941
Operator of the joint venture	2,310	-	-	2,310
Ratio Trusts Ltd. - the Trustee - Current account	338	-	-	338
Ratio Oil Exploration - the General Partner - Current account	883	-	-	883
Other receivables	589	-	-	589
Total current assets:	241,618	10,976	-	252,594

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 4 - Financial Instruments and Financial Risk Management (Cont.):

		Assets at fair value through profit or loss		
	Financial assets at amortized cost	Assets held for trading	Equity instruments not designated at fair value through other comprehensive income	Total
	Dollar in thousands			
Non-current assets:				
Financial assets at fair value through profit or loss – investment in Ratio Petroleum	-	-	5,509	5,509
Restricted deposits	14,707	-	-	14,707
Total non-current assets:	14,707	-	5,509	20,216

	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
	Dollar in thousands		
Current liabilities:			
Trade payables	-	44	44
Payables of a joint venture	-	11,462	11,462
Other	-	92	92
Current maturities of bonds	-	125,772	125,772
Interest payable	-	15,662	15,662
Payables	-	4,905	4,905
Options for consultants	7	-	7
Provision for tax and balancing payments	-	13,920	13,920
Total current liabilities:	7	171,857	171,864

	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
	Dollar in thousands		
Non-current liabilities:			
Bonds	-	214,560	214,560
Loans from banking corporations, net	-	487,112	487,112
Total non-current liabilities	-	701,672	701,672

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 4 - Financial Instruments and Financial Risk Management (Cont.):

- 2) Changes in financial liabilities whose cash flows are classified as cash flows from financing activity:

	<u>Bonds</u>	<u>Loans from banking corporations, net</u>	<u>Provision for tax and balancing payments</u>	<u>Total</u>
	<u>Dollar in thousands</u>			
Balance as of December 31, 2020	381,110	483,597	-	864,707
Changes during 2021:				
Cash flows receivables	90,771	-	-	90,771
Cash flow paid	(113,894)	-	-	(113,894)
Amounts carried to equity	-	-	13,920	13,920
Amounts carried to profit and loss	(17,655)	3,515	-	(14,140)
Balance as of December 31, 2021	<u>340,332</u>	<u>487,112</u>	<u>13,920</u>	<u>841,364</u>
Changes during 2022:				
Cash flows receivables	-	50,000	-	50,000
Cash flow paid	(164,707)	(30,000)	(13,920)	(208,627)
Amounts carried to profit and loss	(23,030)	3,515	-	(19,515)
Balance as of December 31, 2022	<u>152,595</u>	<u>510,627</u>	<u>-</u>	<u>663,222</u>

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 5 - Cash and Cash Equivalents

	December 31	
	2022	2021
	Dollar in thousands	
Cash in the bank	12,114	93,112
Short-term bank deposits	79,139	32,271
	91,253	125,383

The book value of the cash and cash equivalents is a reasonable approximation of their fair value since the effect of the capitalization is immaterial.

Note 6 - Financial Assets at Fair Value Through Profit or Loss

	December 31	
	2022	2021
	Dollars in thousands	
Shares, bonds and mutual funds held for trading:		
Investment in government bonds	19,296	1,321
Investment in corporate bonds	2,092	6,193
Investment via mutual funds	951	457
Investment in shares outside Israel	1,963	1,335
Investment in shares in Israel	664	1,670
Investment in Ratio Petroleum	4,153	5,509
Derivative financial instruments	7,884	-
	37,003	16,485

Changes in the fair value of financial assets at fair value through profit or loss are carried to the “financial income (expenses), net” item in the statement of comprehensive income (see Note 22).

The amounts recognized in profit or loss for the financial assets at fair value through profit or loss are as follows:

	For the year ended December 31		
	2022	2021	2020
	Dollars in thousands		
Financial assets whose measurement at fair value through profit or loss is required	5,904	737	(1,721)
Investment in Ratio Petroleum	(1,356)	(15,150)	(24,815)
	4,548	(14,413)	(26,536)

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 6 - Financial Assets at Fair Value Through Profit or Loss (Cont.)

On January 24, 2017, the Partnership purchased 22,936,448 participation units, 11,468,224 Series 1 Warrants and 11,468,224 Series 2 Warrants of Ratio Petroleum in consideration for approx. ILS 23,636 thousand. This investment is presented in the consolidated statement of financial position under non-current assets, as financial assets at fair value through profit or loss.

On May 20, 2019, a special general meeting was held of the unitholders, which, *inter alia*, approved an amendment to the Partnership's investment policy in a manner which will allow the GP to invest available money of the Partnership in the purchase of securities of Ratio Petroleum for the purpose of exercising warrants, up to the sum of ILS 40 million.

In July 2019, the Partnership exercised Series 1 Warrants of Ratio Petroleum in consideration for approx. ILS 15 million. After the exercise, the Partnership holds 34,404,672 participation units and 11,468,224 Series 2 Warrants of Ratio Petroleum.

On December 31, 2020, a special general meeting was held of the unitholders, which, *inter alia*, approved the amendment to the Partnership's investment policy in a manner which will allow the GP to invest available money of the Partnership for the purpose of exercising warrants, up to the sum of ILS 60 million, provided that the Partnership's holding rate in Ratio Petroleum's equity shall not exceed 20%, and also to approve the GP to invest available money of the Partnership for the purchase of securities of Ratio Petroleum, up to the total accumulated sum of ILS 60 million. In January 2021, the Partnership exercised Series 2 Warrants of Ratio Petroleum in consideration for approx. ILS 15.8 million, and in proximity to the last exercise date of such warrants, the Partnership sold 908,064 warrants in order to meet the holding rate limit of 20%. After such exercise and sale, the Partnership holds 44,964,832 participation units of Ratio Petroleum and a holding rate of 20% as aforesaid.

As of December 31, 2022, December 31, 2021 and as of the date of approval of financial statements, the Partnership holds 20% of the total participation units of Ratio Petroleum.

Note 7 - Other Receivables

	December 31	
	2022	2021
	Dollars in thousands	
Institutions	757	490
Prepaid expenses	256	820
Others	291	96
	<u>1,304</u>	<u>1,406</u>

The book value of the Other Receivables is a reasonable approximation of their fair value since the effect of the capitalization is immaterial.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 8 - Investment in Oil and Gas Assets, Net

A. Movement in investments in oil and gas assets:

	December 31	
	2022	2021
	Dollar in thousands	
Cost:		
Balance at the beginning of the year	855,973	844,096
Additions	26,256	10,378
Write-offs	(85)	-
Update due to change in disposal and retirement obligation	(8,636)	1,499
	873,508	855,973
Accumulated depreciation:		
Balance at the beginning of the year	44,141	19,658
Changes during the year – depreciation and amortizations	25,564	24,483
Accumulated depreciation at end of year	69,705	44,141
Depreciated cost at end of year *	803,803	811,832

* The balance of the investment, net includes a sum of approx. \$9.8 million and \$19 million in respect of disposal and retirement costs as of December 31, 2022 and 2021, respectively.

B. Details with respect to the Partnership's Interests in Oil and Gas Assets

The Joint Venture	Name of Petroleum Asset	Area in km²	Type of Interest	Interest Valid Until	Partnership's Share
Ratio Yam	I/15 – “Leviathan North”	Approx. 250	Lease	13.02.2044*	15%
Ratio Yam	I/14 – “Leviathan South”	Approx. 250	Lease	13.02.2044*	15%

* The interest was granted for 30 years and may be extended by another 20 years according to the provisions of the Petroleum Law.

For details with respect to the Eran/353 license (the “**Eran License**”), see Section C(10) below.

The grant of licenses and leases does not obviate the receipt of any permit, approval or license required under any law from any public or other entity and the licenses and leases do not obviate the arrangement of all aspects required by law vis-à-vis any public or private entity, including, without derogating from the generality of the aforesaid, vis-à-vis the Competition Authority and the Ministry of Environmental Protection. The terms and conditions of each license and lease include a work plan for execution during the term of the licenses and leases.

C. Ratio Yam joint venture:

- 1) The partners in the Ratio Yam joint venture, as specified below in Section 3 below, jointly hold petroleum leases of a total area of approx. 500 km² which are located approx. 130 km west of the shores of Israel.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 8 - Investment in Oil and Gas Assets, Net (Cont.):

- 2) The rights in the leases are held as follows:

The Partnership	15.00%
Chevron Mediterranean Ltd. (“Chevron” or the “Operator”)	39.66%
NewMed Energy – Limited Partnership (“NewMed”)*	45.34%

The Partnership together with Chevron and NewMed will be named jointly: the “Leviathan Partners” or the “Partners”.

* On February 21, 2022, Delek Drilling – Limited Partnership announced the change of the Partnership’s name to NewMed Energy – Limited Partnership.

- 3) Development and operation of the Leviathan Project

On June 2, 2016, the development plan was approved by the Commissioner, as submitted by Chevron. On February 23, 2017, the Leviathan Partners adopted a final investment decision (FID) for the development of Phase 1A of the development plan for the Leviathan Reservoir, with a capacity of approx. 12 BCM per year. The total cost invested in the development of Phase 1A amounted as of the date of the financial statements to approx. \$3.8 billion (for 100% of the rights in the Leviathan Reservoir, the Partnership’s share is approx. 0.6 billion).

December 31, 2019 saw the commencement of piping of natural gas from the Leviathan Reservoir to the domestic market. January 1, 2020 saw the commencement of sale of natural gas to Jordan, and January 15, 2020 saw the commencement of piping of natural gas to Egypt. See Note 25C1 below with respect to agreements for the sale of natural gas.

The plan for the development of the Leviathan Reservoir includes the supply of natural gas to the domestic market and for export as well as the supply of condensate to the domestic market (the “Development Plan” or the “Plan”), the main principles of which are:

- a) The production system includes 8 first wells that will be connected by a sub-sea pipeline to a permanent platform (the “Platform”), which is located offshore within the territorial waters of Israel in accordance with the provisions of National Outline Plan (“NOP”) 37/H, and on which the gas and condensate treatment systems will be installed. The gas is piped from the Platform to the northern onshore entry point of the national transmission system of INGL, as defined in NOP 37/H (the “INGL Connection Point”). The condensate is also piped to the shore via a separate pipeline parallel to the gas pipeline, and will be connected to an existing fuel pipeline of Europe Asia Pipeline Co. (“EAPC”) that leads to the tank farm of Petroleum & Energy Infrastructures Ltd. (“PEI”) and from there to the Oil Refineries Ltd. (“ORL”).
- b) The production system is intended to supply approx. 21 BCM per year after completion of Phase 1A and Phase 1B of the Development Plan, as specified below.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 8 - Investment in Oil and Gas Assets, Net (Cont.):

- c) The Development Plan is implemented in two phases, according to the maturity of the relevant markets, as follows:
Phase 1A – the current phase, in which 4 sub-sea production wells were drilled, a sub-sea production system that connects the production wells to the Platform was built, and a system for transmission to the shore and related onshore facilities were built. At this point, the gas production capacity is approx. 12 BCM per year
Phase 1B - is expected to include, at the beginning, 4 additional production wells, related sub-sea systems and expansion of the Platform's processing facilities to increase the system's total gas production capacity by additional approx. 9 BCM per year (to a total of approx. 21 BCM per year). Note, that as of the date of approval of the financial statements, the Leviathan Partners have not yet adopted a final investment decision for the development of Phase 1B.
- d) It is noted that additional production wells will be required during the life of the project to enable production of the required volume. In the matter of the Leviathan 8 development and production well, see Section F below.
- e) As of the date of approval of the financial statements, and according to the Development Plan, the gas supply capacity from the Leviathan Project to INGL's transmission system is approx. 1,200 MMCF per day.
- f) Considering the volume of gas production from the Leviathan Reservoir and the demand, and in order to improve the production system redundancy, the Operator recommended to bring forward to 2022 the drilling of another development and production well, which had been planned to be drilled in later years. Accordingly, on July 12, 2021, the Leviathan Partners announced that they had made the decision to drill the Leviathan 8 development and production well in the area of the I/14 Leviathan South lease (the "**Well**"), with a budget of approx. \$248 million (100%, the Partnership's share – approx. \$37 million) (including completion and connection to the Leviathan Reservoir's production system). Drilling of the said well was completed in June 2022, on schedule and below budget. The cost of the drilling as of the date of the financial statements totaled approx. \$140.1 million (100%, Partnership's share – approx. \$21 million). As of the date of approval of the financial statements, completion work is being carried out in the Well, according to the work plan, and it is expected to be connected to the existing sub-sea production system of the Leviathan Project in Q2/2023.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 8 - Investment in Oil and Gas Assets, Net (Cont.):

- 4) In the framework of the joint operating agreement (JOA), as amended from time to time, it was agreed that Chevron would serve as the Operator and be exclusively responsible for the management of the joint operations. According to the rules of settlement of accounts specified in the agreement, Chevron is entitled as the Operator, in addition to reimbursement of direct expenses, also to reimbursement of indirect expenses, which are calculated every year according to the amount of the costs of exploration activities and verification according to the following formula: up to \$4 million – 4%; between \$4 million and \$7 million – 3%; between \$7 million and \$12 million – 2%; over \$12 million – 1%. In addition, Chevron is also entitled to indirect expenses at the rate of 1% out of all of the direct development and production expenses, as defined in the agreement, subject to certain exceptions. Payments to Chevron for indirect expenses in respect of 2022 and 2021 were included in the consolidated statement of profit or loss in the sums of approx. \$333 thousand and approx. \$217 thousand, respectively, and payments included under ‘investments in oil and gas assets, net’ item in the statement of financial position, net, totaled approx. \$199 thousand in 2022 and approx. \$212 thousand in 2021.

- 5) Alternatives for increasing the volume of production from the Leviathan Reservoir:

The Leviathan Partners are considering bringing forward construction of a third sub-sea transmission pipeline to connect the Leviathan Reservoir to the production platform (the “**Third Pipeline**”), together with additional investments in the platform, to secure gas flow redundancy and increase production to redundancy volume of over 1.4 BCF per day. The investments in laying the Third Pipeline, together with the investments in the related systems on the platform are estimated at approx. \$562 million (100%, the Partnership’s share is approx. \$84 million), staggered from Q1/2023 until the expected operation of the Third Pipeline in H1/2025. Accordingly, in November 2022 the Leviathan Partners gave the project operator approval for approx. \$45 million (100%, the Partnership’s share is approx. \$7 million) for technical design and reservation of supply dates through preliminary engagements with suppliers, in order to enable performance of the project in accelerated time frames and have it ready for the adoption of a final investment decision as part of the overall budget. In addition, as part of the approval of the 2023 budget, the Leviathan partners authorized another approx. \$163 million (100%, the Partnership’s share is approx. \$24 million) to budget the Third Pipeline project. The budgets approved until the date of this report total approx. \$208 million (100%, the Partnership’s share is approx. \$31 million), out of a budget of approx. \$562 million, as aforesaid. It is clarified that no final investment decision (FID) has yet been adopted for the Third Pipeline project. The Leviathan Partners estimate that such a decision will be made by them in Q2/2023, after completion of the aforesaid preliminary work.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 8 - Investment in Oil and Gas Assets, Net (Cont.):

In addition, as of the date of approval of the financial statements, the Leviathan Partners are exploring various alternatives for increasing the volume of production and options for marketing of the natural gas from the Leviathan Reservoir (Phase 1B) based on the existing facilities and the Development Plan, in a manner which will allow an increase in the capacity of the Leviathan platform from 12 BCM per year up to 21 BCM per year. Phase 1B as aforesaid may require the receipt of appropriate approvals and possibly also an update to the Development Plan, as was approved by the Petroleum Commissioner in 2016. Several natural gas marketing options are being examined in the context of Phase 1B of the Leviathan Project, and mainly the construction of a floating liquefaction facility (FLNG) owned by the Leviathan Partners, with an annual production capacity of approx. 4.6 million tons of liquefied natural gas (LNG) for the sale thereof to global markets, thus also enabling an increase in the quantities supplied to the domestic market.

On February 20, 2023, the Leviathan Partners approved budgets for 2023, according to the Joint Operating Agreement (JOA) applicable to the Leviathan Reservoir in the sum total of approx. \$96.4 million (100%) for Pre-FEED (Front End Engineering and Design) for Stage 1B of the development of the Leviathan Reservoir (the "**Budgets**").

The Budgets include a total of \$44.9 million (100%, Partnership's share – \$6.7 million), *inter alia*, for pre-FEED, commencement of FEED, expansion of the Leviathan Reservoir production system, including the design of sub-sea infrastructures and required changes on the production platform, and a total of \$51.5 million (100%, Partnership's share – \$7.7 million) *inter alia* for pre-FEED for the FLNG facility, as aforesaid, in a bid between international groups specializing in the design and construction of FLNG facilities.

6) Update of evaluation of resources in the Leviathan Reservoir

In March 2023 a report was received from Netherland, Sewell & Associates, Inc. ("**NSAI**") evaluating reserves and contingent resources in the leases, updated as of December 31, 2022 (the "**Reserves and Resources Report**").

According to the SPE-PRMS Reserves and Resources Report, the stage of maturity of the project to which the natural gas and condensate proved reserves are classified is 'on production', for the reserves to be produced through the Leviathan facilities, including the Third Pipeline facilities. The Leviathan Reservoir also has natural gas and condensate contingent resources, which are classified as a project at a maturity stage of development pending.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 8 - Investment in Oil and Gas Assets, Net (Cont.):

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

Reserves and contingent resources category	Total (100%) in the petroleum asset (gross)	
	Natural Gas (BCM)	Condensate (million barrels)
Total Proved+Probable Reserves (2P):	440.9	34.3
Estimate Contingent Resources (2C):		
Phase 1A	76.7	5.9
Future development	101.6	7.9
Total Proved+Probable Reserves and Best Estimate Contingent Resources (2P+2C)	619.2	48.1

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 1 – First Stage: resources attributed to Phase 1 – First Stage of the Leviathan Reservoir development, plus the Third Pipeline project. Such resources are contingent on the adoption of decisions to drill additional wells, to construct production and transmission infrastructures and to sign additional agreements for the sale of natural gas and condensate.

Future Development – resources contingent on the adoption of additional investment decisions according to additional development phases of the Leviathan Reservoir (beyond Phase 1A stated above) and on the signing of additional agreements for the sale of natural gas.

See Section 8 below with respect to uncertainty in reserves and contingent resources evaluation of natural gas and condensate.

7) Drilling to deep targets

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

In January 2020, a report on evaluation of prospective resources in the leases was received from NSAI, updated as of December 31, 2019. According to the report, the best estimate in the carbonate buildup for gas and oil is estimated at approx. 4.5 BCM and approx. 155.3 million barrels, respectively, and the best estimate in the clastic channel for gas and oil is estimated at approx. 6.5 BCM and approx. 223.9 million barrels, respectively.

As of December 31, 2022, no change has occurred to the details specified in the aforesaid report. See Section 8 below regarding uncertainty in the evaluation of reserves.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 8 - Investment in Oil and Gas Assets, Net (Cont.):

As of the date of approval of the financial statements, the Partnership intends to explore the possibility of specification, drilling and exploration of the deep exploration targets identified in the lease area (and specifically a carbonate buildup target).

8) Evaluation of reserves and contingent resources of natural gas and condensate

NSAI's evaluations regarding the quantities of the reserves of natural gas and condensate in the Leviathan Reservoir are evaluations based, *inter alia*, on geological, geophysical, engineering and other information received from the wells and from the Operator in the Leviathan Reservoir and constitute merely estimates and assumptions of NSAI, in respect of which there is no certainty. The natural gas and/or condensate quantities that will 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 petroleum and natural gas exploration and production projects, including as a result of actual production data from Leviathan Reservoir.

9) Leviathan 2 appraisal well

The drilling activities of the Leviathan 2 appraisal well which were carried out in 2011 were discontinued due to water flow from the well. The well was sealed and the water flow therefrom was stopped. The Operator, in coordination with the Ministry of Energy, conducted several assessment surveys in the area of the well to ensure that there was no leak from the well. As of the date of approval of the Financial Statements, the surveys indicate that there is no flow from the well and the environment of the well is recovering. Continued assessment activities will be determined in coordination with the Ministry of Energy and the Ministry of Environmental Protection.

10) The Eran License

The Eran License expired on June 14, 2013. In June 2013, an application for extension of the term of the Eran License by four months was submitted to the Commissioner, which he denied. After also an appeal with the Minister of Energy from the Commissioner's aforesaid decision not to extend the term of the Eran License was denied, in 2014 the holders of interests in the Eran License (including the Partnership, whose share in the license was 15%) filed a petition with the High Court of Justice. The parties to the petition agreed to the High Court of Justice's proposal to conduct a mediation proceeding and accordingly, former Chief Justice of the Supreme Court A. Grunis was appointed as mediator. On March 30, 2019, the parties notified the Court that they had reached a mediation settlement, in which they agreed that the division of the gas reservoir between the part in the area of the Tamar lease and the area in the Eran License would be at a ratio of 78:22 (i.e., 78% in the Tamar lease and 22% in the Eran License) (with the knowledge and consent of the partners in the Tamar lease), and the division between the State and the partners in the holding in the Eran License would be at a ratio of 76:24 (i.e., 76% to the State and 24% to the partners in the Eran License prior to the expiration thereof). On April 11, 2019 a judgment was entered on the aforesaid mediation settlement.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 8 - Investment in Oil and Gas Assets, Net (Cont.):

Negotiations were held between the holders of interests in the Eran License, the holders of interests in the Tamar reservoir and the State of Israel regarding the regulation of the State's rights and additional related matters, but as of the report approval date, the parties have not yet reached agreements on how to implement the mediation arrangement, as specified above.

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

On October 28, 2019, the Partnership, together with Capricorn Energy Plc (through a wholly-owned company, Capricorn Offshore Exploration Limited) ("**Cairn**") and Pharos Energy Plc (through a wholly-owned company, Pharos Energy Israel Ltd) (the "**Partners**"), was granted eight offshore exploration licenses in two clusters (Licenses 39, 40, 47 and 48 (Cluster A) and Licenses 45, 46, 52 and 53 (Cluster C) (the "**Licenses**") for a three year period that ends on October 27, 2022. 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.

E. Royee Joint Venture

On July 30, 2019, Edison (the "**License Operator**") notified the other partners in the Royee license of its withdrawal from the license, in the midst of preparations for the drilling of an exploration well in the Royee license and the Competition Commissioner's decision of July 28, 2019 not to grant an exemption from restrictive arrangement approval with respect to the transfer of 24.99% of the Partnership's working interests in the license to NewMed, and due to the fact that given the proximity of the License Operator's withdrawal notice to the scheduled drilling date, the Partnership did not have all the means required to continue the operation as the operator of the license and drill the well within the scheduled timetables (taking into account, *inter alia*, the availability of contractors as well as safety and environmental protection considerations). Furthermore, despite many attempts, the Partnership did not succeed in adding additional participants to the license, including an international operator with deep-water drilling experience, in order to allow for the drilling of an exploration well in the license within the existing timetable, given that the term of the license expired on April 14, 2020. Despite the great potential the Partnership has seen in the license and its investment therein over the years (approx. \$18 million in 100% terms), on March 22, 2020, the Partnership, jointly with Israel Opportunity - Energy Sources, Limited Partnership ("**Israel Opportunity**"), notified the Commissioner that in light of all of the aforesaid circumstances, they regrettably had to withdraw from the license and return their working interests therein to the State.

On July 12, 2020, the Commissioner notified the Partnership of expiration of the License on June 14, 2020 (the License was extended in accordance with the Emergency Regulations (Novel Coronavirus) (Extensions and Postponements), 5780-2020).

It is noted that during 2020 the Partnership and Israel Opportunity have reached understandings whereby, *inter alia*, within a period determined between the parties, insofar as the area of the license (in whole or in part) is offered again by way of tender (or otherwise) and either party is interested in submitting an application for receipt of the license (whether in the context of a tender or otherwise), such party will be obligated to offer the other party to join any such application.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 8 - Investment in Oil and Gas Assets, Net (Cont.):

Also during 2020, all of the partners in the license entered into a separation agreement that regulates the understandings between them in connection with termination of the joint operations in the license, including a settlement of accounts whereby no additional sums will be paid between the parties, including in respect of expenses borne by the operator in the last months prior to its withdrawal as noted above, in respect of activities for the promotion of exploration drilling in the area of the License, as well as mutual discharge and release from suits and claims. Note that the bank guarantee provided by the Partnership, in the sum of \$2.25 million, due to the Partnership's and Edison's share in the Royee license, was cancelled.

Note 9 - Other Long-Term Assets, Net

	December 31	
	2022	2021
	Dollars in thousands	
Pipeline for transport of natural gas to Jordan (see Note 25C3)*	12,792	15,805
Usage fees for the EMG pipeline (see Note 25C4)*	35,490	32,539
Pipeline for transport of natural gas to Egypt (see Note 25C5)**	14,177	11,049
Investment in FAJR infrastructure (see Note 25C5M)*	385	-
Royalties receivable from the Ministry of Energy (see Note 18)	3,625	-
Overriding royalties receivable from interested parties (see Note 18)	1,740	-
	68,209	59,393

*The pipeline for transport of natural gas to Jordan, investment in FAJR infrastructure and usage fees for the EMG pipeline are depreciated on a straight-line basis over the basic gas supply period in the relevant sales agreements.

**The pipeline for transport of natural gas to Egypt is under construction and therefore the Partnership has not yet begun depreciation thereof.

Note 10 - Restricted Deposits

	December 31	
	2022	2021
	Dollars in thousands	
Restricted deposits in current assets -		
Interest cushion for Series C Bonds (see Note 11B5D2)	3,657	-
Restricted deposits in non-current assets:		
Interest cushions for bonds (see Note 11B5D2)	*2,567	**10,745
Deposit due to guarantees (see Note 25E2 and 25E3)	3,940	3,962
	10,164	14,707

* The amount includes an interest cushion for the Series D Bonds

** The amount includes interest cushions for the Series B, C and D Bonds

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project

The Partnership finances its share in the costs of the development of the Leviathan Reservoir through, *inter alia*, bank financing and through equity and debt raisings, as follows:

A. Loans from banking corporations

1) Loan agreement dated March 20, 2017:

On March 20, 2017, a loan agreement was signed (the “**Original Financing Agreement**” or the “**Previous Loan**”) between Leviathan Development (in this section: the “**Borrower**” or the “**Company**”) and a consortium of local and foreign lenders, which included, *inter alia*, HSBC Bank Plc and BNP Paribas, whereby a limited-recourse loan was provided to the Partnership, through Leviathan Development, in the sum of \$250 million (the “**Previous Loan**”), for the purpose of financing its share of the balance of the investment in the development of the Leviathan Project (see Note 24C7 below).

The financing agreement set forth that the principal of the Previous Loan will be repaid in one installment after 24 months from the date of signing the financing agreement, and that the Previous Loan may be extended by 24 additional months subject to the lenders’ consent.

The Company was given the right to prepay the Previous Loan, at all times, in whole or in part, without pre-payment penalties, according to the terms and conditions set forth in the Original Financing Agreement.

On July 6, 2018, an amendment to the Original Financing Agreement (the “**Amendment to the Original Financing Agreement**” or the “**Amendment**”) was signed, in which framework, *inter alia*, the Previous Loan facility was increased to \$450 million, and the final maturity date of the Previous Loan was extended by 24 additional months, i.e. until March 20, 2021.

2) Loan agreement dated August 9, 2020:

a) For the purpose of financing the Partnership’s share in the Leviathan Project, and after examination of options for repayment of the Previous Loan which was provided in accordance with the Original Financing Agreement (whose original payment date was March 20, 2021), see Section A(1) above, on August 9, 2020, Leviathan Development entered into a refinancing agreement with a consortium of local and foreign financing banks, whereby 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**” or the “**Refinancing Agreement**”).

On August 24, 2020, all of the closing conditions stipulated for the closing of the Loan agreement were satisfied and the Partnership repaid the Previous Loan.

As of December 31, 2022, and the date of approval of the financial statements, the total loan facility available for withdrawal is approx. \$650 million.

As part of the financing agreement, the Partnership is given the option to reduce the unused Loan facility and/or to (fully or partially) prepay the Loan, throughout the term of the Loan, without penalties.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

- b) As of December 31, 2022 and 2021 and as of the date of approval of the financial statements, the Loan amounts that have been drawn down from the Loan facility total approx. \$520 and \$500 million, respectively. The fair value of the Loan as of December 31, 2022 is approx. \$554 million. As of December 31, 2021, the fair value of the Loan is a reasonable approximation of its book value.

In 2020, the Loan entailed transaction costs in the total sum of approx. \$19.2 million, which consist of origination costs, setup and consultation fees paid to the financing banks and the financial consultants and legal costs, of which approx. \$1.6 million were recognized in profit or loss and approx. \$17.6 million out of the costs were recorded as deferred costs and presented as offset against the item of loans from banking corporations and amortized over the term of the Loan as part of the financial expenses.

The Partnership has examined the change in the loans' terms and conditions that was made in the context of the Loan agreement compared with the Previous Loan and has reached the conclusion that it is a significant amendment of the terms and conditions of an existing financial liability. Accordingly, with respect to such loans, the change in the Loan's terms and conditions was treated as a settlement of the original financial liability and recognition of a new financial liability. The difference between the book value of the loan that had been drawn down by the due date of the Previous Loan and the book value of the Loan constitutes a loss from change of terms and conditions and amounts to approx. \$2.6 million, which was recognized in profit and loss in 2020.

During 2020, the Group had financial expenses recognized in profit and loss in respect of the drawdowns made from the facility of the Previous Loan and the Loan (including attributed transaction costs) in the sum of approx. \$31.3 million (of which approx. \$21.8 million are interest expenses).

During 2022 and 2021, the Group had financial expenses recognized in profit or loss in respect of the Loan (including attributed transaction costs) in the sum of approx. \$34.3 million and \$24.3 million, respectively (of which approx. \$30.2 million and \$20.5 million are interest expenses, respectively).

As of December 31, 2022 and 2021, the Partnership complies with all of the covenants undertaken thereby under the Loan agreement, as specified in Section C below.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

- c) Below are the key terms and conditions of the Loan

The Loan is for a period of seven years with a 'grace' period of around three years for the Loan principal payments. From January 2024, the Loan principal will be repaid in quarterly installments, while the balance of the unpaid Loan principal, in an amount that shall not exceed approx. \$300-350 million (before cash sweep payments as specified below, and subject to the amount of the Loan facility actually used) will be repaid as a single (bullet) repayment at the end of the Loan period.

The Loan is in dollars and bears a variable interest rate to be paid on a quarterly basis, calculated according to LIBOR plus a margin whose rate varies throughout the life of the Loan, as follows: in the first five years - 3.5%; in the sixth year - 3.75%, and in the seventh year - 4.25% (it is noted that from the end of the grace period, the interest rate will decrease by 0.25% if the LCR (as hereinafter defined) exceeds a certain threshold as set forth in the agreement). In addition, the Partnership undertook to pay a fee for the unused loan amounts, at a rate of 20%-35% of the margin on the unused balance.

To secure repayment of the Loan the Partnership is pledging, *inter alia*, its interests in the Leviathan Leases and in additional assets that are related to the Leviathan Project, including its rights in the JOA, agreements for sale of natural gas, the bank account into which the Partnership deposits its revenues from the Leviathan Project, its interests by virtue of the permits to export to Jordan and Egypt and its rights in insurance policies, its shares in Leviathan Transmission System Ltd. and in the Marketing Company, and various related agreements in connection with the Leviathan Project. The aforesaid pledges are subject to the State's right to royalties and to the royalty rights of the other overriding royalty interest owners (including interested parties), and the pledges registered on the Partnership's interests in the Leviathan Leases to secure the rights of the overriding royalty interest owners as aforesaid, shall continue to be valid also in the period of the Loan. The Loan is a limited recourse type loan, in the context of which the lenders have no right of recourse to the assets of the Partnership which were not pledged in their favor.

As is standard in transactions of this type, the Partnership assumed the following main covenants:

- (1) A limit on the taking of additional credit, apart from the exceptions specified in the agreement, including, *inter alia*: (a) debt with limited recourse to an asset other than Leviathan; (b) the bonds, refinancing thereof, and additional bonds that shall be issued in the Partnership or in a company controlled thereby (subject to the terms and conditions specified in the agreement); (c) an additional unsecured debt and unsecured hedging transactions up to the sum of \$25 million each; and (d) an additional debt to secure financing for the construction of a pipeline or facilities for a future export project (which is not included in the development plan for the Leviathan Project), if any.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

- (2) Compliance with a liquidity coverage ratio (hereinabove and hereinafter: “**LCR**”) calculated as a ratio between the Cash Flow from 2P Reserves (as hereinabove defined) and the balance of the Loan that was drawn down (net of the debt service reserve amount, as specified below), as of the date of the test. The Partnership undertook that in any event, the LCR at the end of each quarter shall be no less than 1.2. Insofar as the LCR shall be between 1.2 and 1.4, part of the Loan principal shall be repaid by part of the cash balance remaining in the Partnership’s income account (the “**Cash Balance**”) at such rates out of the Cash Balance as determined in the agreement (“**LCR Cash Sweep**”). Leviathan Development will be entitled to redraw the amount that was repaid as aforesaid as a loan, subject to compliance with an LCR that shall be no less than 1.4. It is noted that the Cash Flow from 2P Reserves until December 31, 2034 is calculated according to a bank scenario that is based on stricter and more conservative assumptions than those used in the discounted cash flow released by the Partnership in resource reports pursuant to the provisions of the Securities Law, including in relation to the amount and timing of the capital expenditures, the sale prices of natural gas (according to a price deck of the technical banks which, on the date of taking the Loan, reflects minimum prices in the agreements). The cash flow as aforesaid is before debt service costs and is discounted at 7% (hereinabove and hereinafter: “**Cash Flow from 2P Reserves**”).

The Loan documents determine a payment waterfall mechanism, whereby the Partnership’s income account shall be used for the making of certain payments only, in the order determined in the Loan documents, including: payment of royalties to the State and to overriding royalty interest owners, capital expenditures and operating expenses, payments of fees, principal and interest according to the Loan agreement, taxes, balancing payments, G&A expenses in an amount that shall not exceed the amount set forth in the Loan documents, cash sweep payments, principal and interest payments in connection with the bonds, prepayment of part of the Loan at the Partnership’s initiative, certain expenses for expansion of the Leviathan Project beyond Phase 1A of the development plan or exploration expenses in an amount that shall not exceed \$75 million (in the aggregate). The balance at the end of each quarter may be withdrawn for the Partnership’s free use, including for the distribution of profits, subject to compliance with withdrawal conditions (the “**Payment Waterfall Withdrawal Conditions**”), including compliance with financial covenants: an LCR of no less than 1.25; a DSCR (as hereinabove defined) of no less than 1.2, and compliance with the Liquidity Test.

- (3) From 2024, the quarterly principal payments will be supplemented by repayment of additional amounts on account of the principal at variable rates out of the Cash Balance (DSCR cash sweep) in accordance with specific debt service coverage ratios (“**DSCR**”), calculated as a ratio between the actual cash flow before the debt service cost and the debt service costs (principal, interest and fees) for the last 12 months. The Partnership undertook that in any event, the DSCR on the date of the test (quarterly) will be no less than 1.05.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

- (4) Once every six months, the Partnership will be required to meet a liquidity test according to which it holds sufficient financing sources to meet its expected liabilities until the later of the date of payment of the bonds (August 2023) and 12 months after the test (the “**Liquidity Test**”). In addition, the Partnership undertook that at all times it shall maintain a cash balance of at least \$20 million.
- (5) The Partnership undertook that no later than 3 months before the date of the first quarterly principal payment, it shall provide a debt service reserve fund for principal and interest payments for the following 6 months.

The Partnership has assumed additional covenants, including, *inter alia*:

- (6) To preserve the rights of the Partnership in the joint operating agreement, in the Leviathan Leases and in the pledged assets (collectively in this note: the “**Project**”).
- (7) Not to create and not to agree to the creation of additional pledges on the pledged assets, other than as permitted in the financing documents, and to ensure that all of the undertakings given by the Partnership or Leviathan Development in the context of the pledge documents are binding and lawful.
- (8) Not to change the Partnership’s operating sector in a material manner.
- (9) Not to purchase a material asset, with the exception of an investment in the Partnership’s operating sector, and additional investments up to the sum of \$35 million in Ratio Petroleum Energy – Limited Partnership.
- (10) Unless otherwise permitted in the financing documents, not to perform any restructuring that shall have or may reasonably have a material adverse effect (as defined in the agreement) (“**Material Adverse Effect**”).
- (11) To inform the trustee for the collateral of any new asset (as defined in the agreement) in connection with the Project.
- (12) Not to sell or transfer the Partnership’s shares in Leviathan Development.
- (13) To take the necessary measures in order to fulfill the Partnership’s undertakings in the context of the Project agreements.
- (14) Not to amend the Project agreements in a manner that shall constitute a material adverse change, without obtaining the approval of the majority of the lenders (which shall not be unreasonably withheld).
- (15) To pay all of the royalties that apply to the Partnership and not to act for the correction or increase of the royalties or for correction of the pledges that apply to the royalty, other than with the approval of the majority of the lenders.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

- (16) Not to waive, settle or compromise on any claim in any legal proceeding, arbitration proceeding or administrative proceeding where such actions have or may reasonably have a Material Adverse Effect.
- (17) Not to sell or transfer the Partnership's rights in the joint operating agreement or in the Leviathan Leases, except in cases that are permitted according to the financing documents, including the option that was granted to the Partnership to sell rights in the Project in the context of the partial prepayment option, provided that after the sale the Partnership shall hold at least 5% of the rights in the Project (a sale at the end of which the Partnership shall hold less than 5% of the rights shall result in full repayment of the Loan).
- (18) To manage its business in accordance with laws against corruption and money laundering, to maintain a policy and procedures in order to promote and achieve compliance with laws against corruption, and not to allow any use of the Loan proceeds for any purpose prohibited by such laws (the "**Undertaking re Money Laundering and Corruption**").
- (19) Not to withdraw the balance from the Partnership's income account other than subject to compliance with the Payment Waterfall Withdrawal Conditions.
- (20) To fulfill various representations which are deemed to have been given on the date of the signing of the agreement and on various dates set forth in the agreement, including, *inter alia*: the Partnership's obligations according to the pledge deed do not contradict or breach other obligations of the Partnership according to law or other agreements (as specified in the financing documents); the Partnership is duly incorporated under the law of the State of Israel, and it has the power and the authority to hold assets and to operate its business as it is currently being managed; the validity and enforceability of the Partnership's undertakings in the transaction documents (the financing documents and the Project agreements); the validity of the pledges according to the pledge agreement; the Partnership has not taken and has not had taken against it actions for its dissolution or insolvency (as specified in the financing documents); the Partnership is not exposed to legal proceedings (as defined in the agreement, including arbitration proceedings and administrative proceedings) which, if decided against the Partnership, may have a Material Adverse Effect; the validity of the undertaking with respect to money laundering and corruption (as defined above); the validity of the insurance policies (as defined in the agreement); the reasonableness of the assumptions underlying the Liquidity Test; compliance with environmental protection laws; and the Project agreements are in effect and no event has occurred which constitutes a breach thereof (which has or may reasonably have a Material Adverse Effect).

As is standard in transactions of this type, the agreement defined events, upon the occurrence of which, the Lenders will be entitled to accelerate the Loan ("**Events of Default**"). These events include, *inter alia*, the following main events (subject to the conditions, exceptions and/or remediation periods set forth in the agreement):

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

- (1) Non-payment of an amount required to be paid in accordance with the financing documents.
- (2) Non-compliance with the LCR and/or the DSCR, as specified above.
- (3) The Landau and Rotlevy families (jointly) shall cease to hold at least 50% of the shares of the Partnership's GP and shall cease to control it, or a holding by the Landau and Rotlevy families (jointly) of less than 10% of the participation units in the Partnership.
- (4) A cross default, i.e., a default on another financial liability of the Partnership whose value is above \$15 million (with the exception of a limited-recourse financial liability).
- (5) Expropriation or nationalization of the Leviathan Leases or a material part of the Project.
- (6) Insolvency of Leviathan Development or the Partnership (including also proceedings relating to insolvency which are specified in the agreement, such as the appointment of a receiver, the issuance of a moratorium, etc.).
- (7) A prolonged *force majeure* event which affects the Project, an export pipeline or a party to the Project's material documents, and has a Material Adverse Effect.
- (8) Termination or prolonged suspension of a material gas sale agreement which may have a Material Adverse Effect, unless the Partnership demonstrates compliance with the LCR at a ratio of no less than 1.2 and compliance with the Liquidity Test.
- (9) Termination or suspension of other material agreements of the Leviathan Project, subject to accepted exceptions and remediation possibilities.
- (10) Absence of required insurance coverage, as determined in the Agreement.

Additional Events of Default that were determined include, *inter alia*, the following events (subject to conditions, exceptions and/or remediation periods set forth in the Agreement):

- (1) A default on accepted undertakings that Leviathan Development assumed, intended to preserve its status as an SPC.
- (2) Use of the Loan for purposes other than the purposes defined in the Agreement.
- (3) A default on any of the additional covenants.
- (4) There is an issue with an approval or authorization required from Leviathan Development, the Partnership or the Marketing Company (as defined in Note 1D3 above) in connection with the Project, which has or may have a Material Adverse Effect.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

- (5) Abandonment of the Project.
- (6) The occurrence of material loss, destruction or damage to the Project and one of the following is fulfilled: (1) the insurance proceeds are not sufficient for restoration or reconstruction; or (2) such destruction, damage or loss has or may have a Material Adverse Effect.
- (7) Leviathan Development or the Partnership shall have suspended or discontinued their business or a material part thereof, apart from the exceptions specified in the agreement.

In addition, the Loan agreement includes a mechanism and conditions in order to allow the Partnership to increase the Loan facility by an additional amount (which is not a binding facility) of up to approx. \$450 million (“**Accordion**”), by the lenders (subject to their consent) or other finance providers, for the purpose of financing expansion of development of the Leviathan Project (namely the scope not included in Phase 1A of the development plan), for the purpose of increasing the processing and flow capacity. The option to increase the Loan as aforesaid will be exercisable until the end of 2023. Provision of the Accordion facility is dependent on fulfillment of closing conditions as specified in the agreement, including a final investment decision of the Leviathan Partners regarding expansion of the Leviathan Project, compliance with liquidity tests, etc.

As noted above, the loan amounts that shall be provided to Leviathan Development under the Loan facility will be provided as a loan to the Partnership on Back-To-Back conditions. For details regarding the agreement for the loan from Leviathan Development to the Partnership, see Note 24C7.

d) Amendment to the Loan agreement

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.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

- (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.

The amendment to the loan agreement pertains to the applicability of the practical exemption given in stage 2 of the IASB project, which provides relaxations in connection with the reform for replacement of the benchmark interest rates for financial assets and liabilities which are measured at reduced cost, allowing to treat the change of basis for calculation of the contractual cash flows by way of update of the effective interest rate, such that entities are not required to apply write-off accounting.

- e) 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 transaction (the IRS hedging transaction below was made through Leviathan Development Ltd. that, as aforesaid, provided the Loan on terms of back-to-back to the Partnership):

- (1) 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 December 31, 2022, in the sum of approx. \$3.6 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 2022 amounted to approx. \$3.7 million and presented under 'financial income' item in the Condensed Consolidated Statement of Comprehensive Income.
- (2) In Q3/2022, Leviathan Development Ltd. (which provides the costs of the Loan on terms of back-to-back to 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 December 31, 2022 is approx. \$4.2 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. \$0.7 million are presented under the 'derivative financial instruments' item under 'current assets' in the Condensed Consolidated Statement of Financial Position.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

Income from revaluation of the hedging transaction's fair value for 2022 totaled approx. \$4.2 million and presented under 'financial income' item in the Condensed Consolidated Statement of Comprehensive Income.

B. Public capital and debt raising:

- 1) In recent years, the Partnership has acted, through Ratio Financing, for debt raisings, some of which were combined with capital raisings by the Partnership, as specified below:

- a) Series B Bonds

The Series B Bonds were issued to the public on November 13, 2016, under Ratio Financing's shelf prospectus of February 22, 2016 and under a shelf offering report combined with the Partnership's shelf offering report of November 9, 2016, together with the Partnership's Series 17 Warrants and Series 18 Warrants. The gross immediate proceeds from such issue totaled approx. \$164 million (approx. ILS 630 million) (in this section: the "**Issue Proceeds**"). The total issue expenses amounted to approx. \$2.5 million (approx. ILS 9.8 million) (in this section: the "**Issue Expenses**"). For details with respect to the terms and conditions of the Series B Bonds, see Section 5 below. For details with respect to the warrants issued in the framework of the issue of the Series B Bonds, see Note 15.

On November 6, 2022, Ratio Financing carried out full early redemption of the Series B Bonds. For details, see Section 4 below.

The Issue Proceeds have been split, for measurement purposes, into the liability component (the bonds), which was initially recognized based on its fair value, net of transaction costs, and the option component, which was attributed to the partners' equity.

The Issue Expenses have been split between the two components according to the ratio of the sums of the split of the proceeds as aforesaid. The difference between the proceeds attributed in the issue to the liability component, net of transaction costs, and the par value that was issued, reflects a discount and is amortized over the term of the bonds according to the effective interest method.

- b) Series C Bonds

The Series C Bonds were issued to the public on December 4, 2017, under Ratio Financing's shelf prospectus of February 22, 2016 and under Ratio Financing's shelf offering report of December 3, 2017. The gross immediate proceeds from such issue totaled approx. \$184 million (approx. ILS 643 million) (in this section: the "**Issue Proceeds**"). The total Issue Expenses amounted to approx. \$2 million (approx. ILS 7.9 million) (in this section: the "**Issue Expenses**").

The Series C Bonds were initially recognized on a fair value basis (which is equal to the Issue Proceeds), net of Issue Expenses. The difference between the Issue Proceeds net of Issue Expenses and the par value that was issued reflects a premium and is depreciated over the period of the Series C Bonds according to the effective interest method.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

c) Series D Bonds

The Series D Bonds were issued to the public on July 5, 2021, under Ratio Financing's shelf prospectus of January 22, 2019 and under Ratio Financing's shelf offering report of July 4, 2021. The gross immediate proceeds from such issue totaled approx. \$92 million (approx. ILS 300 million) (in this section: the "**Issue Proceeds**"). The total issue expenses amounted to approx. \$1.1 million (approx. ILS 3.7 million) (in this section: the "**Issue Expenses**"). For details with respect to the terms and conditions of the Series D Bonds, see Section 5 below.

The Series D Bonds were initially recognized on a fair value basis (which is equal to the Issue Proceeds), net of Issue Expenses. The difference between the Issue Proceeds net of Issue Expenses and the par value that was issued reflects a premium and is depreciated over the period of the Series D Bonds according to the effective interest method.

The Issue Proceeds, after deduction of early commitment fee and after deduction of the interest cushion amount due to Series D Bonds (in this section: the "**Net Issue Proceeds**") were transferred to the Partnership on July 13, 2021 (after registration of the lien on the royalty which was granted to Ratio Financing by the Partnership with the Registrar of Companies).

The Net Issue Proceeds in respect of the issue of the bonds was used by the Partnership for the purpose of financing its share in expenses related to the Leviathan Leases, including the refinancing of its debts in relation to the financing of its share in expenses in respect of the Leviathan Leases.

- 2) On November 9, 2016, Ratio Financing engaged in an indenture for the Series B Bonds, on December 3, 2017, Ratio Financing engaged in an indenture for the Series C Bonds and on July 4, 2021, Ratio Financing engaged in an indenture for the Series D Bonds, which include the terms of each of the bonds series (the "**Indentures**").

The Indentures include, *inter alia*, instructions and restrictions regarding the increase of the bond series and provisions with respect to the issuance of bonds from new series.

The Indentures also include provisions regarding early redemption (including conditional early redemption regarding Series D Bonds) initiated by Ratio Financing (including an undertaking to carry out an early redemption in the event where the Partnership sells its full rights in the Leviathan Leases with respect to Series D Bonds); Events in which an acceleration and realization of securities are possible (the Indentures include causes for acceleration, as standard in bond indentures, including causes in connection with the operation of the Partnership and include, *inter alia*, the cessation of payments; liquidation, receivership and/or stay of proceedings; material deterioration in the Partnership's business as a result of which there is a concrete concern that the Partnership will be unable to repay the loans when due; if there is a concrete concern that the Partnership will not comply with its material obligations to Ratio Financing in accordance with the loans agreements and if the Partnership ceases to be the control holder of Ratio Financing, etc.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

In addition, the Indentures contain specific causes relating to the rights of the Partnership in the Leviathan Leases, such as: if the holdings of the Partnership in the Leviathan Leases are less than 5% (out of 100%); If an attachment is imposed, a lien is enforced, or execution actions are carried out, and all in respect of the rights of the Partnership in the Leviathan Leases (for a debt and/or cumulative debts in an amount exceeding \$40 million in respect of Series C Bonds and \$100 million in respect of Series D Bonds) and such attachment is not removed, the enforcement revoked, or the action cancelled within the time frame set forth in the indenture.

In the matter of the Series C Bonds it was determined that the total par value of the Series C Bonds issued by Ratio Financing from time to time, including the Series C Bonds to be issued by way of a series expansion as specified in the indenture, will not exceed a par value in ILS which is equal to \$200 million (according to the base rate set forth in the indenture).

In the matter of the Series D Bonds it was determined that the total of all Series D Bonds in circulation from time to time, including the additional Series D Bonds to be issued by way of a series expansion, as specified in the indenture, will not exceed a par value in ILS which is equal to \$275 million (according to the base rate set forth in the indenture) (in this section: the “**Maximum Series Size**”). Notwithstanding the aforesaid, Ratio Financing will be entitled to expand the Series D Bonds over and above the Maximum Series Size such that the total Series D Bonds in circulation from time to time, including the additional bonds that will be issued in the expansion, will not exceed a par value of ILS which is equal to \$350 million (according to the base rate set forth in the indenture) (the “**Additional Maximum Series Size**”), subject to the creation of an additional royalty and the pledge thereof as specified in the indenture of the Series D Bonds.

- 3) The par value amounts of each of the bond series were extended to the Partnership as a loan on terms and conditions identical (“Back-To-Back”) to those of the bonds. The proceeds for Ratio Financing from the repayment of the loan by the Partnership as aforesaid, constitute the sole financing source for the payment of the principal and interest of each of the bond series, and Ratio Financing has no other financing resources for repayment of the principal and interest payments of each of the bond series as aforesaid. See also Note 24 below.

Furthermore, it is agreed that, if the bonds are accelerated for any reason, Ratio Financing is entitled to accelerate the loan, and the acceleration of the bonds will in itself be deemed as sufficient grounds therefor.

- 4) On October 19, 2022, the board of directors of the GP 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 carry out full early redemption of the outstanding balance of the Series B Bonds (plus interest), which was carried out on November 6, 2022 (the “**Early Redemption Date**”).

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

In accordance with Section 9.2 of the Series B Bonds indenture, the amount paid to the holders of Series B Bonds is the market value of the balance of the Series B Bonds in circulation (net of the bonds 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 on the early redemption and in total approx. ILS 235.6 million (the early redemption rate according to this alternative is ILS 1.1440167 per ILS 1 par value redeemed (the “**Early Redemption Rate**”)). This amount constitutes the highest amount among the three alternatives specified in the Series B Bonds indenture for early redemption. Of this amount, the outstanding Series B Bond principal in circulation amounted to approx. ILS 205.9 million plus an amount for the early redemption of approx. ILS 22.7 million, plus interest of approx. ILS 7 million (figures in 100% terms).

For the purpose of the full early redemption 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. See Note 15F below on the making of the Partnership's deposit in the Series B Bond interest rate cushion account, in connection with an interim profit distribution made by the Partnership in September 2022.

With the full early redemption 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 TASE. Furthermore, the pledges registered in favor of the holders of the Series B Bonds according to the indenture, were removed.

The difference between the amount paid to the holders of the Series B Bonds according to the Early Redemption Rate and the obligation value according to which the Series B Bonds were presented in the books on the Early Redemption Date, was carried to the Consolidated Statement of Comprehensive Income of the Partnership in Q4/2022 as a loss from early redemption (net of the Partnership's share) in the amount of approx. \$1.3 million (approx. ILS 4.8 million).

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

5) Terms and conditions of the bonds:

	Series B Bonds		Series C Bonds		Series D Bonds	
			December 31			
	*2022	2021	2022	2021	2022	2021
Par value (ILS in thousands) (a)	-	347,308	211,325	422,587	300,000	300,000
Book balance (\$ in thousands)** (a)	-	124,551	61,616	125,011	90,979	90,770
Fair value (\$ in thousands) (a)	-	138,901	63,572	131,953	86,309	96,434
					12% - October 31, 2023	
					12% - October 31, 2024	
					12% - October 31, 2025	
					12% - October 31, 2026	
					17% - October 31, 2027	
Payment date of principal (c)	33.33% - August 31, 2021		33.33% - August 31, 2021		17.5% - October 31, 2028	
	33.33% - August 31, 2022		33.33% - August 31, 2022		17.5% - October 31, 2029	
	33.34% - August 31, 2023		33.34% - August 31, 2023		April 30 and October 31 of each of the years 2021 through 2029 starting from October 31, 2021.	
Payment date of interest (c)	August 31 of each of the years 2017 through 2023		August 31 of each of the years 2018 through 2023		April 24 for payments paid on April 30 and October 25 due to payments paid on October 31 of each of the years 2021 through 2029.	
Effective day for payment of interest and principal	August 25 of each of the years 2017 through 2023.		August 25 of each of the years 2018 through 2023.			
Nominal interest on the balance of the outstanding principal (B) (see also Section 2 above) with respect to the Additional Interest as defined below	2% - August 31 of each of the years 2017 to 2020. 18.5% - August 31 of each of the years 2021 to 2023.		2% - August 31 of each of the years 2018 to 2019. 10% - August 31 of each of the years 2020 to 2023.		Annual interest of 5.7% to be paid in semi-annual installments.	
Annual effective interest rate	7.58% (ILS)		6.68% (\$)			
Interest paid over the year's course (\$ in thousands)	21,025	29,818	11,859	18,053	5,244	1,760
			The principal and the interest of the Series C Bonds will be linked to the rate of the Dollar on November 30, 2017 (i.e., \$1=ILS 3.499) (the "C Base Rate")		The principal and the interest of the Series D Bonds will be linked to the rate of the Dollar on July 1, 2021 (i.e., \$1=ILS 3.261) (the "D Base Rate")	
Linkage basis	-		Unrated		Unrated	
Rating		Unrated				
Collateral for the bonds (D)***		Royalty from the Partnership and the interest cushion account, as defined below, pledged.				

* Series B Bonds were fully redeemed on November 6, 2022. For further details, see Section 4 above.

** Excluding accumulated interest and including current maturities.

*** The pledges on the said guarantees were removed following the redemption of Series B Bonds, as described in Section 4 above.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

- a) During the year ended December 31, 2020, the Partnership purchased 88,803,562 par value Series B Bonds of Ratio Financing in consideration for approx. ILS 108.6 million (approx. \$31.8 million). Accordingly, the Partnership recorded in 2020 a loss of approx. \$781 thousand from the purchase of Series B bonds. As of December 31, 2020, the Partnership held approx. 14.38% of all of Ratio Financing's Series B Bonds. During the year ended December 31, 2021 the Partnership purchased another par value 7,847,265 Series B Bonds of Ratio Financing in consideration for approx. ILS 10.5 million (approx. \$3.2 million). Accordingly, in 2021 the Partnership recorded a loss from the purchase of Series B Bonds in the sum of approx. \$140 thousand.

In view of the aforesaid, as of the date of early redemption of the Series B Bonds as stated in Section 4 above, the Partnership held approx. 15.65% of all Series B Bonds of Ratio Financing.

In January 2023, the Partnership purchased par value 4,659,575 of Series C Bonds of Ratio Financing (constituting, as of the date of approval of the financial statements, 69 approx. 2.2% of the total issued par value of the Series C Bonds of Ratio Financing) in consideration for approx. ILS 4.8 million (approx. \$1.4 million).

In accordance with the resolution of the GP's board of March 28, 2023, and as part of the process of reducing the Partnership's debts, the Partnership intends to purchase Series C Bonds and Series D Bonds of Ratio Financing, insofar as the same shall constitute a good business opportunity at such time, up to a total amount of ILS 300 million par value (over and above the quantity of Series C Bonds held as of the date of the board's resolution). The bonds that shall be purchased by the Partnership (if any), further to the board's said resolution, shall not be offered for sale on or off TASE.

The 'short-term deposits' item presented in the Consolidated Statement of Financial Position is intended to serve for the bond purchasing as aforesaid.

The liability in respect of long-term bonds, current maturities of bonds and interest payable for bonds items that are included in the statement of financial position are presented net of the bonds purchased as noted above.

- b) The holders of each of the bond series were entitled to an additional annual interest at the rate of 1%, over and above the nominal interest in each of the bond series, in relation to the period in which it applies, from the first trading day after the date of issue of each of the bond series until the date of receipt of approval from the Petroleum Commissioner at the Ministry of Energy (the "**Commissioner**") for registration of the pledge over the royalty to Ratio Financing in relation to each of the bond series (the "**Commissioner's Approval**").

Interest was calculated according to the number of days in such period based on 365 days a year (the "**Additional Interest**"). Accordingly, the loans to the Partnership in connection with the bonds bore an additional annual interest at an identical rate.

On December 8, 2016, February 6, 2018 and August 5, 2021, the Commissioner's Approval was received for registration of the pledge over the royalty in the Petroleum Register, in connection with Series B Bonds, Series C Bonds and Series D bonds, respectively. Further to the provisions of Section 4 above regarding full early redemption of the outstanding Series B Bonds, in December 2022 the record in the Petroleum Register on the royalty and the pledge on the royalty in connection with the Series B Bonds, was removed.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

c) 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 was redeemed in the sum of approx. \$52.3 million (which is the net amount after offsetting the Partnership's share) 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 then paid Ratio Financing the Partnership's liabilities for payment of the principal and interest for the Series B Bonds (net of the Partnership's share) and the Series C bonds. According to the terms and conditions of the Series D Bonds, on April 30, 2022 and on October 31, 2022, payments were made of approx. \$2.6 million (approx. ILS 8.7 million) and approx. \$2.6 million (approx. ILS 9.2 million), constituting the interest payments on the Series D Bonds, respectively.

d) Collateral:

(1) Royalty from the Partnership

For details with respect to each of the royalties granted by the Partnership to Ratio Financing, see Note 24C5F below.

As aforesaid, it should be noted that the pledge over the royalty for the Series B Bonds was removed in December 2022 following the redemption of Series B Bonds.

(2) Interest cushion accounts

In accordance with the indenture for the Series B Bonds and the indenture for the Series C Bonds, the Partnership has accounts for 'interest cushions' in its name (a separate account for each of the bond series) that were pledged in favor of the trustee for the holders of Series B Bonds and Series C Bonds (the "Trustee"). After the full early redemption of the Series B Bonds as aforesaid, in November 2022 the pledge on the interest cushion account in connection with the Series B Bonds was removed, and in December 2022 the said account was closed.

In accordance with the indenture for the Series D Bonds the Partnership has a bank account that was opened by and in the name of the Trustee, in trust for the holders of the Series D Bonds, all rights of the Partnership in anything deposited and/or to be deposited in the future in which account, are pledged in favor of the Trustee for the holders of the Series D Bonds (such accounts with respect to Series C and D Bonds will be named jointly: the "Interest Cushion Accounts").

The Interest Cushion Accounts are pledged by an unlimited first-ranking single fixed charge in an amount and with respect to Series B Bonds and Series C Bonds also by an unlimited first-ranking single floating charge for the purpose of securing the repayment of the principal and interest payments of each of the bond series (including arrears interest, insofar as applicable) and additional amounts for which Ratio Financing shall be liable in relation to the provisions of each of the indentures, until full redemption of the bonds (as aforesaid, as of the date of the report, the Series B Bonds were fully redeemed).

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 11 - Financing of the Leviathan Project (Cont.):

Ratio Financing may not use the amount deposited in the Interest Cushion Accounts for the purpose of making payments on account of each of the bonds series. Despite the aforesaid, the Partnership may use the amount deposited in the Interest Cushion Accounts and transfer the same to Ratio Financing for the payment of the last principal payment of each of the bond series.

Further to the provisions of Section 4 above, the funds deposited in the interest cushion account for the Series B Bonds according to the provisions of the indenture, were used to carry out the full early redemption of the Series B Bonds, according to the Trustee's approval. See Note 15F below on the making of the Partnership's deposit in the interest cushion account for the Series B Bonds in connection with an interim profit distribution made by the Partnership in September 2022.

As of December 31, 2022, an amount equal to 2% of the issued par value of the Series C Bonds in the sum of approx. \$3.7 million, is deposited in the interest cushion account in connection with Series C Bonds.

An amount equal to the subsequent interest payment due to Series D Bonds is deposited in the interest cushion account in connection with the Series D Bonds (as of December 31, 2022, approx. \$2.6 million).

In accordance with the indenture for the Series D Bonds, shortly after each interest payment date in connection with the Series D Bonds, the amount deposited in the interest cushion account will be adjusted to the subsequent interest payment (the “**Interest Cushion Amount**”), with the Interest Cushion Amount being used as collateral for the holders of the Series D Bonds, until after the full redemption of the Series D Bonds. The Partnership has undertaken to supplement the Interest Cushion Amount in the interest cushion account, if and to the extent required.

Such interest cushions are presented under restricted deposits item in the Consolidated Statement of Financial Position.

Note 12 - Interest Payable

	December 31	
	2022	2021
	Dollars in thousands	
Interest payable for bonds	2,901	11,824
Interest payable for loan from banking corporations	8,377	3,838
	11,278	15,662

The book value of the trade and other payables is a reasonable approximation of their fair value since the effect of the capitalization is immaterial.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 13 - Provision for Oil and Gas Asset Retirement and Disposal Obligation

	December 31	
	2022	2021
	Dollars in thousands	
Opening balance	20,782	19,052
Movement during the year:		
Provisions update	(8,636)	1,499
Increase deriving from the lapse of time	342	231
Closing balance	12,488	20,782

Note 14 - Taxation

A. Details regarding the tax environment in which the Partnership operates

- 1) Until December 31, 2021 the Partnership was not a taxpayer, and the taxes on its taxable income were attributed to the participation unit holders. Therefore, no revenues and expenses for taxes on income were recorded on the Partnership's books. For details on the tax regime that applied to the Partnership until December 31, 2021, see Note 15E.
- 2) On August 3, 2021 a draft was approved for the Income Tax Regulations (Rules for Calculation of the Tax on the Holding and Sale of Participation Units in a Petroleum Exploration Partnership) (Amendment), 5782-2021 (the "**Regulations**"). According to the language of the Regulations, inter alia, from the 2022 tax year, the Partnership will be considered a "closed partnership" which is deemed as a company under the Income Tax Order (Types of Partnerships which are Deemed as a Company), 5777-2017. The Regulations were published in the Official Gazette on September 14, 2021. Accordingly, from 2022 the Partnership is taxed as a company (i.e., in the two-stage method). The tax rate applicable to the Partnership from 2022 is the corporate tax rate of 23%. The Partnership's revenues are measured for tax purposes in Israeli shekels.

In view of the foregoing amendment, up to and including the tax year 2021, an accounting with the holders of the participation units and the reporting on the Partnership's taxable income will be as they were prior to the amendment. The Partnership has final tax assessments up to and including the tax year 2019, see Note 15E.

In view of the approval of the amended version of the Regulations as noted above, and in accordance with the Partnership's estimation, in 2021 the Partnership recorded deferred tax expenses in the amount of approx. \$24.7 million in respect of temporary differences (mainly due to investments in oil and gas assets (including in respect of oil and gas asset retirement)). From 2022 forth, the Partnership records current tax expenses in addition to deferred taxes as aforesaid.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 14 - Taxation (Cont.):

3) Deferred income taxes:

The composition of the deferred taxes as of the dates of the statements of financial position, and the movement therein in the said years, are as follows:

	Investment in oil and gas assets, net	Others	Total
	Dollars in thousands		
Balance of deferred tax asset (liability) as of December 31, 2020	-	-	-
Movement in 2021 -			
Changes carried to profit and loss	(29,024)	4,301	(24,723)
Balance of deferred tax asset (liability) as of December 31, 2021	(29,024)	4,301	(24,723)
Movement in 2022 -			
Changes carried to profit and loss	(25,226)	(6,218)	(31,444)
Balance of deferred tax asset (liability) as of December 31, 2022	<u>(54,250)</u>	<u>(1,917)</u>	<u>(56,167)</u>

4) Taxes on income included in income statements:

	2022	2021	2020
	Dollars in thousands		
Current taxes -			
Current taxes for the profits of the reported year	15,706	-	-
	<u>15,706</u>	<u>-</u>	<u>-</u>
Deferred taxes -			
Deferred taxes expenses	31,444	24,723	-
	<u>31,444</u>	<u>24,723</u>	<u>-</u>
Expenses for taxes on income	<u>47,150</u>	<u>24,723</u>	<u>-</u>

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 14 - Taxation (Cont.):

- 5) Following is a reconciliation between the "theoretical" tax amount that would have applied had all the income been taxed according to the standard rates applicable to companies in Israel (see Section 1 above), and the tax amount recorded in the income statements for the reporting year:

	For the year ended December 31 2022
	Dollars in thousands
Profit before taxes on income, as reported in the income statements	196,696
The tax rate applicable to the Partnership	23%
Tax calculated according to the tax rate applicable to the Partnership	45,240
Measurement differences between the reported income for tax purposes (ILS) and the books (\$)*	4,574
Differences in respect of which no deferred taxes were created in previous years	(2,088)
Non-deductible expenses, net	(240)
Others	(336)
Expenses for taxes on income	47,150

* The said difference arises from the different measurement basis, which causes fluctuation in the Partnership's tax liability, arising mainly from the differences in the ILS/\$ exchange rate.

** Until December 31, 2021 the Partnership was not a taxpayer, and the taxes on its taxable income were attributed to the participation unit holders. Therefore, no revenues and expenses for taxes on income were recorded on the Partnership's books until the date of the entry into effect of the Regulations (September 2021). For details on the tax regime that applied to the Partnership until December 31, 2021, see Note 15E.

- 6) The Partnership and Ratio Financing received a tax arrangement from the Tax Authority that will apply to them in connection with the public issue of bonds and bonds combined with warrants. Following are the highlights of the tax arrangement that was issued:
- a) The Partnership will be allowed to receive a loan from Ratio Financing, without thereby breaching the Partnership's certificate as stated in the Income Tax Regulations (Rules for Calculation of the Tax for Holding and Selling Participation Units in an Oil Exploration Partnership), 5749-1988.
 - b) The loan will be given on terms and conditions identical to the bonds and will be used by the Partnership to finance its share in the expenses in connection with the Leviathan Project.
 - c) The Partnership may not use the funds of the loan from Ratio Financing to give a loan to a third party.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 14 - Taxation (Cont.):

- 7) The Partnership and Leviathan Development received a tax arrangement from the Tax Authority in Israel which shall apply to Leviathan Development regarding the loan that it received from banks. Following are the highlights of the tax arrangement that was issued:
 - a) The Partnership will be permitted to receive a loan from Leviathan Development without thereby breaching the Partnership's certificate as stated in the Income Tax Regulations (Rules for the Calculation of Tax due to the Holding and Sale of Participation Units in Oil Exploration Partnerships), 5749-1988.
 - b) The loan shall be given on terms and conditions identical to the terms and conditions of the Financing Agreement of Leviathan Development vis-à-vis the banks, and shall be used by the Partnership for the financing of its share in the expenses in connection with the Leviathan Project.
 - c) The Partnership may not use the funds of the loan to give a loan to a third party.
- 8) A tax ruling regarding a natural gas export agreement between the holders of the rights in the Leviathan Project and NEPCO (the "**Export Agreement**")

In the context of such ruling of January 19, 2017, which was issued to Leviathan's rights holders by the Tax Authority with respect to the Export Agreement, in which Leviathan's rights holders engaged (on September 26, 2016, through the Marketing Company) with NEPCO, Leviathan's rights holders undertook to offer new potential consumers to enter into agreements for the sale of natural gas at a price to be calculated in accordance with the favorable Brent-price-based formula, as specified in Section D.1.a(2) of Government Resolution no. 476 of August 16, 2015 (the "Government Resolution"), with such undertaking to offer applying during a three-year period from the date of the signing of the Export Agreement. It was determined that the offer will be made in accordance with the provisions of Section 2.d of Annex B to the Government Resolution, including with respect to the supply date, which may occur on any date from commencement of the supply according to the Export Agreement (which in our case occurred after commencement of the gas supply from the Leviathan Reservoir) until six years from the date of the signing of the Export Agreement as specified above. In accordance with the tax ruling, the period in which the holders of the interests in Leviathan undertook to offer the said favorable formula has ended.

- 9) A tax ruling regarding an agreement for the export of natural gas between the holders of the interests in the Leviathan Project and Blue Ocean (the "**Export Agreement**"), see Note 25C4.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 14 – Taxation (Cont.):

In the context of the ruling of December 9, 2019, which was issued to Leviathan's rights holders by the Tax Authority, with respect to the Export Agreement, in which Leviathan's rights holders engaged with Blue Ocean, Leviathan's rights holders undertook to offer, *inter alia*, to new potential consumers, to engage in agreements for the sale of natural gas at a price that was determined in the Export Agreement subject to several adjustments determined in the tax ruling. The undertaking to such offer has applied until December 9, 2022. It was determined that the offer will be made in accordance with the provisions of Section 2.d of Annex B to the Government Resolution, including with respect to the supply date, which may occur on any date from commencement of the supply according to the Export Agreement (which in our case occurred after commencement of the gas supply from the Leviathan Reservoir) until six years from the date of the validation of the Export Agreement (on September 26, 2019).

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

- 1) In January 2011, the government approved the recommendations of the Sheshinski Committee for the application of changes in the tax that applies in the oil and gas exploration sector in Israel. Following the recommendations, on March 30, 2011, the Taxation of Petroleum Profits Law, 5771-2011 (the "**Law**") was passed and on April 10, 2011 the Law was published in the Official Gazette. Implementation of the recommendations and the Law resulted in a change in the tax rules that apply to the Partnership's income, including, *inter alia*, cancelation of the depletion deduction and the introduction of the oil and gas profits levy according to a mechanism set forth in the Law. The Law includes transitional provisions regarding ventures that were producing (at the time of enactment of the Law) or ventures that begin production by 2014. The Law's main provisions are:
 - a) No change to the rate of the royalties to the State;
 - b) Cancelation of the depletion deduction;
 - c) Introduction of an oil and gas profits levy (the "**Levy**");

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 14 - Taxation (Cont.):

The Levy rate will be calculated according to an R factor type mechanism (the “**Coefficient**”), according to the ratio between the net aggregate income from the project and the aggregate investments, as defined in the Law. A minimal Levy rate of 20% will be collected from the stage at which the Coefficient ratio reaches 1.5, and as the ratio increases the Levy will progressively rise up to the maximum rate, upon the ratio’s reaching 2.3. The maximum rate of the Levy which is: 50% minus the product of 0.64 multiplied by the difference between the corporate tax rate set forth in Section 126 of the Income Tax Ordinance (with respect to each tax year) and 18% (according to the corporate tax rate in 2021, the maximum rate of the Levy is 46.8%). Moreover, additional provisions were determined with respect to the Levy, *inter alia* the Levy shall be recognized as an expense for the purpose of calculation of income tax; the Levy limits shall not include transmission facilities that are used for export; the Levy shall be calculated and imposed with respect to each petroleum right separately (ring fencing); in the case of payment by a holder of a petroleum right that is calculated, *inter alia*, as a percentage of the produced oil (the “**Derivative Payment**”), the payment recipient will be obligated to pay a Levy according to the amount of the Derivative Payment that it received, while the amount of the Levy attributed to the recipient of the Derivative Payment shall concurrently be deducted from the Levy amount for which the holder of the petroleum right is liable. It is noted that as of the date of approval of the financial statements, in all of the petroleum rights in which the Partnership holds a share, the Partnership is not yet liable for the Levy. With respect to the method of the accounting treatment of the Levy in the Partnership’s financial statements, see Note 2W.

- d) From the tax year in which the date of commencement of commercial production from the venture occurs, accelerated depreciation is given for a deductible asset owned by a holder of a petroleum right: depreciation at a fixed rate selected by the holder of the petroleum right, up to 10%; or a current annual depreciation at a variable rate up to the amount of the taxable income in such year (that does not exceed 10%).
- e) Taxation of a petroleum partnership – the Law determines provisions with respect to the method of calculation and reporting of the profits of the partners in a petroleum partnership as defined in the Law, including the method of calculation and payment of the tax that derives from such profits.

In accordance with the Law, the reporting partner files the Levy reports with respect to each petroleum project, which include, *inter alia*, cumulative data regarding income and investments for the purpose of calculating the Coefficient.

It is noted that as of this date, Levy assessments of the Leviathan venture were signed with the Tax Authority until 2018, inclusive. It is further noted that as of the date of approval of this report, several interpretive disputes are being heard in the context of appeal proceedings vis-à-vis the assessing officer with respect to the implementation of the Law in the Levy reports of the Leviathan ventures for 2019.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 14 – Taxation (Cont.):

In addition, the rights holders in the Leviathan ventures reached agreements with the Tax Authority regarding consolidation of Leviathan Leases (North and South) as a single petroleum venture for purposes of the Law and the reports according thereto, in accordance with the provisions of Section 8(a) of the Law.

- 2) On December 2, 2020, the Taxation of Profits from Natural Resources Regulations (Advances due to the Petroleum Profit Levy), 5781-2020 were published, regulating the payment of the advances to be paid by holders of petroleum interests in a petroleum project, including the method of calculation of the advances, the dates of payment thereof, and the reporting thereon (the “**Advances Regulations**”). The Partnership is examining the impact of the Advances Regulations and consulting with the Partnership’s tax advisors. However, at this stage, the Partnership does not expect the Advances Regulations to have any impact in the years in which the Partnership is in any event not expected to be liable for a Levy.
- 3) On January 7, 2021 the Taxation of Profits from Natural Resources Legislative Memorandum (Amendment), 5781-2021 (the “**Proposed Amendment**”) was released for public comment. It includes several proposed amendments to the Law, including the following: (1) Amending Section 11 of the Law to allow the Tax Authority to collect a disputed levy already after the Tax Authority’s decision in the administrative objection to the levy assessment, and before the dispute is resolved in court; (2) Amending Section 13 of the Law to require approval of the levy reports by a CPA as defined in the Certified Public Accountants Law, 5715-1955; (3) Amending Sections 14-15 of the Law to enable extension of the period of assessment of the levy reports from one year from the date of filing of the levy reports to four years from the end of the year in which the levy report was filed; (4) Adding Section 16A of the Law, which concerns the application of the provisions of Section 86 of the Ordinance regarding the authority of the Assessing Officer to ignore certain transactions; and (5) Adding Section 41A of the Law which concerns authorizing the assessing officer to impose a fine on the deficit arising from the difference between the actual levy charge and the levy payment according to a self-assessment.

The bill based on the aforesaid memorandum passed the Knesset’s first reading on March 8, 2021. After the application of continuity law on the aforesaid law, the Proposed Amendment was approved by the Finance Committee on August 16, 2021 after several amendments, *inter alia*, the collection by the Tax Authority of 75% (in lieu of 100%) of the levy in dispute, in case of entry of the Tax Authority’s decision on an administrative objection to the levy assessment, before the dispute is heard by the court. On November 10, 2021, the bill passed the second and third reading. On November 18, 2021, the law was released in the Official Gazette.

- C. The Gas Framework includes various tax aspects which pertain to the Partnership’s activity in the context of the Leviathan venture.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 14 - Taxation (Cont.):

Set forth below is a summary of the main tax aspects that pertain to the Partnership, as they appear in the Gas Framework as of now:

- 1) Quantification of income from export agreements for Levy purposes - Comparison of the domestic average price with the export price according to the Law, in accordance with the technique set forth in the Gas Framework. In general, the domestic average price of a specific oil type will be calculated in accordance with revenues from sales made in Israel of oil of the same type in the two years before the beginning of the tax year, divided by the quantity of units of oil for which the income was received as aforesaid, and will be compared to the actual income from the export agreement. The comparison will be made cumulatively throughout the life of the agreement. Insofar as the holder of the export agreement undertakes to offer the price formula in the export agreement to new customers in Israel in the format determined in the Gas Framework, no comparison will be made to the domestic average price and the income from the export agreement as received by the petroleum right holder shall be deemed as "income actually received". The Gas Framework further determined that the Director of the Tax Authority, as defined in the Ordinance, may, in specific circumstances in which the export price is clearly higher than the price in the domestic market, give prior approval per the request of a petroleum right holder that the petroleum unit price according to the export agreement is not lower than the local average price, and in these circumstances too, the income from the export agreement, as received by the petroleum right holder, shall be deemed as "income actually received".
- 2) Income from the sale of petroleum for use in Israel, as defined in the Law, shall include all the income from such sale which pertains up to the point of delivery in Israel at the entrance to INGL's transmission system (including income due to transportation and processing), including related components.
- 3) It was clarified that in the event that the point of delivery of the gas in the export agreement is not the same as the point of delivery in Israel, the necessary adjustment will be carried out for the purpose of comparing the income from the export agreement with the income calculated according to the domestic average price, and for the purpose of offering domestic customers the export price (insofar as the holder of the export contract has undertaken to perform the same), in accordance with the transmission fee tariff that shall be determined by the Director of the Tax Authority according to principles that shall be determined until a resolution is made by the government.
- 4) An investment in pipelines that are used for transportation and transmission of oil for the export thereof is not recognized as a construction investment according to the Law. However, for purposes of the "Leviathan" field, it was determined that payments that shall actually be made for the planning, creation and construction of pipelines from the Leviathan field to the processing facility and from the processing facility to the shore in Israel shall be included in the definition of construction investments as stated in the Law, and shall be taken into account in calculation of the levy Coefficient, as the case may be.
- 5) For purposes of a substitution of assets, it was determined that the provisions of Section 96 of the Ordinance may be applied with respect to the substitution of a physical asset in a specific venture (such as a rig, pipelines, wells and machinery) with a physical asset in another venture, all subject to compliance with the terms and conditions of the section.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 14 - Taxation (Cont.):

- 6) Compensation for direct damage due to acts of war and hostility – it was clarified that the Property Tax and Compensation Fund Law, 5721-1961 will apply to the production facilities, including the processing and the pipelines of the petroleum ventures, insofar as they are located within the area of the State of Israel, including in the EEZ of the State of Israel. This clarification shall be expressed in the Marine Zones Law that shall be enacted.
- 7) Interest due to loans from foreign residents which meet the criteria set forth in Section 16(4) of the Income Tax Ordinance and in the Income Tax Order (Exemption from Tax for Interest Paid by an Israeli Resident due to a Loan from a Foreign Resident), 5748-1988 shall be taxed at a rate of 5%.

Note 15 – The Partners' Equity

- A. As aforesaid in Note 1 above, the Partnership was established according to a limited partnership agreement executed on January 20, 1993 between the GP and the LP. Upon establishment of the Partnership, the GP invested ILS 0.10 in the Partnership's equity, and the LP invested ILS 999.90 in the Partnership's equity. According to prospectuses released by the Partnership, the LP made a public offering of registered participation units of ILS 1 par value each ("**Participation Units**") and several series of warrants.

On January 6, 2017, a consolidation of Participation Units was performed such that each 8 existing Participation Units became one unit (the "**Unit Consolidation**").

As of December 31, 2022, 2021 and 2020, the number of Participation Units in circulation is 1,123,871,146 Participation Units, 1,123,871,146 Participation Units and 1,123,843,375 Participation Units, respectively.

On December 31, 2019, a special general meeting was held, which approved cancelation of the par value of the Partnership's Participation Units.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 15 – The Partners’ Equity (Cont.):

The composition of the investment in the limited partnership:

	<u>The LP – Ratio Trusts Ltd.</u>		<u>The GP – Ratio Oil Exploration Ltd.</u>	<u>Total Equity</u>
	<u>Participation Units</u>	<u>Warrants</u>		
	Dollars in thousands			
Balance as of December 31, 2019	166,176	2,402	10	168,588
Movement during 2020:				
Exercise of Series 18 Warrants	26	*	*	25
Exercise of Series 19 Warrants	*	*	*	*
Expiration of Series 18 Warrants	2,402	(2,402)	*	-
Income and comprehensive income per year	6,946	-	1	6,947
Balance as of December 31, 2020	175,550	0	10	175,560
Movement during 2021:				
Exercise of Series 19 Warrants, net	18	*	*	18
Tax advances paid for holders of Participation Units	(13,230)	-	(1)	(13,231)
Balancing payments for corporations and tax payments for individuals	(13,919)	-	(1)	(13,920)
Income and comprehensive income per year	77,433	-	8	77,441
Balance as of December 31, 2021	225,852	0	16	225,868
Movement during 2:				
Distributed profits	(24,995)	-	(2)	(24,997)
Income and comprehensive income per year	149,531	-	15	149,546
Balance as of December 31, 2022	350,388	0	29	350,417

* Represents an amount lower than \$1 thousand.

- B.** The Partnership’s revenues, expenses and losses are divided between the LP and the GP, such that the LP’s share amounts to 99.99% and the GP’s share amounts to 0.01%.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 15 – The Partners’ Equity (Cont.):

C. Following are investments made in the Partnership’s equity from January 1, 2020 until the date of approval of the financial statements:

<u>Date</u>	<u>Type of transaction</u>	<u>Number of Participation Units issued</u>	<u>Number of warrants issued</u>	<u>Investment in equity (Dollars in millions), net</u>
May 2020 to November 2020	Exercise of Series 18 Warrants (1)	25,775	-	0.025
October 2020	Issuance of Series 19 Warrants	-	109,181,494	-
November 2020	Exercise of Series 19 Warrants	336	-	*
July 2021	Exercise of Series 19 Warrants (2)	27,771	-	0.018

(1) 617,380,720 Series 18 Warrants have expired on November 15, 2020.

(2) 109,153,387 Series 19 Warrants have expired on July 20, 2021.

* Represents an amount lower than \$1 thousand.

D. Warrants issue

Series 18 Warrants

Pursuant to the Partnership’s shelf offering report of November 10, 2016, 617,587,000 Series 18 Warrants of the Partnership were issued, each of which was exercisable into a participation unit that grants a right to participate in the rights of the LP (the trustee) of the limited partnership, by November 15, 2020.

By the expiration date thereof, inclusive, 206,280 Series 18 Warrants were exercised into 25,785 Participation Units (after a retroactive update as aforesaid in Section A), and consideration in the amount of approx. ILS 86 thousand was received in respect thereof. 617,380,720 Series 18 Warrants that were not exercised, expired on November 15, 2020.

Series 19 Warrants

October 2020 saw the issuance of 109,181,494 Series 19 Warrants, which were exercisable into the Partnership’s Participation Units by July 20, 2021. The Series 19 Warrants were distributed, free of charge, by way of rights to all holders of the Partnership’s securities on the record date for distribution thereof.

By the expiration date thereof, inclusive, on July 20, 2021, 28,107 Series 19 Warrants were exercised for 28,107 Participation Units and a consideration in the amount of approx. \$18 thousand (approx. ILS 57 thousand) was received therefor. 109,153,387 Series 19 Warrants that were not exercised, expired on July 20, 2021.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 15 – The Partners' Equity (Cont.):

- E. Until the taking effect in the tax year 2022 of the change in the tax regime applicable to the Partnership, as determined in the amendment to the Income Tax Regulations (for details see Note 14A above), the Partnership was not a taxpayer under the Income Tax Ordinance (New Version), 5721-1961, and any revenues, expenses, profits and losses of the Partnership were attributed to the unit holders who are "entitled holders" as defined in the Income Tax Regulations (Tax Calculation), according to their relative holdings in the Partnership. An "entitled holder" is anyone who held participation units at the end of December 31 of the tax year.

Under the tax regime that applied until the date of change of the tax regime as aforesaid, Section 19 of the Law on Taxation of Profits from Natural Resources, 5771-2011 ("**Section 19**") required the GP to submit a report to the assessing officer on the Partnership's taxable income or losses, and pay the resulting tax, on account of the tax due from the partners in the Partnership, as being on December 31 of the same tax year. According to Section 19, the tax for which the GP is liable as aforesaid, is calculated according to the percentage in the Partnership of entitled holders who are bodies corporate, and the percentage in the Partnership of entitled holders who are individuals.

To the best of the Partnership's knowledge, the issue of the method of implementation of Section 19 of the Law, on the level of the relations between the oil partnership and the Tax Authority, was at the center of legal proceedings that were conducted in recent years with respect to the limited partnerships NewMed and Isramco Negev 2, Limited Partnership. On November 1, 2017, the District Court's judgment was received, in which it was ruled *inter alia* that: (a) the tax payment that derives from the provisions of Section 19 should not be deemed as an equal distribution, in a uniform amount per unit, but rather as a differential payment according to the various tax rates which apply to individuals and corporations; (b) payment of the tax under Section 19 creates a difference in the expense incurred by the Partnership between individuals and corporations, but Section 19 concerns the collection of tax and not regulation of the relations between the holders of the participation units; and (c) as long as the collection arrangement prescribed in Section 19 is in effect, the Partnership and/or the GP are required to find the appropriate method to balance between the additional expense entailed by the tax rate applicable to individual holders and the expense entailed by the tax rate applicable to corporate holders. After filing appeals from such judgment, on July 28, 2019, the Supreme Court's judgment (C.A. 917/18) was received, rejecting the position of the said partnerships, and ruling, *inter alia*, that the tax payments under Section 19 of the Law constitute a type of differential tax withholding, according to the maximum tax rate applicable to an individual or to a company, according to the holder. According to this decision, the tax payments under Section 19 of the Law do not constitute a profit distribution by the Partnership. With respect to the ostensible inequality created between the holders as a result of the differential tax payments, the decision determined that an arrangement in which the Partnership shall bear the full tax rate of the partners, individuals and companies alike, as mandated by the section, and in addition or further thereto, shall make balancing payments to corporate partners, is not a "distribution" as defined in the law, but rather an outcome mandated by the fact that payments were made out of the profits "on account of the tax". The decision stated that the court does not purport to make recommendations or to set hard and fast rules regarding the balancing payment technique.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 15 – The Partners' Equity (Cont.):

It is noted that according to their public reports, pursuant to the aforesaid judgment, the partnerships NewMed and Isramco Negev 2, Limited Partnership intend to apply to the court to receive instructions regarding the appropriate balancing arrangement according to which they are required to act in connection with the tax payments under Section 19. On March 15, 2020, Isramco Negev 2, Limited Partnership reported to the public on an application to the court as aforesaid while NewMed reported to the public on a similar application on July 13, 2020.

On June 29, 2021, a judgment was issued by the District Court in the case, ruling, *inter alia*, that tax liabilities to be borne by the partnerships as a result of "assessment differences" from the tax year 2017 will be paid by the partnerships without performing, in this regard, any accounting with the holders of the participation units as of December 31st of the tax years for which assessment differences were created, or any "balancing payment".

The Partnership was issued final income tax assessments and certificates for the purpose of calculation of the tax for an entitled holder until 2019, and as of the date of approval of the financial statements, the tax calculation for an entitled holder of the Partnership for the tax years 2020 and 2021 is yet to be finally determined.

According to the tax reports filed by the Partnership for the tax years 2021 and 2020, which are subject to an audit by the Tax Authority, in the tax years 2021 and 2020, the Partnership had no taxable income.

The estimate of the Partnership's taxable income for the 2021 tax year, as of the date of approval of the 2021 financial statements, was different than the current estimate, and therefore tax and balancing payments were made for the 2021 tax year – see Note 15F below.

It is clarified that this is an estimation and that the amount of the taxable income/loss for an entitled holder due to the holding of a unit of the Partnership's participation units for the 2021 and 2020 tax years is yet to be determined, since the Partnership's tax reports have not yet been audited by the Tax Authority-the Tax Assessor for Large Enterprises, for such years and it may transpire, after completion of such audit, that assessment differences exist, such that the final tax assessment is higher than the estimated assessment made by the Partnership. In such a case the Partnership will be required to pay the Tax Authority, on account of the holders, the tax balance deriving from the assessment differences, according to the tax calculated pursuant to Section 19. Similarly, should it transpire in the future that advances were paid by the Partnership in amounts exceeding the amounts required by law, the balance will be repaid to the Partnership.

From the tax year 2022 as aforesaid, there will be no need for the performance of balancing payments in view of the taxation of oil and gas partnerships as companies. See Note 14A.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 15 – The Partners’ Equity (Cont.):

F. Distribution of profits

According to the partnership agreement, as amended from time to time, any and all of the Partnership’s profits available for distribution by the Partnership by law, as profits, net of amounts (which were not taken into consideration for the determination of the profits) required by the Partnership, at the discretion of the GP, for the purpose of or in connection with existing liabilities of the Partnership, and including due to distribution restrictions by virtue of the financing agreements of the Partnership and/or held corporations thereof that shall be in effect on the date of the distribution (including the amounts required – in the opinion of the GP – to meet unforeseen expenses, the amount of which shall not exceed \$5 million) (the “**Profits**”), shall be distributed to the Partners, in accordance with their rights, as aforesaid, once a year. Profit calculations will always be made for the year ended December 31.

The distribution of Profits to holders of the Partnership’s participation units is recognized as a liability in the Partnership’s Statement of Financial Position in the period in which the distribution was approved by the GP’s board.

With respect to amounts held by the Partnership which are not distributed to the partners in accordance with the aforesaid (including the limited partnership’s equity and undistributed profits thereof), the GP may, if it so deems fit at its sole discretion, invest them until they are used for the purposes for which they were intended, such that up to 20% of the said amount will be managed through investments in shares traded in Israel and/or overseas, up to 80% in government bonds and/or corporate bonds with a rating of no less than A- (in ILS, linked to the CPI and foreign currency) in Israel or a similar rating and/or overseas, and any and all issue funds not invested in the said manner will be invested in CPI-linked deposits, foreign currency deposits or ILS deposits. In addition to the aforesaid, the GP may invest a sum of up to ILS 60 million in the purchase of securities of Ratio Petroleum, provided that the Partnership’s holding rate in Ratio Petroleum’s capital does not exceed 20%. The GP will not invest the said money in securities of corporations controlled by the controlling shareholders of the GP, aside from an investment as aforesaid in the purchase of securities of Ratio Petroleum.

Other than the provisions above and below, any and all of the Partnership’s Profits will be distributed shortly after the end of the calendar year (i.e., a year ended December 31) for which they are distributed, immediately when their amount is determined.

It is hereby clarified that Profits shall not be distributed if receipt thereof by the LP shall be deemed as a withdrawal of its investment or part thereof, within the meaning thereof in Section 63(b) of the Partnerships Ordinance (New Version), 5735-1975. In any case of doubt as to whether the distribution of the Profits to the LP will be deemed as a withdrawal of its investment or part thereof as aforesaid, the GP shall not distribute the same other than after instructions are given by the competent court per the LP’s motion for instructions on whether the Profit distribution constitutes a withdrawal of the LP’s investment.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 15 – The Partners’ Equity (Cont.):

For the avoidance of doubt, it is hereby clarified that the GP may not – without the approval of the General Meeting of the unit holders in a special resolution or upon the approval of the Commissioner with the consent of the court – refrain from the distribution of Profits or delay the distribution of Profits other than for the purpose of performing work on development, production, liquefaction, flow pipelines, marketing, etc. in connection with the Leviathan leases, as approved from time to time by the GP in accordance with the JOA that applies to the Leviathan leases or any other agreement that shall apply between the partners in the Leviathan leases in connection with the petroleum from the Leviathan leases and participation in additional exploration activities beyond the activities for which plans were included in the prospectus or which were reported in the Partnership’s reports, according to which units are issued or will be issued to the public. The opinion of the Partnership’s CPA (who was appointed as the CPA of the Partnership concurrently with the signing of this agreement or a CPA who shall replace him) with regard to determining the Profits available for distribution as profits and calculating the Partners’ share according to the limited partnership agreement, in the Partnership’s revenues, expenses and losses – shall be final and conclusive. If, for any reason, the office of the said CPA becomes vacant, another CPA shall be appointed in his place by the GP, provided that a written consent of the Commissioner is granted for his appointment.

Profit distribution amounts:

- 1) On August 30, 2022, the GP’s board approved an (interim) profit distribution in the sum of \$25 million, with the record date for the distribution being September 8, 2022. The said profit distribution was performed on September 21, 2022. In accordance with the terms and conditions of the Series B bonds issued by Ratio Financing, prior to the performance of the said profit distribution, the Partnership deposited a deposit in the sum of the outstanding loan amount (principal and interest) in respect of the Series B Bonds in the interest cushion account for the Series B Bonds. On November 6, 2022, the Series B Bonds were repaid and the said deposit was released.
- 2) On March 28, 2023, the GP’s board approved a distribution of profits in the sum of \$35 million, with an effective date for distribution being April 10, 2023. Such distribution of profits will take place on April 24, 2023.

G. Tax payments and balancing payments

The Partnership made the following payments for the tax year 2021:

- 1) In December 2021, the Partnership made payments in the sum of approx. \$13.2 million (approx. ILS 41.5 million) with respect to corporate tax advances for the tax year 2021 (the “**Tax Advances**”).

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 15 – The Partners’ Equity (Cont.):

- 2) Since the tax rates applicable to a holder who is an individual are higher than the tax rates applicable to a body corporate, and since, according to the decision of the Supreme Court in the matter of Section 19 as specified in Section e. above, the tax payments in respect of the Partnership’s taxable income as well as balancing payments paid to holders who are bodies corporate do not constitute a "distribution" as defined by law, in January 2022 the Partnership made additional payments, such that for each Participation Unit a fixed and uniform amount was paid as a tax payment for a holder who is an individual and as a balancing payment for a holder who is a body corporate (jointly: the “**Payments**”) in the amount of approx. \$13.9 million (approx. ILS 43.3 million). The Payments were calculated on the basis of an estimate of the taxable income and the difference between the maximum tax rate applicable to a holder who is an individual and a holder who is a body corporate. From the aforesaid payments, no tax deduction was made for a holder who is a body corporate, and a tax deduction at a rate of approx. 100% was made for a holder who is an individual.

The Tax Advances and the Payments, amounting to approx. \$27.1 million (approx. ILS 84.8 million), are presented in the statements on changes in the equity of the partners in the items of tax advances for holders of participation units and balancing payments for corporations and tax payments for individuals.

With respect to the change in the tax regime that applies to the Partnership, such that it is taxed as a company in respect of its taxable income from 2022, see Note 14A above.

H. Cash-settled consultant option plan

In September 2016, the Board of the Partnership’s GP, approved a “Phantom Plan – Officers and Consultants 2016” (the “**Options**” and the “**Plan**”, respectively), that are exercisable for a financial bonus and not securities of the Partnership. According to the Plan, up to 80,000,000 Options shall be granted for no consideration, each one exercisable for a financial bonus in an amount equal to the difference between the price of the Partnership’s participation unit on the exercise date and the exercise price of the option (the “**Exercise Price**”). The Exercise Price is determined according to the higher of: (a) the average price of the participation unit on TASE during the 30 trading days preceding the grant date; (b) 5% above the price of the participation unit on TASE at the end of the trading day preceding the date of approval of the allotment by the Board. Subject to the terms and conditions of the Plan, if the Options are not exercised earlier, the Options will expire on the earlier of (1) the end of five years from the grant date; (2) up to 120 days after termination of work relations between the Partnership and the grantees.

Accordingly, and consequently to the consolidation of the Partnership’s units which was performed on January 6, 2017 (in the ratio of 8 to 1, see also Section A above), the number of Options granted was adjusted as specified below.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 15 – The Partners’ Equity (Cont.):

In September 2016 and October 2017, 4,904,868 Options were granted in accordance with the aforementioned Option Plan. Below are details regarding the terms and conditions of the Options on the date of their grant (the financial value of the Options is estimated using the binomial model):

Grant date	Options amount (after adjustments following capital consolidation)	Participation unit price (Agorot)	Option Exercise Price (Agorot)	Standard deviation*	Risk-free interest	Projected life until exercise date	Option value as of grant date	Fair value of the liability on the grant date in Dollars in thousands
September 12, 2016**	4,432,624	225.6	236.9	41.69%	0.99%	5 years	0.0214	923
October 16, 2017***	472,244	222.9	234.0	35.3%	0.81%	5 years	0.169	80

* The degree of fluctuation is based on the historic fluctuation of the Partnership’s participation unit, for the corresponding periods over the projected life of the option until the exercise date.

** The options granted on September 12, 2016 expired on September 12, 2021.

*** 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 remained outstanding under the Plan.

- 1) The Options may be exercised at the end of the vesting period, as follows: (a) 1/3 of the number of Options commencing from the end of 12 months from the grant date; (b) 2/3 of the number of Options in 8 equal quarterly portions over a period of two years from the end of 15 months from the grant date (i.e. 1/12 of the number of Options will vest each quarter).
- 2) According to the provisions of International Reporting Standard 2 – Share-Based Payment, the liability amount as of each balance sheet date is measured at fair value as of the balance sheet date, until the retirement of the liability.
As of December 31, 2021, the fair value of the liability was approx. \$7 thousand.
Changes in the fair value as aforesaid are recognized in profit or loss. As of December 31, 2022 and 2021 all of the Options had vested.

Upon the occurrence of the following events in the period between the date of allotment of the Options and the exercise date, adjustments shall be made to the rights of the Option holders: changes in the Partnership’s equity (participation unit split, consolidation or replacement, restructuring of the Partnership’s equity, etc.), change of control transaction, distribution of profits and/or a rights offering.

- 3) The amount of the income recognized in the Partnership’s statements of comprehensive income or loss for the years ended December 31, 2022, 2021 and 2020, in respect of the granting of Options to consultants, is approx. \$5 thousand, approx. \$155 thousand and approx. \$576 thousand, respectively.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 15 – The Partners’ Equity (Cont.):

I. Shelf Prospectus

On February 13, 2023, the Partnership’s shelf prospectus expired. As of the date of the financial statements, the Partnership is working on the release of a shelf prospectus according to which it will be possible to offer various securities: participation units that confer a working interest in the interests of the LP (the trustee) of the Partnership, which are held and exercised by the LP in trust for the unit holders and under the Supervisor’s supervision (“**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 security that may be issued pursuant to the law by virtue of the shelf prospectus that shall be released, on the relevant date.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 16 – Linkage Terms of Financial Assets and Financial Liabilities

	December 31, 2022			Total
	In	In	In CPI-	
	Dollars	unlinked	linked	
	ILS	ILS		
	Dollars in thousands			
Current assets:				
Cash and cash equivalents	71,530	19,723	-	91,253
Financial assets at fair value through profit or loss	9,242	14,176	1,548	24,966
Short-term deposits	30,355	-	-	30,355
Restricted deposit	-	3,657	-	3,657
Derivative financial instruments	5,035	-	-	5,035
Trade receivables	65,329	-	-	65,329
Operator of the joint venture	10,737	-	-	10,737
Ratio Trusts Ltd. – the Trustee – current account	-	269	-	269
Other receivables	264	784	-	1,048
Total current assets	192,492	38,609	1,548	232,649
Non-current assets:				
Financial assets at fair value through profit or loss	-	4,153	-	4,153
Derivative financial instruments	2,849	-	-	2,849
Other long-term assets, net	5,365	-	-	5,365
Restricted deposit	2,567	3,940	-	6,507
Total non-current assets	10,781	8,093	-	18,874
Current liabilities:				
Trade payables	19	99	-	118
Payables of joint venture	13,277	-	-	13,277
Ratio Energies Management Ltd. – the GP (formerly Ratio Oil Exploration Ltd.) – current account	1,056	-	-	1,056
Other	599	-	-	599
Current maturities of bonds	72,456	-	-	72,456
Interest payable	11,278	-	-	11,278
Payables	5,625	598	-	6,223
Provision for current taxes	-	3,685	-	3,685
Total current liabilities	104,310	4,382	-	108,692
Non-current liabilities:				
Bonds	80,139	-	-	80,139
Loans from banking corporations, net	510,627	-	-	510,627
Total non-current liabilities	590,766	-	-	590,766

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 16 – Linkage Terms of Financial Assets and Financial Liabilities (Cont.):

	December 31, 2021			
	In	In	In CPI-	Total
	Dollars	unlinked	linked	
	ILS	ILS	Dollars in thousands	
Current assets:				
Cash and cash equivalents	101,385	23,998	-	125,383
Financial assets at fair value through profit or loss	4,850	4,153	1,973	10,976
Short-term deposits	25,533	38,641	-	64,174
Trade receivables	47,941	-	-	47,941
Operator of the joint venture	2,310	-	-	2,310
Ratio Trusts Ltd. – the Trustee – current account	-	338	-	338
Ratio Energies Management Ltd. – the GP (formerly - Ratio Oil Explorations Ltd.) - current account	883	-	-	883
Other receivables	-	589	-	589
Total current assets	182,902	67,719	1,973	252,594
Non-current assets:				
Financial assets at fair value through profit or loss	-	5,509	-	5,509
Restricted deposit	3,962	10,745	-	10,745
Total non-current assets	3,962	16,254	-	20,216
Current liabilities:				
Trade payables	7	37	-	44
Payables of joint ventures	11,462	-	-	11,462
Other	92	-	-	92
Current maturities of bonds	62,738	63,034	-	125,772
Interest payable	8,757	6,905	-	15,662
Payables	3,812	1,093	-	4,905
Options for consultants	-	7	-	7
Provision for tax and balancing payments	-	13,920	-	13,920
Total current liabilities	86,869	84,995	-	171,864
Non-current liabilities:				
Bonds	153,043	61,517	-	214,560
Loans from banking corporations, net	487,112	-	-	487,112
Total non-current liabilities	640,155	61,517	-	701,672

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 17 – Revenues from the Sale of Natural Gas:

- A. The Partnership’s revenues originate from natural gas sales to its various customers, all in accordance with engagement agreements signed therewith, as specified in Note 25C1 below.
- B. The three major customers in 2022 are Blue Ocean constituting approx. 46% of the sales, NEPCO approx. 28% of the sales and Ramat Hovav approx. 6% of the sales. The three major customers in 2021 are Blue Ocean constituting approx. 34% of the sales, NEPCO approx. 30% of the sales and the IEC approx. 10% of the sales.
- C. The total quantity of natural gas sold in 2022 and 2021 in the Leviathan Project (for all of the Leviathan Partners) totaled approx. 11.38 BCM and approx. 10.72 BCM, respectively.
- D. For details on agreements for the sale of natural gas and condensate by the Leviathan Partners, see Note 25C1.

Note 18 – Royalties

Composition:

	For the year ended December 31	
	2022	2021
	Dollars in thousands	
Royalties to the State	39,156	33,032
Royalties to interested parties (see also Note 24C1D)	18,795	15,855
	<u>57,951</u>	<u>48,887</u>

The Petroleum Law, 5712-1952 (the “**Petroleum Law**”) and the Petroleum Regulations, 5713-1953 prescribe that a lease holder is required to pay the State Treasury a royalty at the rate of one eighth of the quantity of oil produced and utilized from the area of the lease, according to the market value at the wellhead, with the exception of the quantity of oil used by the lease holder in the operation of the area of the lease; however, in no event shall the royalty be lesser than the minimal royalty prescribed by the Petroleum Law (the “**Royalty**”).

Starting from the date of supply of gas from the Leviathan Reservoir, and according to the Ministry of Energy’s demand as of January 13, 2020, the Leviathan Partners pay the State (until further notice) royalty advances at the rate of 11.26% of the revenues from the sale of gas and condensate that is produced and utilized in the area of the leases, in any payment period. Such demand determined that the final royalty liability in relation to the entire payment period will be determined in accordance with provisions to be formulated and the annual audit reports.

The manner of payment of the royalty advances to the State is used also for the payment of the overriding royalties to the stakeholders. The Partnership pays the overriding royalty set forth in the partnership agreement multiplied by 11.26% and divided by 12.5%.

In May 2020, the Director of Natural Resources at the Ministry of Energy released the final language of the “Directives on the method of calculation of the royalty value at the wellhead according to Section 32(b) of the Petroleum Law” (the “**Directives**”).

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 18 – Royalties (Cont.):

The Directives determine that the value of the Royalty at the wellhead shall be equal to 12.5% of the sale price to customers at the point of sale, net of necessary costs, in the Commissioner's opinion, of treatment, processing and transportation of the petroleum, which were actually incurred by the lease holder between the wellhead and the point of sale. The Directives determine other provisions, including a specification of the types of deductible and non-deductible expenses for purposes of the said calculation.

In September 2020, the Director of Natural Resources at the Ministry of Energy released the "Directives of the Petroleum Commissioner regarding calculation of the royalty value at the wellhead – the Tamar lease", which specify the deductible expenses for purposes of calculation of the value of the Royalty at the wellhead.

On July 24, 2022, the Director of Natural Resources at the Ministry of Energy released specific instructions on the method of calculation of the value of the Royalty at the wellhead in the Leviathan Project (the "**Specific Instructions**"). Below is a summary of the instructions that were received regarding the value of the Royalty at the wellhead in the Leviathan lease:

- a. Capex that will be recognized for purposes of calculation of the value of the Royalty at the wellhead and the rate of recognition include: (1) capital cost for the transmission pipeline from the main manifold to the Leviathan platform (the "Platform") will be recognized at a rate of 100%; (2) capital costs in respect of the Platform will be recognized at a rate of 82%; (3) capital cost in respect of the transmission pipeline from the Platform to the entrance to the terminal (DVS) will be recognized at a rate of 100%.
- b. Operating expenses arising directly from the types of Capex specified above, will be recognized at a rate of 82%: salary expenses of the workers at the Platform; maintenance and repair expenses; expenses for travel and transportation to the Platform; expenses for food for the workers at the Platform; expenses for guarding and security at the Platform; expenses for professional and engineering consulting; insurance expenses and communications expenses at the Platform.
In the event that the sale price the contract [sic] includes a component of a transmission tariff that is paid to INGL, all of the transmission expenses paid to INGL directly by the lease holders and that are included in the contractual sale price, will be recognized according to the relevant transmission tariff.
- c. Abandonment costs will be recognized for calculation of the Royalty according to the provisions set forth in the general directives, cumulatively: a) the 2P reserves balance in the Leviathan field according to an updated resources report shall be less than 125 BCM; b) the abandonment plan has been approved by the Commissioner.

Consequently, 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 the gas supply from the Leviathan Reservoir until the report date to reflect the Specific Instructions.

It is the Leviathan partners' position that a calculation of the actual rate of the State's royalties in respect of the revenues from the Leviathan Project needs to reflect the complexity of the project, the risks entailed thereby and the scope of the investments in the project.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 18 – Royalties (Cont.):

According to a calculation based on the principles of the Specific Instructions released for the Leviathan lease as aforesaid, 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. 10.97% in 2022. The aggregate difference between the state royalties actually paid according to the rate of the advances that was set (11.26%) and the effective state royalty rate as aforesaid, totaled approx. \$3.6 million and was included in the Consolidated Statement of Financial Position under the 'other long-term assets, net' item as of December 31, 2022, see Note 9 above. It should also be pointed out that according to the calculation made by Chevron, in accordance with the royalties report it submitted to the Ministry of Energy for Y2020, the rate of the state royalties in the Leviathan Project was approx. 9.58%.

The method of calculating the state royalties is also used for calculating the market value at the wellhead of the overriding royalty paid by the Partnership. In accordance with the aforesaid, the Partnership estimates that the actual rate of the overriding royalty should be approx. 5.19% in 2020, approx. 5.15% in 2021 and approx. 5.26% in 2022. The aggregate difference between the overriding royalties actually paid and the effective overriding royalty rate as aforesaid, totaled approx. \$1.7 million and was included in the Consolidated Statement of Financial Position under 'other long-term assets, net' as of December 31, 2022, see Note 9 above.

On September 1, 2022, the response of the partners in the Leviathan Project to the said Specific Instructions was submitted. As of the date of approval of the financial statements, the Ministry of Energy's reply has not yet been received.

On December 27, 2022, the Leviathan Partners sent a letter to the Ministry of Energy on reduction of the rate of advances from January 2023. No answer has been received from the Ministry of Energy as of the date of approval of the financial statements.

In the event that a final royalty rate is determined with the Ministry of Energy, an adjustment shall be made accordingly.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 19 – Cost of Natural Gas and Condensate Production

	For the year ended December 31		
	2022	2021	2020
Dollars in thousands			
Salary and professional consulting fees	4,064	*5,434	*4,611
Guarding and security	671	939	753
Transmission and transportation	1,189	1,100	854
Operator fee and operation management	5,077	4,649	4,131
Insurance	3,713	3,410	4,170
Natural gas transmission cost	16,517	8,491	4,312
G&A – operator of the joint venture	5,093	*5,679	*4,752
Maintenance	4,565	4,608	2,676
Other	1,695	3,028	991
	<u>42,584</u>	<u>37,337</u>	<u>27,250</u>

* Reclassified

Note 20 – Oil and Gas Exploration Expenses, Net

	For the year ended December 31		
	2022	2021	2020
Dollars in thousands			
Ratio-Yam licenses and leases (Note 8C)	-	-	1,308
Royee license, net (Note 8E)	-	-	(934)
Cluster A and Cluster C licenses (Note 8D)	131	1,093	1,132
	<u>131</u>	<u>1,093</u>	<u>1,506</u>

Note 21– G&A Expenses

	For the year ended December 31,		
	2022	2021*	2020*
Dollars in thousands			
Payroll expenses*	3,858	2,766	-
Management fees of the GP	1,140	785	-
Office expenses	436	405	238
Directors' fees and related expenses	466	465	365
Professional services	1,541	959	1,943
Legal	1,168	710	762
Options for employees	(5)	(155)	(576)
Other	941	798	441
	<u>9,545</u>	<u>6,733</u>	<u>3,173</u>

* According to the management services arrangement between the Partnership and the GP, from April 23, 2021, the management expenses of the Partnership and the GP, of any kind and type, are borne by the Partnership. For further details, see Note 24C1C.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 22 – Financial Expenses/Income

	<u>For the year ended December 31,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
	<u>Dollars in thousands</u>		
Financial income:			
Interest on deposits	1,016	165	138
Dividend and interest	273	126	115
Exchange rate differences, net	6,304	-	-
Profit from revaluation of derivative financial instruments	7,957	-	-
Other	470	-	-
	<u>16,020</u>	<u>291</u>	<u>253</u>
Financial expenses:			
Loss from revaluation of assets at fair value through profit or loss	3,409	14,413	24,846
Bank expenses	518	476	196
Costs regarding loans from banking corporations	34,352	24,277	31,267
Loss from early redemption of Series B bonds	1,354	140	781
Interest and discount expenses due to bonds	19,408	26,976	27,729
Exchange rate differences, net	-	2,920	13,803
Expenses due to changes in oil and gas asset retirement obligation due to lapse of time	342	231	290
Other	-	-	1,690
	<u>59,383</u>	<u>69,433</u>	<u>100,602</u>

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 23 – Profit Per Participation Unit

A. Basic

The basic profit per participation unit is calculated by dividing the profit attributed to the participation unit holders by the weighted average of the number of issued Participation Units.

	For the year ended December 31,		
	2022	2021	2020
Profit attributed to the holders of the Participation Units (Dollars in thousands)	149,546	77,441	6,947
The weighted average of the number of issued Participation Units	1,123,871,146	1,123,856,584	1,123,821,367
The basic profit per participation unit (Dollars)	0.133	0.069	0.006

B. Diluted

The warrants were not taken into account in 2021 and 2020, since potential Participation Units are taken into account only when their effect is dilutive.

Note 24 – Transactions and Balances with Interested Parties and Related Parties

A. Transactions with interested parties and related parties

	For the year ended December 31,		
	2022	2021	2020
	\$ in thousands		
Overriding royalties (see Section C1)	18,795	15,855	10,547
Geological consultancy (see Section C3)	144	144	144
Operator fee to the GP (see Section C1B)	-	771	2,981
Management fees to the GP (see Section C1C)	1,140	785	-
Sums paid to the GP for:			
Expenses entailed by the management of the Partnership's business (see Section C1)	-	36	108
Director compensation and related expenses (see Section C1)	466	423	329
Compensation and expenses of the LP, the trustee (see Section C1)	2	2	2

“Interested parties” – as defined in the Securities Regulations (Annual Financial Statements), 5770-2010.

“Related party” – within the definition of such term in IAS 24 (Amended) – “Related Party Disclosures”.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

B. Balances with interested parties and related parties

	December 31	
	2022	2021
	\$ in thousands	
Negative (positive) balance as of the date of the Statement of Financial Position		
The GP – current account	(1,056)	883
The GP – non-current account*	870	-
Geologist – current account - included in payables	(796)	(639)
Geologist – non-current account*	870	-
The trustee – current account	269	338

* The balance presented in the table above is presented under the ‘other long-term assets, net’ item in the Statement of Financial Position, in respect of adjustment of the royalty rate. For further details, see Note 18 above.

C. Engagements with interested parties and related parties

- 1) Engagements with interested parties and related parties deriving from the partnership agreement

According to the partnership agreement signed on January 20, 1993 (as amended) (the “**Partnership Agreement**”), the Partnership undertook to make the following payments:

- a) Until April 22, 2021 – to pay the GP:
- (1) \$10,000 per month – for compensation of the directors of the GP (direct or indirect shareholders of the GP).
 - (2) \$7,000 per month – for coverage of all expenses entailed by the management of the Partnership’s business (such as the Partnership’s bookkeeping, preparation of financial statements and approval thereof for tax purposes, accountant fees, legal advice and computer services).
 - (3) \$2,000 per month – for the use and maintenance of the offices and for office services.
 - (4) To pay Director compensation according to the Companies Regulations (Rules on Compensation and Expenses of Outside Directors), 5760-2000 for the directors who are not the directors described in Section 1 above.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

- b) In addition, in accordance with the Partnership Agreement, until April 22, 2021, the GP was entitled to operator fee at the rate of 7.5% of the costs of the petroleum exploration, development of the petroleum assets and petroleum production of the Partnership, and to 3.5% of the costs of work on construction and/or installation of petroleum production facilities. The said operator fee were paid in addition to the payments made to the operator of the joint venture.
- c) On May 27, 2021, the general meeting of the holders of the Participation Units approved a management services arrangement between the Partnership and the GP, in lieu of the fixed payments paid to the GP as specified in Section (a) above and in lieu of the operator fee as specified in Section (b) above, according to which, for the provision to the Partnership of management services, consulting services, business development services, advise and support in areas of funding and financing, strategy, collaborations, crisis management and other services necessary for the management of the Partnership's business, which will be provided through officers of the GP, whom the Partnership and the GP consider as control holders of the GP, the GP will be entitled to receive management fees from the Partnership totaling \$95,000, plus VAT, each month. All other management expenses of the Partnership and the GP, of whatever kind, will be borne by the Partnership. In addition, and in accordance with the provisions of Section 65YY(g)(1) of the Partnerships Ordinance, the Partnership shall reimburse the GP any and all management expenses of the Partnership actually borne by the GP, except such expenses to be paid, directly or indirectly, to the control holders of the GP and expenses for which the control holders of the GP have a personal interest in their payment, provided that such expenses to be paid for the purpose of engaging with a director as to the terms of his office and employment, will be in accordance with the law. The aforesaid management services arrangement commenced on April 23, 2021 and will be in effect for three years.
- d) Payment of an overriding royalty to the GP, at an overall rate of 6% (6% overriding royalty before payout), of any share thereof in the petroleum to be produced and utilized from the petroleum assets in which it has an interest or shall have an interest in the future, up to the reimbursement of expenses expended thereby for the purpose of oil and gas exploration (before the deduction of royalties of whatever type, but after the deduction of the oil to be used for the purpose of the production itself), and at a rate of 8% (8% overriding royalty after payout) after the reimbursement of its expenses, as aforesaid.
- The term "reimbursement of expenses" was defined as the date on which the Partnership recovers all of its investments and expenses in the performance of oil exploration, including expenses of oil exploration, drilling, well development, pipeline placement and storage tanks in the area of the prospect, but with the exception of the overriding royalty paid until the reimbursement of expenses. The calculation of the date of recovery of expenses accounts for, *inter alia*, the effects of the gas and/or condensate prices, the production pace, and the classification of the expenses to be taken into account. The GP is entitled to receive the said overriding royalty or part thereof in kind, i.e. to receive in kind part of the petroleum that shall be produced or utilized from the petroleum assets in which the Partnership has an interest (up to the amount of the rate mentioned above).
- Where the GP chooses to receive the royalty in kind, the parties shall regulate the methods by which and the dates on which the GP shall receive the royalty.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

Where the GP chooses not to receive the overriding royalty in kind, the Partnership shall pay the GP the market value in Dollars or (if, according to law, it will not be possible to pay, other than in Israeli currency) in Israeli currency, calculated in Dollars according to the representative rate of the Dollar at the time of actual payment, at the wellhead, of the overriding royalty due to the GP. Such payment will be made once a month.

Measurement of the quantities of petroleum that shall be produced and utilized from the petroleum assets for the purpose of calculation of the overriding royalty due to the GP will be performed in accordance with accepted principles in the petroleum industry.

- 2) The founders agreement made by and between the shareholders of the GP in December 1992 provides that the GP will endorse and transfer to Eitan Aizenberg Ltd. (a company which is an interested party in the GP and serves as the Partnership's geological consultant) one half of the GP's overriding royalty, i.e., 3% of any petroleum produced until the reimbursement of expenses and 4% of any petroleum produced after the reimbursement of expenses.
- 3) In accordance with a geological consultancy agreement of December 10, 1992, as amended in January 1993 and in June 2001, the GP, on behalf of the Partnership, retained the services of Eitan Aizenberg Ltd., which serves as the Partnership's geological consultant, through Mr. Eitan Aizenberg, in consideration for \$12,000 per month (plus VAT), plus reimbursement of expenses in a sum not to exceed \$750 per month against receipts.
- 4) The trust agreement of January 19, 1993 (as amended from time to time), determines that the terms and conditions of the Supervisor's fee, including its entitlement to any special payments, including in respect of offerings, shall be determined from time to time according to the General Meeting's resolutions and in accordance with the provisions of the law. According to a resolution of the general meeting dated May 27, 2021, starting from June 2021, the Supervisor is entitled to receive a monthly fee in ILS equal to \$6,000 per month (plus VAT). The Supervisor is also entitled to additional fees in the case of future issuances, for its additional work entailed by the issuance. The additional fees will be paid for actual work according to the Supervisor's standard rates per working hour up to an amount equal to U.S. \$10,000 (plus VAT) for the processing of one issuance.
- 5) Loan agreements in relation to the bonds (which are inter-company loans and were cancelled in the consolidated statement):

On November 9, 2016, Ratio Financing entered into a loan agreement with the Partnership in relation to the Series B Bonds. This loan was repaid on November 6, 2022 and in accordance with the terms and conditions of the loan agreement, early redemption of the Series B bonds was performed at the same time. For details, see Note 11B above. On December 3, 2017, Ratio Financing entered into a loan agreement with the Partnership in relation to the Series C Bonds and on July 4, 2021, Ratio Financing entered into a loan agreement with the Partnership in relation to the Series D Bonds (the "Loans").

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

Below is a summary of the main terms of the loan agreements:

- a) Ratio Financing undertook to transfer to the Partnership the issue proceeds (net of issue expenses) for each of the bond series and on the same terms as each of the bond series (“Back To Back”), as non-recourse loans.
- b) The Partnership has undertaken that the Loans would be used thereby solely for the purpose of financing its share of the expenses related to the Leviathan Leases (as well as for Series C Bonds and Series D Bonds, including for the purpose of refinancing its debts in relation to the financing of its share of the expenses related to the Leviathan Leases).
- c) The Partnership has undertaken to repay Ratio Financing a sum equal to the sum of the par value of each of the bond series (the “**Loan Amount**”) plus the then-applicable interest and on the same and terms and payment due dates as each of the bond series as described in Note 11B above.
- d) The Loans were initially recognized at fair value, net of issue expenses. In subsequent periods, the Loans are measured at amortized cost. Any difference between the issue proceeds (net of issue expenses) and the issued par value is recognized in the income statement over the loan period, according to the effective interest method.
- e) Notwithstanding the aforesaid, the Partnership may prepay each one of the Loans (the Loan Amount plus interest) at any time. It is agreed that in the event of full or partial prepayment of the relevant loan, early redemption of the bonds against which the loan was extended shall be carried out at the same time and in the same amounts. See Note 11B4 above regarding full early redemption of the balance of the Series B bonds and accordingly full early redemption of the balance of the loan that was given to the Partnership in connection with the Series B bonds. Furthermore, each one of the loan agreements provides that if the bonds are accelerated for any reason, Ratio Financing is entitled to accelerate the loan for such bond, and the acceleration of the bonds will in itself be deemed as sufficient grounds therefor.

The loan agreement in connection with the Series C Bonds and Series D Bonds provides that the Partnership may also prepay any amount out of the loan (the principal of the loan plus interest), contingent upon the repurchase of the bonds by Ratio Financing, in accordance with the provisions of the indenture and of any law.

The loan agreement in connection with the Series D Bonds provides that the Partnership will be required to repay the outstanding balance of the loan by early redemption in the event that the Partnership sells its full rights in the Leviathan Leases, and all as specified in the loan agreement and in the indenture. In such cases, Ratio Financing will simultaneously make early redemption of the Series D Bonds in the same amounts.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

- f) To secure the repayment of the Loans (the Loan principal plus interest), the Partnership has granted Ratio Financing, with respect to each loan separately, the right to receive a pecuniary royalty from the Partnership's share in the gas and oil to be produced and utilized from the Leviathan Reservoir only (the "**Royalties**") (see Note 11B5D1 with respect to the registration of the pledge over the royalty), as specified below.

Such rights, which were granted with respect to each loan separately, are to secure all of Ratio Financing's undertakings in relation to each of the bond series, including the full and timely repayment thereof, including the payments of principal and interest.

Creation of the pledge on the royalty in relation to each of the bond series is by way of registration thereof in the Petroleum Register and with the Registrar of Companies. The registration of all the pledges as aforesaid in accordance with the indentures for the existing bonds of Ratio Financing has been completed. The pledge in respect of the Series B Bonds was removed following redemption of the Series B bonds. See Note 11B5B.

- (1) Ratio Financing is entitled to a royalty immediately against the provision of each one of the Loans to the Partnership. However, actual proceeds by virtue of the royalty will be paid to the Company only if the loan (the Loan Amount plus interest) is not repaid by (and including) the last repayment due date or, with respect to the Series D Bonds, when there was ground for acceleration of the loan (the "**Effective Date for Receipt of Proceeds by Virtue of the Royalty**"), whichever is earlier.

Furthermore, the receipt of proceeds by virtue of the royalty (with respect to each loan separately) will be deferred until the payment of senior debts by the Partnership, as specified in Section 3G below.

- (2) Only after the full and final repayment of all of the amounts owed by the Partnership to Ratio Financing according to each one of the loan agreements, including the Loan Amount (plus the interest) by (and including) the last repayment and the final settlement of all of the undertakings to the bondholders in accordance with the indentures, the right of Ratio Financing to receive the royalty shall expire and in such a case the right of Ratio Financing (including anyone that shall step into its shoes) to receive the royalty shall automatically revoke. In such a case, Ratio Financing shall sign all documents required for the purpose of revocation of the royalty.

- (3) Following are additional details with respect to the Royalties (the following details are presented in the singular form, but, unless otherwise stated, refer to the royalty for the Series B Bonds, the royalty for the Series C Bonds and the royalty for the Series D Bonds, and should be read separately for each of such series):

(a) The royalty will be paid with money from gas and oil to be produced and utilized from the Leviathan Reservoir only.

(b) The royalty for the Series B Bonds was determined at a rate of 10% and was calculated in relation to a rate of 10% (out of 100%) of the Leviathan Reservoir.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

The royalty for the Series C Bonds and for the Series D Bonds is at a rate of 12% which is calculated in relation to a rate of 10% (out of 100%) of the Leviathan Reservoir. It is clarified that the royalty rate and the manner of calculation thereof as aforesaid will not change in the event of a change (whether increase or decrease) in the evaluation of the resources and DCF figures in the Leviathan Reservoir (see Note 24C).

(c) Notwithstanding the aforesaid, in the following cases, adjustments will be made to the royalty rate:

(1) In the event that partial prepayment of the loan and the bonds is made, the royalty rate shall not change, but will be calculated out of a rate of the Partnership's holdings in the Leviathan Reservoir according to the following calculation (in relation to the Series B bonds no adjustment was made to the royalty rate until the date of performance of the full early redemption):

With respect to Series C bonds and Series D bonds:

$$12\% * \frac{\text{The balance of the new par value of the bonds}}{\text{The par value of the bonds on the date of provision of the loan}}$$

(2) In the event that the Partnership sells some of its holdings in the Leviathan Reservoir, such that its new holding rate in the reservoir falls below 10% (out of 100%), without prepayment of the loan and the bonds being made – the royalty rate will be revised according to the following calculation and will be recorded with respect to the part of the new holding rate:

$$\text{New royalty rate} = \frac{\text{Old royalty rate}}{X}$$

$$X \text{ being} = \frac{\text{The new holding rate in the reservoir}}{10\%}$$

(d) The Partnership shall pay the royalty to Ratio Financing in Dollars or (if, by law, only payment in Israeli currency is permitted) in Israeli currency, it being calculated in Dollars according to the representative rate of the Dollar at the time of actual payment, calculated according to the price at the wellhead. Such payment will be made once a month. The indentures for the bond series provide that any tax and/or levy etc. that are required by law to be withheld, including by virtue of the Taxation of Profits from Natural Resources Law, 5771-2011, shall be deducted from the royalty.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

- (e) The measurement of the quantities of gas and oil to be produced and utilized from the Leviathan Reservoir for the purpose of calculation of the royalty, insofar as relevant, shall be made in the same manner as the measurement for the purpose of payment of royalties to the State under the Petroleum Law. The royalty will be calculated only in relation to the quantities of gas and oil to be produced and utilized from the Leviathan Reservoir as of the effective date for receipt of proceeds by virtue of the royalty.
- (f) The right to such royalty shall be partially linked in accordance with the mechanism specified above, to the Partnership's share in the Leviathan Reservoir (limited to 10% out of 100% and subject to adjustments, as aforesaid). If the Partnership sells part of its holdings in the Leviathan Reservoir, the royalty rate will be increased in relation to the relative share in the Leviathan Reservoir that will remain in the Partnership's possession, in a manner that reflects such weighted rate of royalty to the Company.
- (g) The royalty shall be paid out of the Partnership's revenues from gas and oil to be produced and utilized from the Leviathan Reservoir, after and subject to the making of payments as follows: payment of royalties to the State under the Petroleum Law (and/or any and all burdens and/or levies etc. under law), the payment of overriding royalties to the GP of the Partnership, and to Eitan Aizenberg Ltd. (the Partnership's geologist), as well as current payments to financial corporations that have extended and/or shall extend financing to the Partnership for the development of the Leviathan Leases (see Note 11).
- (h) The right to receive monies by virtue of the royalty will be limited to the amount of the balance of the principal of the bonds plus the interest and arrears interest (as defined in the indentures) borne thereby (the indenture for Series C Bonds and the indenture for Series D Bonds provide that the right will include additional amounts that the Partnership will be liable towards Ratio Financing according to the loan agreement), and upon payment of such amount in full, Ratio Financing's right to receive the royalty shall expire and the royalty shall expire and be revoked. In such a case, Ratio Financing and/or the trustee, as applicable, will sign all documents required for the purpose of revocation of the royalty and for the removal of the pledge to be registered thereon.
- (i) It is clarified that the royalty rate will not be revised in the case of expansion of the Series C Bonds and expansion of the Series D Bonds up to the Maximum Series Size, as specified in Note 11B.
Notwithstanding the aforesaid, in the event that Ratio Financing chooses to expand the Series D Bonds over and above the maximum series size, up to the additional maximum series size, the royalty rate will be updated to the rate of the additional royalty as defined below.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

For the avoidance of doubt, the additional royalty (with respect to the Series D bonds) will be calculated similarly to Section (c)4.f., with respect to a rate of 10% (out of 100%) of the Leviathan Reservoir, according to the following calculation (subject to the creation and registration of pledges (in the same method as the pledge over the royalty) on the additional royalty (the “**Additional Royalty**”) that the Partnership will grant Ratio Financing, if any):

$$12\% * \frac{\text{The balance of the new par value of the bonds}}{\text{The par value of the maximum series size}}$$

- (j) It is clarified in the loan agreements that the Loans will not be secured by any other collateral on the Partnership’s part (other than the interest cushion accounts, as described in Note 11B above).

Ratio Financing’s only relief, collateral and remedy in the event of non-repayment of the loan on the last repayment date and/or when there is ground for acceleration of the loan, are the royalty, and Ratio Financing will have no right of action against the Partnership in such a case. Accordingly, it is agreed that as of the effective date for the receipt of proceeds under the royalty and subject to the payment of the royalty, the loan will be deemed to have been repaid in full.

Also within the framework of the loan agreements, the Partnership undertook to transfer to Ratio Financing, at Ratio Financing’s first written demand, the full amount that Ratio Financing is required to pay to the bondholders and/or the trustee and/or deposit in a trust account for the benefit of the bondholders and/or the trustee as part of Ratio Financing’s undertaking for indemnification and/or payment of expenses in the indenture for the bonds.

- g) As of the date of approval of the financial statements, the Partnership complies with all of its undertakings under the loan agreements in respect of the existing bonds of Ratio Financing, including the grant of the royalty to Ratio Financing as described in Note 11B and the pledge of the Partnership’s rights in the interest cushion account as described in Note 11B5D. In addition, all of the collateral pledge registrations have been completed in accordance with the indentures for the bonds. With respect to removal of the pledges in connection with the Series B bonds, see Note 11B5D above.

The following table presents the book value and fair value of the Loans to the Partnership:

	As of December 31	
	2022	2021
	\$ in thousands	
Loans to the Partnership:		
Loan to the Partnership (Series B)*	-	**131,455
Loan to the Partnership (Series C)***	63,634	129,047
Loan to the Partnership (Series D)****	91,862	91,653
Fair value:		
Loan to the Partnership (Series B)	-	**138,901
Loan to the Partnership (Series C)	63,572	131,953
Loan to the Partnership (Series D)	86,309	96,434

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

- * As of December 31, 2021, the balance of the loan for the Series B Bonds includes interest receivable in the sum of approx. \$6,904 thousand.
- ** The balances are net of Series B Bonds that were purchased by the Partnership as stated in Note 11B5.
- *** As of December 31, 2022 and 2021, the balance of the loan for the Series C Bonds includes interest receivable in the sum of approx. \$2,018 thousand and approx. \$4,036 thousand, respectively.
- **** As of December 31, 2022 and 2021, the balance of the loan for the Series D Bonds includes interest receivable in the sum of approx. \$883 thousand.

- 6) Purchase of Series B Bonds and Series C Bonds of Ratio Financing – See Note 11B5A.
- 7) Loan agreement in relation to loans from banking corporations

The Partnership has entered into a loan agreement with the Leviathan Development Company (the **“Loan Agreement with the Partnership”** and/or **“Loan to the Partnership”**) in relation to the Financing Agreement as set forth in Note 11A above. The principles of such loan agreement are as follows:

- a) The Leviathan Development Company undertook to provide the Partnership with the funds of the loans to be received under the Financing Agreement (**“Back To Back”**), as limited-recourse Dollar loans (the **“Loans”**). The Partnership undertook that the Loans would be used thereby solely for the purpose of financing its share of the expenses related to the Leviathan Project.
 - b) The Partnership has undertaken to repay the Leviathan Development Company a sum equal to the sum of the Loans transferred therefrom plus the then-applicable interest and on the same payment due dates in accordance with the Financing Agreement.
 - c) The Loans bear interest which is identical to the interest stipulated in the Financing Agreement. The interest will be paid on the same dates on which the Leviathan Development Company is required to pay interest to the lenders.
 - d) The Leviathan Development Company may require the Partnership to prepay the Loans (the sum of the relevant loan plus interest) at any time.
 - e) Furthermore, the Partnership will bear all of the related expenses in relation to the Financing Agreement, as well as all expenses of the Leviathan Development Company, including expenses entailed by the operations thereof.
- 8) Management and consultancy service agreement

On September 14, 2014, the Partnership and Ratio Financing entered into an agreement for the receipt of management and consultancy services (the **“Agreement”**).

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

According to the Agreement, as of October 2014, the Partnership provides Ratio Financing, free of charge, with management and consultancy services that include, *inter alia*, the following main services: CEO services, director services, bookkeeping and comptrollership services, office and secretarial services, legal advice and company secretary services, information system services, consultancy services on various issues, use of the Partnership's offices, as well as additional services, to the extent required by Ratio Financing and with the Partnership's consent (jointly: the "**Management and Consultancy Services**").

The Management and Consultancy Services are provided to Ratio Financing by the Partnership and/or the GP thereof through functionaries and consultants employed thereby (the "**Service Providers**").

The identity of the Service Providers is determined by the Partnership, according to the Partnership's discretion, and may change from time to time according to the Partnership's decisions and subject to any law.

The Management and Consultancy Services are provided in a scope and according to Ratio Financing's needs, with no obligation for a minimum number of hours. It is agreed that there shall be no employment relations between Ratio Financing and the Service Providers, and an arrangement for the indemnification of Ratio Financing by the Partnership has been determined, in case it is determined that a service provider was or is an employee of Ratio Financing.

Furthermore, Ratio Financing does not pay director compensation to the Service Providers who are members of the board and board committees of Ratio Financing (other than outside directors and independent directors holding office in Ratio Financing). The Partnership bears, free of charge, all of the expenses entailed by Ratio Financing's issuances and all current expenses entailed by the management and operation of Ratio Financing that are not listed above, including, directors and officers liability insurance, compensation of outside directors and other officers to hold office in Ratio Financing, the fees of attorneys, accountants, tax advisors, outside consultants, various levies, payments and taxes, etc.

Moreover, the Partnership bears any liability or expense for which Ratio Financing is liable in relation to the indemnification letters that Ratio Financing grants the directors and officers thereof.

The Agreement will be effective until the date on which all reporting duties of Ratio Financing under the Securities Law come to an end or until the date on which Ratio Financing notifies the Partnership of the termination of the agreement, whichever is earlier.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

The following table presents transactions with consolidated companies (that are cancelled out in the consolidation of the Financial Statements), which are “Back-To-Back” with such transactions in identical sums vis-à-vis third parties:

	For the year ended		
	December 31		
	2022	2021	2020
	\$ in thousands		
Expenses of interest and discount in respect of bonds*	20,482	29,268	27,729
Expenses (income) from exchange rate differences in respect of bonds*	(15,447)	4,410	14,518
Indemnification for reimbursement of expenses in the context of a loan agreement with Ratio Financing	152	191	117
Expenses of interest, discount and fees in respect of a loan agreement with Leviathan Development Ltd.	34,352	24,277	31,267
Profit from revaluation of derivative financial instruments**	(4,235)	-	-

* The amounts do not take into account the setoff in respect of Series B bonds purchased by the Partnership as stated in Note 11B5A above.

** Income from IRS hedging transactions. See Note 11A2E(2).

Note 25 – Engagements and Contingent Liabilities

A. With respect to the Partnership’s engagements pertaining to the various licenses and permits, see Note 8 above.

B. With respect to Partnership’s engagements with interested parties and other related parties, see Note 24 above.

C. Engagements for the sale of natural gas:

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

During the report period, the Leviathan Partners engaged in several agreements for the supply of natural gas with customers in the domestic market. In addition, the Leviathan Partners are continuing to conduct negotiations with additional potential customers in the domestic market and with customers in export markets for the supply of natural gas from the Leviathan Project.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

Below is summary information about the agreements for the supply of natural gas on a firm basis from the Leviathan Project that were signed by the Partnership together with the other Leviathan Partners, and which are in effect as of December 31, 2022 (1):

	Year of commencement of supply	Term of the agreement (2)	Total maximum contractual quantity for supply (100%) (BCM)	Total quantity supplied until December 31, 2022 (100%) (BCM)	Primary linkage base for the gas price
Independent power producers	2020, or the date of commencement of commercial operation of the buyers' power plant (whichever is later)	The agreements are long-term agreements for a period of 9 to 25 years. Some of the agreements grant each party an option to extend the agreement in the event that the total quantity set forth in the agreement is not purchased.	Approx. 24	Approx. 6	In the majority of the agreements the linkage formula of the gas price is based on the Electricity Production Tariff and includes a "floor price". In a number of short-term agreements there is a fixed price that is not linked. In one of the agreements there is a fixed price which is not linked
Industrial customers	2020	The agreements are for a period of 2.5 to 15 years. (3) In the majority of the agreements, the parties are not granted an option to extend the term of the agreement.	Approx. 5	Approx. 1.4	In the majority of the agreements the linkage formula is based in part on linkage to the Brent prices and in part to the Electricity Production Tariff, and includes a "floor price". There is partial linkage also to the refining margin index and to the general TAOZ index published by the Electricity Authority. In a number of agreements there is a fixed price that is not linked.
Export agreement - NEPCO	2020	15 years. The agreement stipulates that in the event that the buyer does not purchase the total contractual quantity in the basic period, the basic supply period will be extended by another two years.	Approx. 45	Approx. 7.3	The linkage formula is based on linkage to the Brent prices and includes a "floor price".
Export agreement – Blue Ocean	2020	15 years. The agreement stipulates that in the event that the buyer does not purchase the total contractual quantity, the supply period will be extended by another two years.	Approx. 60	Approx. 10.2	The linkage formula is based on linkage to the Brent prices and includes a "floor price". The agreement includes a mechanism for updating the price by up to 10% (up or down) after the fifth year and after the tenth year of the agreement, upon fulfillment of certain conditions determined in the agreement.
Total			Approx. 133	Approx. 25 (4)	

(1) The information in the table does not include agreements for the supply of natural gas from the Leviathan Project on an interruptible basis, or agreements in which the closing conditions were not fulfilled, as detailed below. In this context, it is noted that on September 7, 2022, an agreement for the supply of natural gas from the Leviathan Project to Or Energies Power (Dalia) Ltd. ("**Or Energies**"), which was signed between the Leviathan Partners and Or Energies on November 30, 2016, expired with the consent of the parties and according to the terms and conditions of such agreement, in view of the non-fulfillment of the closing conditions therein. In addition, on November 14, 2022, an agreement for the supply of natural gas from the Leviathan Project to Edeltech Ltd. ("**Edeltech**"), which was signed between the Leviathan Partners and Edeltech on January 30, 2016, expired with the parties' consent and in accordance with the terms and conditions thereof, in view of the non-fulfillment of the closing conditions therein. The information in the table includes short-term bridge agreements signed as a result of the delay in the date of commencement of the production of gas from the Karish lease, and which are expected to end during Q1/2023.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

- (2) In the majority of the agreements, the gas supply period may terminate on the date when the total contract quantity set forth in the agreement was supplied to the customers.
 - (3) Note, that one of the agreements that expires at the end of March 2023, for an immaterial quantity, is an agreement for a period of less than a year.
 - (4) It is noted that the total quantity supplied from the Leviathan Project by December 31, 2022 (100%) (both under the agreements appearing in the table and under the agreements that have terminated and agreements on an interruptible basis) is approx. 29 BCM.
- 2) Below are further details with respect to all of the agreements for sale of natural gas that were signed by the Partnership and the other partners in the Leviathan Reservoir:
- a) In the natural gas sale agreements to IPPs and industrial customers, except for SPOT agreements (in this section: the “**Agreements**”), the customers undertook to take-or-pay for a minimum annual quantity of natural gas in such scope and according to such mechanism as determined in the supply agreement (the “**Minimum Quantity**”). Note that in the Agreements, provisions and mechanisms are provided, which allow each of such buyers, after paying for natural gas not consumed thereby under the agreement, due to the application of the Minimum Quantity mechanism as aforesaid, to receive gas with no additional payment up to the quantity paid thereby for gas not consumed thereby in the years following the year of the payment. The Agreements further establish a mechanism of accumulation of a balance in respect of surplus amounts (beyond the take-or-pay) consumed by the buyers in a specific year and the utilization thereof for reducing the buyers’ obligation to purchase such Minimum Quantity for several years thereafter.
 - b) The Agreements set forth additional provisions, inter alia, on the following subjects: a right to terminate the agreement in the event of the breach of a material undertaking, a right of the Leviathan Partners to supply gas to the buyers from other natural gas sources, compensation mechanisms in the event of a failure to supply the contract quantities, limits to the liability of the parties to the agreement, and with respect to the internal relationship among the sellers with respect to the supply of gas to the said buyers.
 - c) In accordance with the Gas Framework, each of the buyers in the Agreements that were signed by June 13, 2017 and for a period that exceeds 8 years, was given an option to reduce the Minimum Quantity to a quantity that is equal to 50% of the average annual quantity it actually consumed in the three years preceding the date of the notice of exercise of the option, subject to adjustments as determined in the supply agreement. Upon reduction of the Minimum Quantity, the other quantities determined in the supply agreement will be reduced accordingly. Each one of the said buyers may exercise the above option with a notice, to be given to the sellers during a period of 3 years which shall commence 5 years after the date of commencement of the gas flow from the Leviathan Project to the buyer. If the buyer shall have given notice of the exercise of the said option, the quantity will be decreased 12 months after the date the notice was given.
 - d)

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

3) Agreement for the export of natural gas from the Leviathan Project to NEPCO

In September 2016, an agreement for the supply of natural gas was signed between the Marketing Company and NEPCO (the “**Export to Jordan Agreement**”). The Marketing Company is a subsidiary wholly-owned by the Partners in the Leviathan Project, which hold it in a proportionate rate to the rate of their holdings in the Leviathan Project (the Partnership’s share – 15%).

According to the Export to Jordan Agreement, the Marketing Company undertook to supply natural gas to NEPCO for a period of approx. 15 years after the commencement of the commercial supply which commenced on January 1, 2020 or until the total supply amount will be approx. 45 BCM. NEPCO undertook to take-or-pay for a minimum annual gas quantity, in such scope and according to such mechanism as determined in the Export Agreement.

The delivery point of the gas is at the exit from the Israeli transmission system at the Israeli-Jordanian border.

The Israeli transmission system until the Israeli-Jordanian border to the Jordanian system has been completed. In December 2019, INGL completed the construction of the Israeli transmission system until the Israeli-Jordanian border for approx. \$109 million (100%) (the Partnership’s share, approx. \$16 million) which are presented under other long-term assets, see Note 9 above.

The gas price determined in the agreement is based on a price linked to the Brent oil barrel prices, and includes a "floor price" plus marketing fees, transmission fees and NEPCO's bearing of the cost of the transmission payments to INGL.

In November 2016 the Leviathan Partners and the Marketing Company signed an assignment for the Export Agreement ("Back-to-Back") whereby the receivables, liabilities, risks and costs associated with the Export Agreement shall be assigned to the Leviathan Partners on the same terms and conditions, Back-to-Back, as if the Leviathan Partners were a party to the Export Agreement in lieu of the Marketing Company.

For details on a tax decision in relation to the Export to Jordan Agreement, see Note 14A6.

4) Agreement for the export of natural gas from the Leviathan Project to Blue Ocean

In February 2018, an agreement was signed between NewMed and Chevron (collectively: the “**Sellers**”) and between Blue Ocean (the “**Buyer**”) (the agreement was signed with Dolphinus Holdings Limited that in June 2020 assigned the agreement for the export to Egypt to an affiliate – Blue Ocean Energy) for the export of natural gas from the Leviathan Project to Egypt (the “**Original Export Agreement**”). In September 2018, NewMed and Chevron assigned to the Leviathan Partners (including to the Partnership) the Original Export Agreement.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

On September 26, 2019, the signing of an agreement for amendment of the original Leviathan-Blue Ocean agreement between the Leviathan Partners and Blue Ocean (in this section below: the “**Amendment to the Agreement**” or the “**Agreement for Export from Leviathan**”) was completed, and an agreement was signed in connection with the allocation of the available capacity in the transmission system from Israel to Egypt, between the Leviathan Partners and the Tamal Partners. On January 15, 2020, natural gas flow commenced according to the Leviathan agreement. In accordance with a tax decision issued to the Leviathan Partners by the Tax Authority on December 9, 2019 and according to the terms and conditions of the Gas Framework, the Leviathan Partners undertook to offer New Customers (as defined in the Gas Framework) with whom they engaged or will engage from February 19, 2018 until the 3rd anniversary of the signing of the tax decision, i.e., December 9, 2022, to engage in agreements for the sale of natural gas for a price to be calculated according to a formula set forth in the Leviathan agreement, which is based on the Brent price, with certain adjustments detailed in the tax decision, including the location of the point of delivery set forth in the Leviathan agreement.

In July 2020, after receipt of a transmission permit from the Natural Gas Authority, the running-in of the compressor installed at the EAPC site in Ashkelon, was completed. The installation of the compressor enabled to increase the gas quantity piped from the Leviathan reservoir to Egypt.

Additional highlights regarding the Amendment to the Agreement:

- (a) The total contract quantity of gas which the Leviathan Partners undertook to supply to the Buyer on a firm basis is approx. 60 BCM (the “**Total Contract Quantity**”).
- (b) The supply of gas began on January 15, 2020 and will be until December 31, 2034 or until the supply of the Total Contract Quantity, whichever is earlier. According to the Amendment to the Agreement, the Leviathan Partners undertook to supply to the Buyer quantities of gas as follows: (1) approx. 2.1 BCM per year for the period commencing on January 1, 2020 and ending on June 30, 2020; (2) approx. 3.6 BCM per year for the period commencing on July 1, 2020 and ending on June 30, 2022; and (3) approx. 4.7 BCM per year for the period commencing on July 1, 2022 and ending on the date of termination of the Agreement. The increase in the supply as aforesaid is made through upgrade of the systems in the EMG station in Ashkelon, including the installation of another compressor, and through the increase of the transmission capacity of the INGL system and/or the transmission of natural gas from Israel to Egypt through Jordan. See Section 5 below.
- (c) Blue Ocean undertook to take-or-pay for a minimum annual quantity in the scope and in accordance with the mechanism established in the Amendment to Agreement which, *inter alia*, enables Blue Ocean to decrease the minimum annual quantity in a year where the average daily price of the Brent (as defined in the Agreement) dropped below \$50 per barrel, such that the aforesaid quantity will be 50% of the annual contract quantity. If the contractual quantity is decreased in the event of disagreement on the update of the gas price, as stated in Section (d) below, Blue Ocean’s right to reduce the take-or-pay quantity as aforesaid will be cancelled. The Amendment to the Agreement further stipulates that in the event that the Buyer does not buy the Total Contract Quantity, each party may extend the supply period by another two years.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

- (d) The price of the gas supplied to the Buyer under the Amendment to the Agreement shall be determined according to a formula based on the Brent oil barrel prices and includes a "floor price". The Amendment to the Agreement includes a mechanism for updating the price by up to 10% (up or down) after the fifth year and after the tenth year of the Agreement, upon fulfillment of certain conditions determined in the Agreement. In the event that the parties fail to reach an agreement regarding the update of the price as aforesaid, the buyers will be entitled to reduce the contractual quantity by up to 50% on the first adjustment date and by 30% on the second adjustment date. The Agreement includes an incentive mechanism which is dependent on quantities and is subject to the price of an oil barrel.
- (e) The Amendment to the Agreement includes customary provisions relating to the termination of the agreement, and also provisions in the event of termination of the export agreement between the Buyer and all of the partners of the Tamar reservoir (the "**Tamar Partners**") as a result of its breach, and the non-consent of the Leviathan Partners to supply also the quantities according to the export agreement between the Buyer and the Tamar Partners, and also includes compensation mechanisms in such an event.
- (f) In the context of the set of agreements described above, in February 2022 the Leviathan Partners and Blue Ocean signed another amendment to the export to Egypt agreement, stipulating, *inter alia*: that the delivery point in Aqaba, Jordan, be defined as an additional delivery point under the Leviathan agreement; an arrangement whereby a calculation of the quantities provided by the Leviathan Partners to Blue Ocean will be made in 2022 on an average annual basis, such that at the end of the year the parties will review the average gas quantities supplied, including on an interruptible basis, during the year, such that quantities that were oversupplied will be offset against quantities nominated by Blue Ocean and not supplied thereto during the said period; and adjustments to the price of natural gas that will be supplied at the aforesaid additional delivery point, according to the additional costs entailed by the transmission of gas from the additional delivery point, which shall be borne by Blue Ocean.

Concurrently with the signing the Amendment to the Agreement, the Leviathan Partners and the Tamar Partners signed an agreement in connection with the allocation of the capacity (the "**Capacity Allocation Agreement**") available in the transmission system from Israel to Egypt.

The allocation of the capacity in the transmission system from Israel to Egypt (EMG pipeline and the transmission pipeline in Israel) shall be on a daily basis, in order of precedence, as follows:

- (1) First layer – Up to 350,000 MMBtu per day will be allocated in favor of the Leviathan Partners.
- (2) Second layer – The capacity beyond the first layer, up to 150,000 MMBtu per day until June 30, 2022 (the "Date of Increase of Capacity") and 200,000 MMBtu per day after the Date of Increase of Capacity will be allocated in favor of the Tamar Partners.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

- (3) Third layer – Any additional capacity beyond the second layer shall be allocated in favor of the Leviathan Partners.

Note 25 – Engagements and Contingent Liabilities (Cont.):

The Capacity Allocation Agreement stipulates that the Leviathan Partners shall pay \$200 million (the "**Leviathan Participation Fees**") and the Tamar Partners shall pay \$50 million (the "**Tamar Participation Fees**") which will be used by Chevron and NewMed as part of the consideration paid thereby in the transaction for the purchase of shares in EMG and for the purchase of rights in the EMG pipeline (the "**EMG Transaction**") on the date of the closing the EMG Transaction, in exchange for an undertaking to allow natural gas flow from the Leviathan and Tamar reservoirs and to ensure capacity in the EMG pipeline. The Agreement states that the amount of such payments shall be updated according to the formula and dates set forth in the Agreement, based on the actual usage of the EMG pipeline. Therefore, for the period between January 1, 2022 and June 30, 2022, the allocation of payments between the Leviathan Partners and the Tamar Partners was ~83% and ~17%, respectively. The capacity allocation agreement sets forth further arrangements regarding the bearing of costs and further investments required to refurbish the EMG pipeline, and for maximum usage of the pipeline's capacity, to be divided between the Leviathan Partners and the Tamar Partners. In this context it is noted that on June 30, 2022, the parties updated the payment division between the Leviathan Partners and the Tamar Partners, and accordingly an accounting was performed in non-material amounts for purposes of adjusting the rates borne by the parties in the costs of the actual usage of the EMG pipeline's capacity in the said period. The Capacity Allocation Agreement further determines that from June 30, 2020 until the date of increase of the capacity, insofar as the Tamar Partners are unable to supply the quantities they undertook to provide to Blue Ocean, the Leviathan Partners shall supply the required quantities to the Tamar Partners.

The term of the Capacity Allocation Agreement is until the termination of the export to Egypt agreement, unless terminated earlier in the following cases: a breach of payment obligation which is not remedied by the breaching party; or in the event that the Competition Authority has not approved the extension of the capacity lease & operatorship agreement in accordance with the decision of the Competition Commissioner. Each party will also have the right to terminate its share in the Capacity Allocation Agreement insofar as its export agreement is revoked.

For details on a tax decision in relation to the export to Egypt agreement, see Note 14A7.

- 5) Engagement in a transmission agreement for the purpose of export of gas to Egypt

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

In July 2020, upon the operation of a compressor at the entrance to the EMG system in Ashkelon, the flow capacity in the EMG pipeline increased, within the infrastructure limits of the current INGL transmission system, to approx. 500 MMCF (approx. 5 BCM per year). According to the export to Egypt agreement, as described in Section 4 above, the additional compressor was installed in Ashkelon, such that together with the construction

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

of the Ashdod-Ashkelon Combined Section by INGL, the flow capacity in the EMG system could be increased to approx. 650 MMCF per day, and even greater given certain conditions in the Israeli and Egyptian transmission systems.

On January 18, 2021, Chevron engaged with INGL in an agreement for provision of transmission services on a firm basis as aforesaid for the purpose of piping of natural gas from the Tamar reservoir and the Leviathan Reservoir to EMG's terminal in Ashkelon for purpose of transmission thereof to Egypt (the "**Transmission Agreement**").

- a) According to the Transmission Agreement, INGL undertook to provide transmission services for the natural gas that shall be supplied from the Tamar reservoir and from the Leviathan Reservoir, including maintaining an annual base capacity in the transmission system of approx. 5.5 BCM (the "**Base Capacity**"). For the transmission services in relation to the Base Capacity, Chevron will pay capacity fees and a payment for the gas quantity that shall actually be piped (throughput), in accordance with the accepted transmission rates in Israel, as shall be updated from time to time. In addition, INGL undertook to provide transmission services on an interruptible basis of additional gas quantities over and above the Base Capacity, subject to the capacity that shall be available in the transmission system. For transmission of the additional quantities as aforesaid, Chevron will pay a transmission rate for transmission services on an interruptible basis in relation to the quantities that shall actually be piped. The Leviathan Partners believe the transmission system has been designed to enable transmission of the full contractual quantity set forth in the export agreements.
- b) In the Transmission Agreement Chevron committed to payment for the piping of a gas quantity that shall be no less than 44 BCM throughout the term of the agreement. If the parties agree on an increase in the Base Capacity, then the minimum quantity for piping as aforesaid will be increased accordingly.
- c) According to Transmission Agreement, the piping of the gas will begin on the date on which INGL shall complete the construction of the Ashdod-Ashkelon transmission system section, in accordance with the provisions of the decision of the Natural Gas Commission in connection with the financing of projects for export via the Israeli transmission system, and division of the costs of the construction of the Ashdod-Ashkelon Combined Section (see Section (f)) (the "**Commission's Decision**") and the doubling of the Sorek-Nesher and Dor-Hagit transmission system's sections in a manner which will allow the piping of the full quantities under the Transmission Agreement (the "**Piping Commencement Date**").
- d) The Transmission Agreement will terminate on the earlier of: (1) the date on which the total quantity that is piped is 44 BCM; (2) 8 years after the Piping Commencement Date; or (3) upon expiration of INGL's transmission license. In the estimation of the Leviathan Partners, upon expiration of the term of the agreement, no difficulty is expected with extending the agreement at the standard capacity and transmission rates of the transmission license holder at such time.
- e) The transmission period under the 2019 agreement will extend until the earlier of January 1, 2024 or until the Piping Commencement Date according to the Transmission Agreement.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

- f) In accordance with the principles determined in the Commission's Decision, Chevron undertook to pay INGL for the Partners' share both in Leviathan and Tamar the estimated total cost of construction of the Ashdod-Ashkelon Combined Section in the sum of approx. ILS 738 million. On May 2, 2022, INGL updated the project's budget to approx. ILS 796 million. In addition, in order to meet the transmission capacity in Ashkelon it was required by INGL to bring forward the doubling of the Dor-Hagit and Sorek-Nesher sections at a cost of approx. ILS 48 million. Therefore, Chevron undertook to pay ILS 27 million for the Partners' share as aforesaid (56.5%).
- g) In accordance with the Commission's Decision, the Leviathan Partners and the Tamar Partners have provided a bank guarantee to secure INGL's share in the cost of construction of the foregoing infrastructure, and to cover Chevron's commitment to pay the capacity and transmission fees. See Section e)3 below.
- h) The partners in Leviathan and the partners in Tamar will bear the costs stated in Section (f) above and will provide the guarantees stated in Section (g) above at the rates of 69% and 31%, respectively.
- i) In the Partnership's estimation, its share in the cost of construction of the Ashdod-Ashkelon Combined Section according to the initial estimate in Section f) above and the costs of accelerating the doubling of the Dor-Hagit and Sorek-Nesher transmission system sections may total approx. ILS 49 million and its share in guarantees (as mentioned in Section (g) above) is approx. ILS 47 million. See also Section e)3 below. The total costs that were accrued due to the Partnership's share in the construction of such section, as of the date of the financial statements, amounted to \$14 million and are presented under other long-term assets.
- j) The Transmission Agreement determines that if the export of natural gas from the Tamar Project and from the Leviathan Project to Egypt stops, Chevron will be entitled to terminate the Transmission Agreement subject to payment of compensation to INGL due to the early termination, in an amount equal to 120% of the costs of construction of the combined section, plus the costs of accelerating the doubling of the Dor-Hagit and Sorek-Nesher sections, net of the amounts Chevron paid until the date of the termination in respect of such construction and acceleration costs and in respect of the piping of the gas under the Transmission Agreement. If, after the termination of the Transmission Agreement, export to Egypt resumes, then the Transmission Agreement will be renewed subject to and in accordance with the capacity that will be available in the transmission system at such time.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

- k) Concurrently with the signing of the Transmission Agreement, the partners in Leviathan and the partners in Tamar signed a back-to-back service agreement which determined that the partners in Leviathan and the partners in Tamar will be entitled to transmit gas (through Chevron) under the Transmission Agreement, and will be responsible for fulfillment of Chevron's undertakings under the Transmission Agreement, as if the partners in Leviathan and the partners in Tamar were a party to the Transmission Agreement in Chevron's stead, each according to its share, as determined in the Capacity Allocation Agreement between the partners in Leviathan and the partners in Tamar. The service agreement further determines that the Base Capacity that is kept in the transmission system for Chevron will be allocated between the partners in Leviathan and the partners in Tamar according to the rates specified in Section (h) above, and according to the order set forth in the Capacity Allocation Agreement. Notwithstanding the aforesaid, the partners in Leviathan and the partners in Tamar will bear capacity fees at a fixed ratio of 69% (the partners in Leviathan) and 31% (the partners in Tamar), except in a case where a party (the Leviathan Partners or the Tamar Partners, as the case may be) used the excess capacity of the other party.
- l) On February 26, 2023, Chevron received a letter from INLG, whereby due to a malfunction in a ship carrying out infrastructure work for the laying of a subsea pipeline for INLG in the combined section, and further to a preliminary assessment received by INLG from the contractor building the combined section, a delay of at least 6 months is expected in the date of completion thereof, such that the time frame during which commencement of the gas flow is possible, has been postponed to the period from October 1, 2023 to April 1, 2024. INLG's said notice was given as a notice of *force majeure* according to the Transmission Agreement, stating that its full implications are not yet known thereto at this time. On March 9, 2023, Chevron responded on behalf of the Leviathan and Tamar partners to the said letter that it rejects the notice of *force majeure*. In the Partnership's estimation, the said delay will not have a material effect on the Partnership's business and results of operations.
- m) The Leviathan Partners signed a set of agreements aimed at allowing the transmission of natural gas according to the export to Egypt agreement, through Jordan, using the Israeli transmission system to Jordan and the Jordanian transmission system, which is connected to the Egyptian transmission system in the area of Aqaba-Taba (the Arab Gas Pipeline). According to the said set of agreements, in March 2022 the transmission of natural gas to Egypt through Jordan commenced, enabling to maximize the sale of natural gas produced from the Leviathan Reservoir, and to transfer the surplus natural gas, which is not used by Israel and Jordan and/or transmitted to Egypt through the EMG pipeline, to the Egyptian market, through the Jordanian transmission system, mainly pending completion by INGL of the Ashdod-Ashkelon sub-sea transmission segment as aforesaid. As of the date of approval of the financial statements and as the Leviathan Partners have been informed by the Operator, the existing transmission infrastructure and the current operating conditions allow the transmission of natural gas to Egypt through Jordan at an average daily quantity of up to ~350 MMCF (~3.5 BCM per year). In this context it is noted that the Ministry of Energy has authorized the Leviathan Partners to add another point of delivery of natural gas to Egypt in Aqaba, Jordan. The said set of agreements includes the agreements detailed below:

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

- (1) An agreement between Chevron and FAJR, the Jordanian transmission company, for the provision of interruptible transmission services related to the transmission of natural gas from the Leviathan and Tamar reservoirs via the Jordanian transmission system, from the entry point at the Israeli-Jordanian border to the delivery point at the Jordanian-Egyptian border, near Aqaba (the “**FAJR Agreement**”). Payment pursuant to the FAJR Agreement will be made on the basis of the quantity of gas actually piped through the FAJR transmission system.
 - (2) Concurrently with the execution of the FAJR Agreement, Chevron and the other Leviathan and Tamar partners, contracted Back-to-Back. Under the service agreement, the rights holders in the Leviathan and Tamar reservoirs will be entitled to transmit gas via Chevron in the FAJR Agreement, according to which, *inter alia*, the use of the FAJR transmission system for the purpose of exporting natural gas to Egypt from the Leviathan and Tamar reservoirs will be performed according to the mechanism, terms and priorities specified in the said agreement.
 - (3) An agreement between Chevron and INGL for the provision of interruptible transmission services in respect of the piping of natural gas from the Leviathan Reservoir to the connection point to the FAJR transmission system at the Israeli-Jordanian border (the “**INGL Agreement**”). Payment pursuant to the INGL Agreement will be made on the basis of the quantity of gas actually piped through the INGL transmission system, subject to Chevron’s undertaking to make payment for a minimum quantity as specified in the INGL Agreement. The INGL Agreement was extended until January 1, 2024, unless terminated earlier as stated therein, or extended by mutual agreement between the parties, subject to the decisions of the Natural Gas Authority at that time. Concurrently with the execution of the INGL Agreement, Chevron and the other Leviathan partners entered into a Back-to-Back service agreement in connection with the INGL Agreement.
 - (4) The Leviathan Partners and Blue Ocean signed an amendment to the export to Egypt agreement, as specified in Note 25D4 above.
- n) Since the said transmission agreements are for the provision of interruptible transmission services, there is no certainty as of the date of approval of the financial statements that it will be possible to transmit through Jordan the full additional quantities which the Leviathan Partners undertook to supply to Blue Ocean. However, it is noted that from July 1, 2022 and as of the date of approval of the financial statements, the Leviathan Partners did transmit through Jordan the full additional quantities they undertook to supply to Blue Ocean.
- o) In April 2022, the Commissioner informed Chevron that from June 1, 2022 until September 15, 2022, the Leviathan partners were required to guarantee the supply of natural gas to the domestic market in a quantity exceeding the daily quantity which the Leviathan Partners had undertaken to supply to the domestic market according to the gas supply agreements in which they had engaged. It is clarified that the aforesaid has had no material effect on the Partnership's results of operations.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

6) Agreement for the supply of condensate to ORL

In December 2019, an agreement was signed (the "**ORL Agreement**"), whereby condensate to be produced from the Leviathan Reservoir shall be transported to the existing fuel pipeline of EAPC, leading to a container site of PEI Petroleum & Energy Infrastructures Ltd. ("**PEI**"), from where it will be piped to the ORL facilities, *inter alia* according to regulatory instructions.

The ORL Agreement is on an interruptible basis, for a period of 15 years from the date of commencement of the flow of condensate (in commercial quantities). Each party has the right to terminate the ORL Agreement by giving advance notice of at least 360 days to the other party. In addition, each party is entitled to terminate the ORL Agreement by shorter notice upon the occurrence of various events, including in case of breach by the other party, as well as in the case of regulatory and other changes which do not allow for the piping of the condensate in accordance with the provisions of the ORL Agreement.

The piping of the condensate to ORL according to the ORL Agreement is made on an interruptible basis up to a maximum quantity agreed by the parties (the "**Maximum Quantity**"). The parties are entitled to update the Maximum Quantity from time to time, subject to compliance with conditions determined by the authorities in this regard, including the Ministry of Energy and the Ministry of Environmental Protection. The ORL Agreement provides that the condensate shall be delivered to ORL free of charge, with the Leviathan Partners bearing any and all expenses with respect to the piping of the condensate. In correspondence exchanged between the Leviathan Partners and ORL in Q1/2022, the Leviathan Partners claimed to ORL that non-payment for the condensate supplied to ORL as aforesaid constitutes prohibited and unlawful abuse of ORL's power as a monopsony for the purchase of condensate. In this letter, the Leviathan Partners called ORL to start negotiations for the curing of such breach immediately and retroactively. ORL responded in a letter rejecting the Leviathan Partners' claims. The Leviathan partners again clarified their position whereby the non-payment by ORL for the condensate supplied thereto as aforesaid is a breach of law, which causes the Leviathan Partners material damage. Following the signing of the agreement with PAR (as defined below), ORL sent a letter to the Leviathan partners whereby the engagement with PAR constitutes a breach of the agreement with ORL, an anticipatory breach of the agreement and bad faith conduct. The Partnership's position is that ORL's said claims are unfounded. As of the date of approval of the financial statements, the Leviathan Partners are exploring alternatives in connection with their demand for payment as aforesaid.

7) Agreement for the transport of condensate from the Leviathan reservoir

On September 1, 2022, an agreement was signed between Chevron and Energy Infrastructures Ltd. ("**PEI**") to arrange for an alternative mechanism to transport condensate from the Leviathan project through an existing 6 inch pipeline of PEI and its related systems (the "**Agreement**" and the "**Pipeline**", respectively), whose highlights are as follows:

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

- a) The Agreement will take effect on the date of fulfillment of the conditions precedent listed therein (the "**Effective Date**"), and the transport of the condensate in the Pipeline will commence on the date of fulfillment of several more conditions, as detailed below (the "**Flow Commencement Date**"). The Agreement shall be valid for 20 years from the Flow Commencement Date. The Leviathan Partners estimate that the Flow Commencement Date will occur in Q4/2023, subject to fulfillment of the conditions precedent in the transport agreement.
- b) PEI shall be responsible for the design and performance of the work for connection and refurbishment of the Pipeline for the purpose of transporting condensate as aforesaid (the "**Connection Work**"). PEI shall be responsible for obtaining any and all approvals to transport condensate in the Pipeline and for the current maintenance and operation of the Pipeline.
- c) According to the Agreement, Chevron (through the Leviathan Partners, according to their share in the Leviathan Leases), shall bear the costs of the Connection Work according to the scope and mechanism set forth in the Agreement, in amounts to be agreed by the parties in advance, and which are not material to the Leviathan Partners.
- d) The Agreement shall take effect on the date of fulfillment of the following conditions precedent: (a) Receipt of the regulatory approvals listed in the Agreement; (b) Signing and taking effect of an agreement for the sale of the condensate, which was signed with PAR, as stated in Section 8 below; and (c) Chevron's approval of PEI's plan to implement the recommendations of a report prepared by an external professional adviser, who checked the fitness of the Pipeline to provide the transportation services contemplated in the Agreement.
- e) The Flow Commencement Date will occur upon completion of the Connection Work and receipt of the approvals required to transport condensate in the Pipeline.
- f) Each one of the parties may terminate the Agreement if the conditions precedent are not fulfilled within 12 months from the date of signing, or if the Flow Commencement Date does not occur within 12 months from the Effective Date of the Agreement.
- g) During the transportation period, PEI will make the Pipeline available for Chevron's use (other than in emergencies determined in the Agreement, during which the flow of condensate to the Pipeline will be temporarily suspended), and reserve an agreed capacity in the Pipeline in consideration for fixed capacity fees stated in the Agreement. In addition, PEI will transport the condensate in the Pipeline in consideration for transport fees determined in the Agreement.
- h) The Agreement includes provisions regarding the possibility for termination thereof prior to the end of the period stated in Section a) above in certain cases and conditions.

In November 2022, the Leviathan Partners approved a budget of approx. \$27 million (100%, the Partnership's share is approx. \$4 million) to implement the Agreement as aforesaid.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

- 8) Agreement with Paz Ashdod Refinery Ltd. ("**PAR**") for the sale of condensate from the Leviathan Reservoir

On January 18, 2023, the Leviathan Partners (the "**Sellers**"), engaged with PAR in an agreement for the sale of condensate to PAR (the "**Agreement**"), whose highlights are as follows:

- a) The Sellers undertook to supply to PAR the condensate produced from the Leviathan Reservoir, which will be transported through PEI systems.
 - b) The Agreement provides, *inter alia*, for restrictions on the maximum quantities (on the daily and monthly levels) of the condensate to be supplied to PAR, fines for breach of the provisions of the Agreement, and other standard provisions in agreements of this kind.
 - c) The transport of the condensate to PAR will begin on the date of commencement of the transport in the PEI pipeline (the "**Flow Commencement Date**"), and last for a period of 4 years. The Leviathan Partners estimate that the Flow Commencement Date will occur in Q4/2023, subject to fulfillment of the conditions precedent in the transportation agreement.
 - d) The price to be paid to the Sellers is determined according to the Brent oil barrel price, net of a margin, in a graded method, as detailed in the Agreement.
- 9) Estimates with regard to the gas quantities and supply dates

Estimates with regard to the natural gas quantities to be purchased and the commencement of the supply dates under the supply agreements constitute information with respect to which there is no certainty that it will materialize, in whole or in part, and which may materialize in a materially different manner due to various factors that include, non-fulfillment of all of the conditions precedent in each of the supply agreements (insofar as they have not yet been fulfilled), non-receipt of regulatory approvals, timetable delays, changes in the scope, rate and timing of natural gas consumption by each of the aforesaid buyers, exercise of the options that are given in the supply agreements (if any), etc.

- 10) Dependence on a customer

As of December 31, 2022, NEPCO and Blue Ocean are the Partnership's largest customers and therefore, termination of the agreements signed between them and the Leviathan Partners, or the non-fulfillment thereof, will materially affect the Partnership's business and future revenues. For details regarding sales volumes and trade receivables balance of the aforementioned as of December 31, 2022 and December 31, 2021, see Notes 1B, 17B and 4A3.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

D. Legal Proceedings:

- 1) Motion for class action certification – Olir Trade and Industries. Ltd. vs. Ratio Oil Explorations Ltd. *et al.* and C.A. 7433/21 Olir Trade and Industries. Ltd. v. Ratio Oil Exploration (1992), Limited Partnership

On April 21, 2020, an action and a motion for certification thereof as a class action were filed with the Tel Aviv District Court (Economic Department) by a company that held participation units of the Partnership (“**Petitioner 1**” and the “**Certification Motion**”, respectively). The Certification Motion was filed against the Partnership, the GP, the directors of the GP, the (former) CFO of the GP and the Supervisor of the Partnership (both the present and the former supervisors) (collectively: the “**Respondents**”).

In an agreement made for the export of natural gas from the Leviathan Reservoir to Dolphinus Holdings Limited (today - Blue Ocean) includes a stipulation that allows Blue Ocean to reduce by 50% the minimum annual quantity of gas it had undertaken to purchase in the event that the average daily price of a Brent oil barrel (as defined in the agreement) falls below \$50 per barrel.

According to Petitioner 1, this information detail should have been disclosed immediately after the making of such agreement with Dolphinus Holdings Limited, but it was first published only upon the release of the Partnership’s annual statements for 2019, on March 24, 2020. Hence, Petitioner 1 believed that the alleged non-disclosure amounts to a breach of duties imposed on the Respondents, *inter alia*, under the securities laws, the tort of negligence and the breach of statutory duty.

On December 31, 2020, the Respondents filed their answer to the Certification Motion.

On June 6, 2021, a new motion for class certification was filed against most of the Respondents (except the past and present Supervisor of the Partnership) by a holder of participation units (the “**Petitioner 2**”) on a similar matter. He concurrently filed a motion for dismissal of the current proceeding and continuation of the hearing on the matter within the context of the new certification motion (Cl.A. 13139-06-21 Sapir vs. Ratio Oil Exploration (1992), Limited Partnership), arguing that also in our case, Petitioner 1 has no personal cause of action, as was ruled in the judgement issued in a parallel proceeding filed by Petitioner 1 against Isramco Partnership (Cl.A. 40354-04-20 Olir Trade and Industries Ltd. Vs. Isramco). (see Section 2 below for further details).

Following an exchange of responses and answers between the parties, on September 29, 2021, the judgment of the district court was issued, in which the Certification Motion was dismissed without prejudice and Petitioner 1 (Olir) was charged with payment of the Respondents’ trial costs in the sum of ILS 110,000.

On November 3, 2021, Olir appealed from the judgement of the District Court with the appeal being addressed only to the aforesaid order for costs, with the appellant claiming that it is an excess charge which deviates from the standard and which may deter lead plaintiffs in the future from filing class certification motions. On November 8, 2021, the appellant filed a motion for stay of execution of the District Court’s judgment pending a decision on the appeal. Following the filing of the Respondents’ answer to the motion for stay of execution, the Supreme Court issued a decision on November 24, 2021 denying the motion for stay of execution and charging the appellant with the Respondents’ costs in the sum of ILS 2,000.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

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 to end the dispute, but the appellant did not accept the proposal.

On January 19, 2023 the hearing of the appeal was held, at the end of which a judgment was issued denying the appeal and charging the appellant with payment of the Respondents' costs in the sum of ILS 5,000.

2) Motion for class certification – Sapir vs. Ratio Oil Exploration (1992), Limited Partnership

As provided in Section 1 above, on June 6, 2021, a motion for class certification was filed with the Tel Aviv District Court (Economic Department) by a holder of participation units (the “**Petitioner**”), an action and a certification motion thereof against the Partnership, Ratio Energies Management Ltd. (the Partnership’s GP), all of the directors of the GP and the former CFO of the GP (collectively: the “**Respondents**”). As aforesaid, this motion was filed on an issue similar to the matter of the certification motion filed by Olir Trade and Industries Ltd. (the “**New Certification Motion**” and “**Olir’s Motion**”, respectively). The New Certification Motion alleges that the Respondents breached their duties to disclose to the Partnership’s investing public that in an agreement made for the export of natural gas from the Leviathan Reservoir to the Egyptian company, Dolphinus Holdings Limited (nowadays: Blue Ocean), there is a stipulation that allows Dolphinus Holdings Limited to reduce by 50% the minimum annual quantity of gas it had undertaken to purchase in the event that the average daily price of a Brent oil barrel (as defined in the agreement) falls below \$50 per barrel. According to the Petitioner, this information detail should have been disclosed immediately after the making of such agreement with Dolphinus Holdings Limited, but it was first published only upon the release of the Partnership’s annual statements for 2019, on March 24, 2020. Hence, the Petitioner believed that the alleged non-disclosure amounts to a breach of duties imposed on the Respondents, *inter alia*, under the securities laws, the tort of negligence and the breach of statutory duty.

Further thereto, the certification motion alleges that as a result of disclosure of the information regarding such stipulation in the agreement vis-à-vis Dolphinus Holdings Limited, the value of the Partnership’s participation units on TASE trading dropped by 6.2%, causing the Petitioner damage in the sum of ILS 754. Similarly, the Petitioner argues that damage of 6.2% of the value of the participation units was caused to all of the other class members, who are defined as anyone who bought participation units of the Partnership from October 2, 2019 to March 24, 2020, and held them as of March 24, 2020 at the end of the trading day, other than the Respondents or anyone on their behalf or affiliates thereof.

As aforesaid, the New Certification Motion is on the same subject as the Olir’s Motion. Therefore, concurrently the Petitioner also filed a motion in which he moved that the court dismiss Olir’s Motion and continue to conduct the hearing on this matter in the context of the certification motion which was filed by him.

According to him, Olir has no personal cause of action since it purchased the participation units before the publication of the misleading detail, similar to the court’s decision in a parallel proceeding on the same matter that was filed against another partnership (Cl.A. 40354-04-20 Olir Trade and Industries Ltd. vs. Isramco Negev 2, Limited Partnership). He therefore believes that his motion is preferable and the hearing should continue within the framework thereof.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

On June 30, 2021, Olir filed its response to the New Certification Motion, in which it stated that it did not object to the dismissal of this proceeding, with no order for costs. On that same day, the Respondents' answer was also filed, in which the court was moved to decide which of the certification motions would continue to be heard, and to the extent that Olir's Motion is dismissed, charge the Petitioner with the Respondents' costs.

On July 8, 2021, the Petitioner filed an answer to the Respondents' responses regarding the dismissal motion, in which it was argued that the current proceeding should be dismissed with the consent of all parties and also clarified that in his view, no improper coordination was made between him and Olir.

As provided in Section (1) above, on September 29, 2021 the decision of the court was issued, according to which Olir's Motion was dismissed without prejudice and it was determined that this proceeding (the New Certification Motion) will continue to be conducted. On February 27, 2022, the Respondents' answer to the certification motion was filed. The answer argued, *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 set forth 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. The response claims, in essence, that a strict legal test should be applied to contractual stipulations, and further claims that the stipulation at the center of the certification motion was in any event material and essential.

The hearings in the certification motion have been scheduled for June 2023.

As of the date of the report, in view of all of the aforesaid, the Partnership, based on its legal counsel, estimate at this stage that the chances for the certification motion to be dismissed are higher than the chances for it to be granted.

- 3) Oil Fields Exploration (1992) – Limited Partnership (in Liquidation) against Eitan Aizenberg Ltd. *et al.*

On December 28, 2020, Oil Fields Exploration (1992) – Limited Partnership (in Liquidation) ("**Oil Fields Partnership**" or the "**Plaintiff**") filed a monetary claim in the amount of ILS 700 million (in this section below: the "**Claim**" or the "**Oil Fields Partnership Claim**") against Eitan Aizenberg Ltd., Eitan Aizenberg (jointly below in this section: "**Aizenberg**"), the Partnership and the GP (jointly below, the "**Defendants**").

The Plaintiff's main arguments are that the Defendants were privy to (alleged) trade secrets of the Plaintiff (the "**Alleged Secrets**") and that it is unlawful use which was allegedly made by the Defendants of the Alleged Secrets which allegedly led to the Leviathan discovery by Aizenberg; to the applications filed by the Partnership for permits and licenses for oil exploration in the Leviathan structure; and the discovery of gas in the Leviathan Reservoir.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

According to the Plaintiff, the use made by the Defendants of the Alleged Secrets constitutes a violation of proprietary rights of the Plaintiff; a breach of agreements between the Defendants and the Plaintiff, a trade secret conversion tort; a breach of loyalty/fiduciary duties; a breach of obligations deriving from the Torts Ordinance (including fraud, misappropriation, negligence and negligence per se); unjust enrichment; and a breach of the duties of good faith, fair dealing and to act fairly.

In the complaint, the court was moved to declare that the petroleum rights, the overriding royalties and the operator fee, in whole or in part, as the case may be, that are due to the Defendants (or any of them) in connection with the Leviathan Reservoir, belong to the Oil Fields Partnership; and to order the registration and/or transfer and/or payment and/or assignment of these rights in the name of, or to the Oil Fields Partnership. Alternatively, a monetary remedy of ILS 700 million was sought.

The aforesaid Claim was filed after on June 24, 2020, the Tel Aviv Jaffa District Court (sitting to hear insolvency proceedings of the Oil Fields Partnership) authorized the Oil Fields Partnership to file a claim, and authorized the Oil Fields Partnership to engage in an agreement to receive financing in the amount of ILS 18 million from First Libra Fund to cover the claim costs (concurrently, the court also approved a legal fee agreement with the attorneys of Oil Fields and an agreement to provide information and documents with Joseph Langotzky). The court issued the aforesaid approvals simultaneously with issuing a permanent winding up order and appointing a permanent receiver for Oil Fields.

An answer was filed on April 14, 2021, in which the Defendants claim, *inter alia*, that the Alleged Secrets were not at all confidential; that the information included in the Alleged Secrets does not at all cover the Leviathan area and it was impossible to reveal through it either the Leviathan structure or the natural gas reservoir therein; the existence of the Leviathan structure was known (and was not confidential) many years before the defendants were exposed to the Alleged Secrets; the Defendants were entitled – both by law and by any agreement – to make use of the Alleged Secrets (although they did not in practice do so) and there is no proximate cause between the discovery of a geological structure (such as Leviathan) and the exposure and development of an economic reservoir and commercialization of the gas therein.

On June 22, 2021, a replication was filed in which the Plaintiff adds and claims that the arguments in the answer ostensibly contradict the claims raised by the Defendants in the 'Langotzky' claim, based on which the claim was denied. Accordingly, the Plaintiff argues for an alleged judicial estoppel, by virtue of which the Defendants are allegedly barred from claiming some of the claims raised thereby.

On November 1, 2021, the Defendants in the case of Oil Fields Ltd. vs. Eitan Aizenberg *et al.*, which is described in section (4) below, filed a motion for the consolidation of actions, by which the court was moved to order that the aforementioned case be consolidated and adjudicated with this case.

Concurrently, on February 8, 2021, the Defendants filed a motion to order the Plaintiff to post a bond for payment of the Defendants' defense costs: after receiving the parties' positions, the court ordered the Plaintiff by a decision as of April 7, 2021, to post a bond for payment of the defense costs in the sum of ILS 700 thousand.

In November 2021, each of the parties filed a list of motions they request the court to hear, as well as answers to the other party's list of motions .

In May 2022, pretrial sessions were held in which the parties were able to narrow the issues in dispute regarding the listed motions. However, disputes arose regarding the actions to be taken and several motions were exchanged between the parties and the court

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

On November 9, 2022, the Plaintiff filed a motion to add an expert witness to its list of witnesses in order to file an economic opinion aimed at appraising the value of the petroleum rights, the overriding royalties and the operator fee. The court granted the motion.

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 claim being accepted. However, based on the information the Partnership and its legal counsel have in their possession nowadays, the chances of the claim being accepted are lower than the chances of the claim being denied.

4) C.C. (Tel Aviv District) 52118-03-21 Oil Fields Ltd. v. Eitan Aizenberg *et al.*

On March 24, 2021, counsel for the Partnership was served a complaint in the amount of ILS 750 million which was filed by Oil Fields Ltd., the general partner of Oil Fields Partnership, the plaintiff in the proceeding mentioned in Section (3) above (“**Oil Fields**” or the “**Plaintiff**”), with the Tel Aviv Jaffa District Court against Mr. Eitan Aizenberg; Eitan Aizenberg Ltd.; the Partnership; the GP; Mr. Ligad Rotlevy (Chairman of the Board of the GP); and Mr. Yigal Landau (CEO and director of the GP) (below in this section: the “**Defendants**” and the “**Complaint**”, respectively).

The Complaint largely relies on a factual foundation that is identical to the one underlying the Oil Fields Partnership Claim. Oil Fields asserts in the Complaint that, as a result of alleged misappropriation of rights of the Oil Fields Partnership (as argued in the Oil Fields Partnership Claim), Oil Fields was denied various payments (royalties and operator fee) to which it is entitled in accordance with the agreement between it and the Oil Fields Partnership; and royalties to which it is entitled in accordance with direct agreements between it and the Partnership.

In the Complaint, the court was moved to obligate the Defendants, jointly and severally, to *inter alia* pay to Oil Fields overriding royalties at the rate of 8% of all the gas/oil/other resource that was and/or will be produced from the Leviathan Reservoir, and operator fee at the rate of 7.5% (plus VAT) of all the expenses incurred due to exploration/development/production of gas from the Leviathan Reservoir. Alternatively, the court is moved to charge the Defendants, jointly and severally, with payment of all the profits made thereby at the expense of Oil Fields and to compensate it for its damage. The court is further moved to issue an accounting order against the Defendants.

An answer was filed on June 24, 2021. In the answer, the Defendants reiterate all of the arguments raised in the answer filed against the claim of Oil Fields Partnership (as specified above), and further argue lack of controversy, since the inspection of the Complaint indicates that it does not reveal any dispute regarding the relationship between the plaintiff and the Defendants.

A replication on behalf of the plaintiff – Oil Fields was filed on September 1, 2021. In the replication, the plaintiff repeats some of the arguments already raised thereby in the Complaint and adds, allegedly in response to the lack of controversy argument, that the Complaint includes ostensibly, a factual basis that establishes an independent cause of action for the plaintiff against the Defendants, including causes from the field of tort law, unjust enrichment law and Commercial Tort Law.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

In January 2022, each of the parties filed the list of motions they request the court to hear, and in April 2022 they filed their answers to the other party's list of motions .

In April 2022, a pretrial session was held, in which the parties were able to narrow the disputes regarding the listed motions, apart from one motion which was denied by the court in a decision of June 2022.

On November 1, 2021, the Defendants filed a motion for the consolidation of actions, by which the Court was moved to order that this case be consolidated and adjudicated with the case of Oil Fields Exploration (1992) – Limited Partnership (in Liquidation) vs. Eitan Aizenberg Ltd. *et al.*, which is described in Section (3) above. In its response to the consolidation motion, Oil Fields announced that it is leaving the decision to the discretion of the court. Oil Fields Partnership announced its objection to the consolidation motion.

In a decision of April 28, 2022, the court ruled that "there is a great degree of overlap (if not identity) between the events covered by the two actions", and ordered the hearing consolidated as requested. A summary pretrial has been scheduled for May 7, 2023.

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 claim being accepted. However, based on the information held by the Partnership and its legal counsel as of the date of approval of the financial statements, the chances of the claim being accepted are lower than the chances of the claim being denied.

- 5) HCJ 2351/21 Noble Energy Mediterranean Limited v. the Natural Gas Commission – the Ministry of Energy

On January 3, 2021, the Natural Gas Commission announced an amendment to the Commission's decision on criteria and rates regarding the operation of the transmission system in a flow control regime, Decision No. 5/2020 (Amendment No. 2) (in this section: the "Decision"). The Decision stipulates that the costs for the UFG in the transmission system deriving from reasons that cannot be attributed to malfunction of the transmission system, but to factors that cannot be prevented or controlled such as measurement timing, pressure differences and temperature differences, will be borne by the gas suppliers. The Decision further stipulates that the UFG-T ranges from 0%-0.5% (positively or negatively). The costs for UFG-T will be divided equally between the gas suppliers and the gas consumers. According to the announcement, the Decision shall take effect on April 1, 2021.

After announcement of the Decision, INGL contacted Chevron with a demand to apply the Decision retroactively from the beginning of 2020 with respect to the Leviathan Project, and also forwarded for Chevron's inspection a notice in this spirit which it had delivered to its customers. Further to this notice, Chevron wrote to the Gas Authority and expressed its objection to the retroactive application of the Decision, without derogating from its arguments against the Decision itself.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

On April 7, 2021, the Partnership, jointly with the other Leviathan Partners, and with the partners in the Tamar reservoir (the "**Petitioners**"), filed a petition with the Israeli High Court of Justice against the Natural Gas Commission and the Ministry of Energy. The petition moves for annulment of the Natural Gas Commission's decision no. 5/2020 of December 29, 2020 - Amendment to the Commission's decision no. 8/2019 - criteria and tariffs for the transmission system in a flow control regime (Amendment No. 2), published on January 3, 2021 (the "**Commission's Decision**"). According to the Commission's Decision, the natural gas suppliers shall bear one half of the "Unaccounted For Gas Target (UFG-T)", which is defined in the Commission's Decision as a difference of up to 0.5% between the quantity of gas measured by the meter at the entrance into the national natural gas transmission system and the quantity measured by the meter at the exit therefrom.

The petition argues that such decision was adopted without lawful authority and is extremely unreasonable.

On October 26, 2021, Energean Israel Limited ("**Energean**") which is added as a respondent to the petition, filed its response, arguing that the petition is justified due to the reasons specified therein. On October 27, 2021, INGL, which has also been added as a respondent to the petition, filed its response, whereby the petition should be summarily dismissed with prejudice. In response, INGL argued that the petition lacks good faith and is tainted by unclean hands due to the concealment of material facts and the failure to join factors that may be harmed by the petition. INGL further claimed that the decision contemplated in the petition was adopted with authority and reasonableness. On November 5, 2021, the respondents of the State filed their response to the petition. They claim that the petition should be summarily dismissed with prejudice and on the merits.

On December 26, 2021, the Petitioners' reply to the respondents' response, was filed. On January 30, 2022, the court rendered its decision whereby the petition will be referred to a hearing before a panel. On February 9, 2023, a hearing of the petition was held, at the end of which the court recommended to the Petitioners to withdraw the petition, which they did. As a result, the petition was dismissed with no order for costs.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

- 6) A.P. 45845-04-21 Adam Teva V'Din - Israel Union for Environmental Defense v. the Tax Authority

On April 21, 2021, the NGO Adam Teva V'Din - Israel Union for Environmental Defense filed an administrative petition with the Jerusalem District Court (sitting as the Court for Administrative Matters), against the Tax Authority, the Supervisor for Implementation of the Freedom of Information Law, 5758-1998 (the "**Freedom of Information Law**") at the Tax Authority, Chevron, NewMed, the Partnership, Givot Olam Oil Exploration – Limited Partnership (1993), E.C.L. Group Ltd., Dead Sea Works Ltd. and Rotem Amfert Negev Ltd. In the petition, the court was moved to order the Tax Authority to provide the petitioner with information about the revenues from the State's income from Israel's natural resources, together with general information regarding reports received by the Tax Authority and the handling thereof since the enactment of the Taxation of Profits from Natural Resources Law, 5771-2011. According to the petition, it was filed after the Tax Authority refused, in March 2021, to grant a freedom of information application submitted by the petitioner, in which the Tax Authority was requested to provide the requested information. On May 6, 2021, the petitioner filed, after receiving the court's permission therefor, an amended petition in which it added to the respondents all of the holders in the Tamar reservoir which were not named in the original petition, namely Tamar Petroleum Ltd., Isramco Negev 2, Limited Partnership and Everest Infrastructures, Limited Partnership (jointly with all of the respondents stated above, the "**Respondents**"). On July 15 and August 1, 2021, all of the Respondents have filed their replications to the petition. In this context, the Respondents argued that the petition should be denied and the provision of the requested information to the Petitioner be refused, first and foremost since it is protected under the duty of fiscal confidentiality that applies to information provided to the tax authorities.

On February 22, 2022, a judgment was issued in the petition. The judgment stipulates that the decision of the Tax Authority to refuse to provide the information requested in the freedom of information application will be revoked, in order for a new decision to be made in the application in a manner similar to a decision on another freedom of information application.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

7) D.S. 29330-02-22 Nof v. Rotlevy – Motion for Certification of a Derivative Suit

On February 14, 2022, the Partnership received a motion for certification of a derivative suit 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 Oil Exploration Ltd. (the Partnership's GP) (the "**Respondents**") and the Partnership (the "**Certification Motion**") The amount of the claim, which is sought to be certified, was set at approx. ILS 1,024 million. The Petitioner argues that in the period between December 2007 and December 2009 the Respondents were allegedly an "Insider", "Key Insider" and "Principal Shareholder" of the Partnership, within the meaning of these terms in the Securities Law, 5728-1968 and made transactions in securities of the Partnership (each one for themselves) while, allegedly, using inside information. The amount of the claim is the profit that was allegedly (cumulatively) derived for the Respondents from such transactions.

On June 8, 2022, the Partnership filed a motion for summary dismissal of the certification motion on grounds of prescription (the "**Dismissal Motion**").

In a decision of September 13, 2022 the court denied the Dismissal Motion since, according to its ruling, deciding the parties' claims regarding prescription requires a factual investigation, for which a sufficient evidentiary foundation has not yet been laid. The court clarified in its decision that the defendants' arguments regarding prescription of the claim are reserved for the stage of hearing of the Certification Motion, in which the court will be presented with a broader evidentiary foundation .

Further, on June 8, 2022, concurrently with the filing of the Dismissal Motion, the Partnership filed a motion to stay the Certification Motion proceedings, on grounds of *lis alibi pendens* (the "**Motion for Stay of Proceedings**"), based on the argument that, concurrently with the Certification Motion, two other proceedings are pending before the court, the hearing of which has been consolidated, namely the claim of the Oil Fields Partnership and the claim of the Oil Fields Ltd., detailed above. Since the three proceedings concern a key issue which is identical in substance, namely the materiality of the information (as defined above), the hearing of the Certification Motion should be stayed pending completion of the hearing of the parallel proceedings and a decision on the claim regarding the materiality of the information.

In a decision of September 13, 2022, the court denied the Motion for Stay of Proceedings since, according to its ruling: (a) There is no identity between the issues expected to be heard in the Certification Motion and those expected to be heard in the parallel proceedings; and (b) The partial overlap between the issues in dispute does not justify staying the hearing of the Certification Motion .

On December 15, 2022, the Respondents filed their answers to the Certification Motion. On February 14, 2023 a hearing of the Certification Motion was held in the court, in which the Petitioner was examined. The Respondents' witnesses were examined in February and March 2023.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

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 the Partnership and its legal counsel have in their possession nowadays, the chances of the claim being accepted are lower than the chances of the claim being denied.

- 8) Proceedings against the Operator in the Leviathan Project in connection with the operation of the Leviathan platform

Legal Proceedings

- a) On December 15, 2020 a motion for class certification was filed with the Tel Aviv District Court by a resident of the Dor Beach area on behalf of “anyone who was exposed to the air, sea and coastal environment pollution, due to prohibited emissions from the gas platform operated by the Respondents in the sea, which is located opposite Dor Beach, and treats the natural gas reservoir, Leviathan, in the period from the commencement of the platform’s activity in December 2019 until a judgment is issued in the claim” (in this section: the “**Certification Motion**”, the “**Petitioner**” and the “**Class Members**”).

The Certification Motion was filed against Chevron and Chevron Corporation (collectively: the “**Respondents**”). In essence, according to the Certification Motion, the Respondents exposed the Class Members to air, sea and environmental pollution, due to prohibited emissions deriving from the Leviathan Reservoir platform. Such exposure, according to the Petitioner, created various health problems (which were not specified in the Certification Motion) and damage of injury to autonomy due to the concern of health damage as aforesaid. The main remedy sought in the Certification Motion is compensation of the class for the damage it allegedly incurred which is estimated at approx. ILS 50 million. In addition, the Petitioner moved for a remedy of an order instructing the Respondents to immediately fulfill the obligations imposed thereon in the Clean Air Law, 5768-2008 (the “**Clean Air Law**”) and the regulations promulgated thereunder.

On August 31, 2021, Chevron filed its response to the Certification Motion, whereby it argued that the motion should be denied, and on September 19, 2021, the Court granted the Petitioner’s motion to remove Chevron Corporation from the proceeding. The Petitioner filed a response to the Certification Motion on November 21, 2021.

On May 16, 2022 a pretrial was held, at the end of which the court ordered Chevron to file an answer to the discovery motion. In a decision of July 26, 2022, the court denied the majority of the discovery motion and granted a small part of it, ruling that Chevron is required to disclose the decisions of the Ministry of Environmental Protection on the imposition of the penalties, and minutes of hearings held prior to the imposition of the penalties. In August 2022, an answer was filed by the Petitioner to Chevron's arguments, and several clarifications were filed with the court .

A trial hearing was held on February 5, 2023, at the end of which the court ordered the parties to file closing statements .

On February 21, 2023, the court denied the Petitioner's motion to file the position of a regulator (the Ministry of Environmental Protection) which had been filed in another case, and which the Petitioner claimed affected the Certification Motion.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

In the estimation of the legal counsel for Chevron, the chances of the Certification Motion being granted are lower than 50%.

- b) On May 3, 2021, Haifa Port Ltd. (“**Haifa Port**”) filed a claim against Chevron, Coral Maritime Services Ltd. and Gold-Line Shipping Ltd. (the “**Additional Defendants**”). The amount of the claim is approx. ILS 77 million.

The claim concerns the unloading of cargo by Chevron directly in the area of the Leviathan Reservoir platform. According to Haifa Port, direct unloading to such platform, without first unloading such cargoes at one of the Israeli ports, was unlawful. According to Haifa Port, Chevron, by unloading the cargoes directly to such platform, evaded mandatory payments to the port, including infrastructure and handling fees, thus causing the port a loss.

As argued in the complaint, from July 2018 onwards, Chevron carried out such direct unloading, while declaring to the tax authorities (customs) that the Haifa Port is the "port of unloading", even though the unloaded cargoes did not actually pass through Haifa Port. It was also alleged that Chevron did not pay the port the infrastructure and handling fees for these cargoes, even though it was obligated to do so. According to the port, these fees constitute the amount of the claim.

The complaint did not distinguish, with regard to the amount of the claim, between the infrastructure fees and the handling fees. The claim against the Additional Defendants is that they acted, at the relevant times, as the vessel agents for Chevron, a matter that establishes for them, according to Haifa Port, an obligation to pay the handling fees on behalf of Chevron.

An answer and a replication were filed on behalf of the parties.

Concurrently with the answer, a counterclaim was also filed on behalf of Chevron, against the Haifa Port, in the amount of approx. ILS 4.4 million. The counterclaim concerns two main arguments: (1) a claim in the amount of ILS 715 thousand for handling fees and infrastructure fees which were actually unlawfully charged by the Haifa Port (in fact, an argument similar to the one argued in the answer to the Port’s claim); (2) a claim in the amount of approx. ILS 3,690 thousand for a mooring fee in which Chevron was charged and with no 30% reduction made therein, contrary to the law, for cases of self-routing of ships passing through the port area. On December 1, 2021, Haifa Port filed a reply.

Despite the parties' attempt to reach agreements regarding the completion of the preliminary proceedings, as determined in the pretrial held on September 11, 2022, the parties filed mutual motions regarding the preliminary proceedings. The parties are required to respond to the motions by April 9, 2023, and they will be discussed in the pretrial session scheduled for a later date.

On November 27, 2022, the complaint was amended. In the amendment, a separate claim amount was attributed to each one of the defendants. However, the total sum of the claim did not change. Counsel representing Chevron believe that this change does not affect Chevron's exposure.

At this preliminary stage, the counsel representing Chevron cannot estimate the chances of the claim and the counterclaim. However, according to the counsel representing Chevron, it is more likely that the primary claim be denied rather than accepted.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

- c) On October 30, 2022, Haifa Port filed an administrative petition with the Court of Administrative Affairs in Jerusalem, under Section 17 of the Freedom of Information Law, against the Tax Authority and against Chevron.
- The petition was filed after the Tax Authority denied Haifa Port's request for information pertaining primarily to the contacts between Chevron and the Tax Authority regarding the coordination of the unloading of cargo directly at the platform, approvals given by the Tax Authority for the unloading of goods other than in an authorized port, and the procedures and directives under which the said approvals had been given.
- Since the requested information includes details about Chevron, Chevron was joined as an additional respondent to the petition .
- On December 26, 2022, the Tax Authority and Chevron filed preliminary answers to the petition, claiming that the petition should be denied, primarily in view of the confidentiality provision set forth in the Customs Ordinance .
- A hearing of the petition was held, following a preliminary hearing, on March 2, 2023 and at this stage a judgment in the petition is awaited .
- Counsel representing Chevron believe that it is more likely that the petition will be denied than granted.

Financial penalties

- d) In May 2020, the Operator received notice from the Ministry of Environmental Protection regarding its intention to impose an administrative financial penalty due to alleged violations of the emission permit given to the Leviathan platform and the Clean Air Law and the Commissioner's directive issued by virtue thereof with respect to the connection of the continuous monitoring data in the Leviathan platform. The notice of the intention of the Ministry of Environmental Protection to impose the financial penalty, attributes to Chevron three alleged breaches, the amount of the penalty for which was determined after a 20% reduction with respect to one of the breaches. Chevron submitted a request to receive information by virtue of the Freedom of Information Law, which is required therefor in order to formulate its arguments in the penalty notice. In view thereof, the Ministry of Environmental Protection authorized to postpone the date of submission of arguments by 30 days after receipt of the information. As of the date of approval of the financial statements, the information requested by Chevron has not yet been received and therefore the count of days for reply to the notice has not yet started.
- e) In addition to the reduction of the penalty amount as aforesaid, counsel for Chevron's estimate that there is a higher than 50% chance for reduction of the total penalty amount by 20% in view of the absence of prior violations of the law. At this stage, counsel for Chevron believe that it is not possible to estimate the chances for receipt of further reductions in the penalty amount, or for Chevron's ability to lead to cancellation of some of the actual penalty components.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

Hearings

- f) In November 2021, the Operator received a notice and summons to a hearing 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**”). It is alleged in the summons to the hearing that Chevron has deviated from the specified criteria for discharge into the sea from the open system. The hearing took place in January 2022 and a summary of the hearing was received a few days later, stating that the Operator must take all actions to prevent deviations from the marine discharge permit and that the Ministry of Environmental Protection is considering exercising its full powers by law, including a possible recommendation of a financial penalty by law.

On June 28, 2022, Chevron received a letter of demand for details about its annual sales turnover, for the purpose of determining the financial penalty amount which the Ministry of Environmental Protection intends to impose on Chevron for violation of conditions in a marine discharge permit (gas production). Chevron submitted the required information and documents to the Ministry of Environmental Protection.

In the estimation of counsel for Chevron, it is not possible at this time to assess the violations for which the financial penalty will be imposed, and the amount of the financial penalty to be imposed, if any.

E. Pledges and collateral

- 1) In September 2014 the Commissioner released, pursuant to Section 57 of the Petroleum Law, directives for the provision of collateral in connection with petroleum rights. As of the date of the financial statements, the Partnership provided in favor of the Ministry of Energy with the following guarantee:
To guarantee fulfillment of the provisions of the Leviathan Lease deeds, the Leviathan Partners have provided guarantees in the total amount of \$100 million (the Partnership’s share \$15 million).
The guarantee shall be valid in the entire lease period and shall remain valid after the expiration of the lease, so long as the Commissioner shall not have announced that it is not needed and subject to Section 57(c) of the Petroleum Law.
- 2) A guarantee to the Israel Land Authority due to the land of the Hagit plant which is used for storage of condensate, roads of access and areas for logistical arrangement and the pipeline infrastructure (condensate pipeline) in the amount of approx. ILS 750 thousand. The Partnership made a deposit of approx. \$240 thousand against the provision of the Israel Land Authority guarantees. The deposit is presented under ‘restricted deposits’ item in the statement of financial position, see also Note 10.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

- 3) In January 2021, in accordance with the Committee's Decision, as specified in Section C5 above, guarantees were provided in the total amount of approx. ILS 47 million in connection with the pipeline to INGL to guarantee INGL's share in the cost of construction of the infrastructure of the national transmission system, and coverage of Chevron's undertakings to pay the capacity and transmission fees. In January 2023, the guarantee in the total sum of approx. ILS 50 million, was renewed. The Partnership made a deposit of \$3.7 million against the provision of the aforesaid guarantees. The deposit is presented under 'restricted deposits' item in the statement of financial position, see also Note 10.
- 4) The interest safety cushions for the Series B, C and D Bonds. See also Note 11B5(d)(2).

F. Permits and licenses for the Leviathan project

In the context of the development plan for Phase I – First Stage of the Leviathan project, the Leviathan Partners received approval to build a permanent platform for the production of oil and natural gas, as well as approval to operate a system for the production of natural gas and condensate from the Leviathan projects under which the Leviathan partners were obligated, *inter alia*, to file guarantees.

In February 2017 the Minister of Energy granted an SPC owned by the Leviathan Partners, Leviathan Transmission System Ltd., a license to build and operate the transmission system that would be used for the transmission of natural gas of the Leviathan partners sourced at the Leviathan leases, or of other natural gas suppliers, upon fulfillment of certain conditions, and all subject to the terms and conditions of the license. In December 2019, approval was received from the Commissioner to operate the system for the production of natural gas and oil from the Leviathan leases.

In addition, further permits were received, including a sea discharge permit, an air emissions permit, toxins permits and business licenses.

G. Regulation

- 1) On June 23, 2020 the Director of the Natural Gas Authority announced that he was estimating the cost of the combined section, intended for the transmission of natural gas from the Leviathan and Tamar reservoirs to the EMG terminal in Ashkelon for the transmission of gas to Egypt according to the export agreements (as of the date of signing of the transmission agreement) in the sum total of ILS 738 million, to be updated according to the mechanism for updating and accounting between the parties, as determined in the transmission agreement with INGL. On May 2, 2022 INGL updated the project budget to approx. ILS 796 million.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

According to the notice of the Director of the Gas Authority, 43.5% of the cost of the section, as determined according to the aforesaid, shall be paid by the holder of the transmission license (INLG), and 56.5% of the cost of the section shall be paid by the exporter, according to the milestones determined in the transmission agreement. In addition, the exporter shall pay the transmission license holder ILS 27 million (Partnership's share – ILS 2.8 million) for its share in the cost arising from the bringing forward of the doubling of the sections Dor-Hagit and Soreq-Nesher (estimated at approx. ILS 48 million). The exporter shall further provide the transmission license holder with an independent financial guarantee by an Israeli bank, in the sum of 110% of the aggregate amount of the said cost (the transmission license holder's share in the cost of bringing forward the doubling of the sections plus 10%), plus ILS 21 million (the transmission license holder's share in the cost of bringing forward the doubling of the sections Dor-Hagit and Soreq-Nesher), decreasing as stated in the addendum to the decision.

The Authority Director's notice further states that so long as the exporter exports to Egypt, the quantity of natural gas set forth in the transmission agreement shall be piped through the transmission system of the transmission license holder, and not through a section outside the Israeli transmission system, and that if the exporter stops exporting to Egypt, it shall be required to pay the transmission license holder the difference, if any, between 110% of the cumulative amount of the total cost of the section plus ILS 48 million (the cost arising from the bringing forward of the doubling of the sections Dor-Hagit and Soreq-Nesher) and the aggregate piping and capacity fees that the exporter paid to the transmission license holder from the date of completion of the combined section, and the payments which the exporter paid the license holder according to the aforesaid.

On Chevron's engagement with INLG in a transmission agreement on a firm basis for the piping of natural gas from the Tamar reservoir and from the Leviathan reservoir to the EMG terminal in Ashkelon, for transmission thereof to Egypt, see Section C5 above.

- 2) As of the date of approval of the financial statements, the Partnership is examining, together with Chevron, other possibilities for increasing the export amounts of natural gas through the Jordan North pipeline and the Jordanian transmission system, and through construction of a new onshore connection that will be built by INGL between the Israeli transmission system and the Egyptian transmission system at the Nitzana area (the "Nitzana Pipeline"). In this context, it is noted that in June 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 pipeline and the Nitzana Pipeline, in the context of which the partners were asked as aforesaid to estimate the quantities of natural gas expected to be exported through these infrastructures. Further thereto, in July 2022, Chevron replied to the Natural Gas Authority that the Leviathan Partners are interested in using the full transmission capacity within the aforementioned infrastructures, and in November 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 pipeline on an interruptible basis, over and above the quantities piped via the Jordan North pipeline in the context of the Export to Jordan Agreement. In the Partnership's estimation, the said decision is not expected to affect the quantities piped to Egypt via Jordan, or the transmission tariffs.

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 25 – Engagements and Contingent Liabilities (Cont.):

On March 28, 2023, the Natural Gas Authority announced a call to anyone interested to bring a proposal or position before the Natural Gas Council on the funding and allocation of space in all export pipelines through the Israeli transmission system, as well as the Ramat Hovav Nitzana pipeline, and the vacant part of the Jordan North pipeline. The Authority is allowing the public to make comments until May 7, 2023.

Note 26 – Subsequent Events

A. Performance of FEED for Phase 1B of the development of the Leviathan Reservoir

For subsequent developments, see Note 8C(5).

B. Reserves and contingent resources report for the Leviathan Reservoir leases

For subsequent developments, see Note 8C(6).

C. Release of the Economic Streamlining (Legislative Amendments for Achieving the Budget Targets for the Budget Years 2023 and 2024) Legislative Memorandum, 5783-2023

For subsequent developments, see Note 14A10.

D. Update to the resolution of the GP's board in connection with the purchase of bonds of Ratio Financing and the purchase of Series C Bonds

For subsequent developments, see Note 11B(5)(a).

E. Distribution of profits

For subsequent developments, see Note 15F.

F. Expiration of a shelf prospectus

For subsequent developments, see Note 15I.

G. Postponing the laying of the pipeline for the export of gas to Egypt

For subsequent developments, see Note 25C(5)(l).

H. Agreement for the sale of condensate.

For subsequent developments, see Note 25C(8).

I. OIIR Trade and Industries. Ltd. vs. Ratio Oil Explorations Ltd.

For subsequent developments, see Note 25D(1).

J. HCJ 2351/21 Noble Energy Mediterranean Limited v. the Natural Gas Commission – the Ministry of Energy

For subsequent developments, see Note 25D(5).

K. D.S. 29330-02-22 Nof v. Rotlevy - Motion for certification of a derivative suit

For subsequent developments, see Note 25D(7).

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements (Cont.)

Note 26 – Subsequent Events (Cont.):

L. Proceedings against the Operator - Motion for class certification filed by a resident of Dor Beach

For subsequent developments, see Note 25D(8)(a).

M. Proceedings against the Operator - an administrative petition against the Tax Authority and against Chevron

For subsequent developments, see Note 25D(8)(c).

N. Renewal of guarantees

For subsequent developments, see Note 25E(3).

O. Announcement by the Natural Gas Authority of a call regarding financing and allocation of space in the export pipelines

For subsequent developments, see Note 25G(2).

