# Ratio Energies

## Financial Report

As of 30.6.2023

# Ratio Energies

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RATIO ENERGIES

# Chapter A

## Update to Chapter A (Description of the Corporation's Business)

# Update to Chapter A (Description of the Corporation's Business) of the 2022 Periodic Report of Ratio Energies – Limited Partnership (the "Partnership")[1]

1. Section 4 of the Periodic Report – Distribution of Profit

   On August 23, 2023, the board of directors of Ratio Energies Management Ltd., the Partnership's general partner (the "**General Partner**" and the "**Board**", respectively), approved an interim profit distribution in the sum total of 30 million US dollars ("**$**"). The record date for the distribution is August 31, 2023. Such profit distribution will be carried out on September 14, 2023.

2. Section 6.12 of the Periodic Report – General Environment and Impact of External Factors – Fourth Tender

   On July 16, 2023, the Partnership submitted a bid, as part of a consortium, within the framework of the fourth competitive process released by the Ministry of Energy and Infrastructure, for the receipt of licenses for natural gas exploration in Israeli waters.

   For further details, see the immediate report of July 17, 2023 (Ref. no.: 2023-01-080979) the information contained therein is incorporated herein by reference.

3. Section 8.1.6(3) of the Periodic Report – Plan for the Development of the Leviathan Reservoir

   a. Section 8.1.6(3)D. of the Periodic Report – Leviathan 8

      As of the date of approval of this report, the connection and completion operations of the "Leviathan 8" development and production well located in the I/14 Leviathan South lease, to the existing subsea production system of the Leviathan project, have been completed. In June 2023, ongoing production from the well began in accordance with the timetables and budget framework.

[1] This chapter presents material changes or events that took place in the Partnership's business in Q2/2023, in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, as well as other updates regarding the Partnership's business that took place from the date of release of the 2022 periodic report which was released on March 29, 2023, Ref. no.: 2023-01-030022 (the "**Periodic Report**") until shortly before the date of approval of this report, on any matter that is required to be described in the Periodic Report and was not updated in the Q1/2023 quarterly report which was released on May 24, 2023, Ref. no.: 2023-01-048025 (the "**Q1 Report**"). The update refers to the section numbers in Chapter A of the Periodic Report, unless stated otherwise.

b. Section 8.1.6(3)E. of the Periodic Report – The Third Pipeline

On June 29, 2023, the partners in the Leviathan project – the Partnership together with Chevron Mediterranean Limited ("**Chevron**" or the "**Operator**") and NewMed Energy Limited Partnership (collectively: the "**Leviathan Partners**") – adopted a Final Investment Decision (FID) for the execution of the project, mainly being the laying of a third subsea transmission pipeline from the production wells in the Leviathan field to the platform, with a total budget of approx. $568 million (100%, the Partnership's share approx. $85 million)[2]. For further details, see the immediate report of July 2, 2023 (Ref. no.: 2023-01-061519), the information contained therein is incorporated herein by reference.

c. Section 8.1.6(3)F. of the Periodic Report – Phase 1B to the Development Plan of the Leviathan Project

As part of the examination of natural gas marketing alternatives in Phase 1B and the preparation of Leviathan Partners for each one of the alternatives, including the construction of a floating liquefaction facility (FLNG), on June 21, 2023, the Leviathan Partners submitted to the Petroleum Commissioner at the Ministry of Energy and Infrastructure, a request for approval to export natural gas from the Leviathan project through a floating facility for natural gas liquefaction – FLNG and through regional (existing and future) pipelines. It is noted that the Ministry of Energy and Infrastructure's response to the request has not yet been received and there is no certainty that the request will be accepted or, if it is, with which conditions.

4. Section 10 of the Periodic Report – Customers

In the report period and until shortly before the date hereof, the Leviathan Partners engaged in several agreements with customers in the domestic market for the supply of natural gas on a SPOT basis.

Further to the provisions of Section 10.4.4(a) of the Periodic Report regarding an agreement for the sale of natural gas to the National Electric Power Company of Jordan ("**NEPCO**"), on July 3, 2023, the parties to the agreement agreed to temporarily increase the quantities of natural gas to be provided to NEPCO on a firm basis, and with respect to several months in the years 2023-2024, and that the minimum annual quantity that NEPCO has committed to take or pay in 2023-2024 will increase accordingly. For the avoidance of doubt, it is clarified that the aforesaid does not change the total scope of supply under the said export agreement (approx. 45 BCM).

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[2] Out of the said total budget, the Leviathan Partners approved up to the date of the Periodic Report, a total of approx. $208 million (100%, the Partnership's share approx. $31 million), as specified in Section 8.1.6(3)E. of the Periodic Report.

5. Section 11.2 of the Periodic Report – Export

Further to the provisions of Section 11.2.2 of the Periodic Report, regarding the Leviathan Partners' examination of an investment in onshore infrastructure facilities for the transmission of additional quantities of natural gas to customers in the regional markets, which include the export of natural gas through the Jordan Valley station ("**Jordan North**") and through the construction of a new onshore connection, that is planned to be built by INGL, between the Israeli transmission system and Egypt in the Nitzana area and includes, *inter alia*, the construction of a compressor station near Ramat Hovav and a pipeline section from this area to the Egyptian border at Pithat Nitzana (the "**Nitzana Pipeline**"), in June 2023 the Leviathan Partners approved an initial budget for technical design and preliminary procurement for the Leviathan Partners' share for Jordan North and for the Nitzana Pipeline in order to meet short timeframes, prior to making final investment decisions (FID) for one of the following alternatives:

a. A budget for technical design and preliminary procurement in the amount of approx. $10.2 million (100%, the Partnership's share approx. $1.53 million) for the construction of a compressor station and additional related work on the Jordan North, for purposes of increasing the total export capacity from Jordan North to Egypt according to Chevron's estimates from approx. 6.5 BCM to approx. 10.5 BCM.

b. A budget for technical design and preliminary procurement in the amount of approx. $3.5 million (100%, the Partnership's share approx. $525 thousand) for the Nitzana Pipeline, which is expected, according to Chevron's estimates, to increase the total natural gas export capacity from Israel to Egypt by approx. 6 BCM more.

**Caution concerning forward-looking information** – the estimates specified above concerning the expected export capacities constitute forward-looking information within the meaning thereof in Section 32A of the Securities Law, 5728-1968. Such information is based on the estimates and assumptions of the operator in the Leviathan project, based on a variety of factors, which may not materialize or materialize in a substantially different manner due to factors over which the Partnership has no control, and in this context, *inter alia*, if the estimates and assumptions received from the operator in the Leviathan project change and/or the market conditions change and/or due to a gamut of geopolitical and/or regulatory changes and/or from operational and technical conditions and/or materialization of one or more of the risk factors involved in the Partnership's business, including as specified in Section 28 of the Periodic Report.

6. Section 24 of the Periodic Report – Limitations and Supervision over the Partnership's Operations – the Natural Gas Sector Law and Section 4.A of Chapter A of the Q1 Report of 2023

In connection with the decisions of the Natural Gas Commission regarding the financing of export projects through the national transmission system, on August 9, 2023, the decision of the Natural Gas Commission (the "**Commission**") no. 3/2023 was released, regarding the financing and allocation of capacity in all of the export lines through the Israeli transmission system as well as on the "Ramat Hovav-Nitzana" pipeline, and in part of the currently available capacity in the Jordan North pipeline, over and above the existing continuous transmission agreements for this pipeline as of August 1, 2023 (the "**Decision**"), whose highlights are as follows:

a) Each exporter will be assigned capacity according to percentages that will be calculated according to parameters such as the exporter's annual production capacity and existing and possible export volumes for such exporter. According to the initial allocation, 54% of the total capacity for export will be allocated to the Leviathan reservoir, 33% to the Tamar reservoir and 13% to the Karish reservoir. In any case, it was clarified that existing continuous transmission agreements will not be impaired. The existing continuous transmission agreements for the Jordan North pipeline are included in the allocation calculation.

b) To the extent that an export infrastructure is established other than by the owner of the transmission license, the share of each exporter in such infrastructure will be taken into account as part of its export allocation.

c) The Commission will re-examine (and, if necessary, re-determine) the allocation upon the occurrence of a significant event in the natural gas sector, the discovery of additional significant reserves, the entry of a new exporter, the establishment of additional infrastructure for natural gas export or any other material change in the natural gas sector as determined by the Commission.

d) The Commission shall be entitled to determine that part or all of the export pipelines will be used for the purpose of importing natural gas in the event that it determines that there is a need to supply demand in the domestic market, subject to the reimbursement of financing costs to exporters pro rata to their allocation on such pipeline, as specified in the Decision.

e) With respect to the Ramat Hovav-Nitzana pipeline, it was determined as follows: (1) The allocation of capacity on the pipeline shall be equal between the existing exporters, such that each existing exporter will be entitled to request one third of the pipeline's capacity and choose whether to use its allocation. The remaining capacity of an exporter who chooses not to exercise its allocation, or part thereof, will be divided equally among the other exporters, subject to the total allocation limit of each exporter; (2) An exporter who financed the pipeline will be entitled to a refund pro rate to its allocation for the use of such pipeline by another party during the transmission agreement period; (3) An exporter who does not sign a transmission agreement within two months of receiving the allocation on the pipeline, or fails to complete its share of the financing in accordance with the provisions of the transmission agreement, will be deemed as an exporter who waived its allocation. Accordingly, the allocation will be transferred to another exporter and it will receive a refund for the costs paid thereby; (4) The construction costs of the pipeline (CAPEX) include the costs of the compressor and are estimated by the Natural Gas Authority at more than ILS 1 billion. The construction period is estimated at approx. 36 months. It is noted that activation of the compressor is expected to impose high annual operating costs relative to the operation of the remaining national transmission system, estimated at approx. ILS 20 million per year.

f) With respect to the Jordan North pipeline, it was determined that after payment is transferred to the parties that financed its establishment (NBL Jorden Marketing Limited and INGL), an exporter will be entitled to sign a transmission agreement for its use, according to the available quantity over and above the existing continuous transmission agreements as of August 1, 2023.

g) The daily continuous transmission agreements of each exporter on the Ramat Hovav-Nitzana pipeline and on the Jordan North pipeline shall not exceed 70% of the exporter's allocation on that pipeline (the term of the transmission agreements on the Ramat Hovav-Nitzana pipeline will be for 15 years, and on the Jordan North pipeline, at least 10 years and no more than 15 years), while the remaining capacity will be reserved for interruptible transmission.

h) The actual cost of the pipeline financing, and consequently the cost of use per MMBTU, will be determined by the Director General of the Natural Gas Authority after completion of construction of the export pipeline.

i) In the event of discovery of a new natural gas reservoir from which natural gas is intended to be exported, the new exporter will receive its full allocation on the Ramat Hovav-Nitzana pipeline and the remainder of its allocation on the Jordan North pipeline, provided that its allocation does not exceed 20% of the capacity on each pipeline. Such allocation will be made at the expense of the interruptible transmission agreements and subject to the signing of a transmission agreement within 24 months before the start of transmission for the pipeline.

j) A mechanism for export through secondary trade will be possible through interruptible agreements, in an amount of up to 5% of the capacity in each export pipeline.

The Partnership is studying the Decision and its expected impact on the execution of the two projects described in Section 5 above.

7. Section 26 of the Periodic Report – Legal Proceedings

As for updates regarding legal or administrative proceedings to which the Partnership or the Operator is a party, see Note 7 to the financial statements below.

8. Below is a table that includes natural gas production data from the Leviathan project in Q1/2023 and Q2/2023[3,4]

| Issue | Q1 | Q2 |
|---|---|---|
| Total output (attributable to the Partnership's equity interest holders) for the period (in MMCF) | 14,979.27 | 13,247.79 |
| Average price per unit of output (attributable to the Partnership's equity interest holders) ($ per MCF) | 6.21 | 6.28 |
| Average royalties (any payment derived from the output of the producing asset including the gross income from the petroleum asset) paid per unit of output (attributable to the Partnership's equity interest holders) ($ per MCF) – State | 0.69 | 0.71 |
| Average royalties (any payment derived from the output of the producing asset including the gross income from the petroleum asset) paid per unit of output (attributable to the Partnership's equity interest holders) ($ per MCF) – General Partner and Geologist[5] | 0.33 | 0.34 |
| Average production costs per unit of output (attributable to the Partnership's equity interest holders) ($ per MCF)[6, 7] | 0.78 | 0.83 |
| Average net revenues per unit of output (attributable to the Partnership's equity interest holders) ($ per MCF) | 4.41 | 4.40 |

3 The figures presented in the table above in relation to the rate attributable to the Partnership's equity interest holders in an average price per unit of output, in royalties paid, in production costs and in net revenues, have been rounded up to two digits after the decimal point.

4 Since the total costs associated with the production of condensate during the first and second quarters of 2023 exceeded the total revenues received therefor, and since the condensate is a by-product of the production of natural gas, no separate data related to the production of the condensate was presented in the above table. Any and all costs and expenses in connection with the production of the condensate were attributed to the production of natural gas.

5 For details regarding the overriding royalties, see note 10B to the 2023 financial statements included in the Periodic Report and Note 8A to the financial statements.

6 It is noted that the average production costs per unit of output include costs for the transmission of natural gas through the INGL transmission system to the EMG transmission point in Ashkelon as well as to the delivery point in Aqaba, Jordan, for the purpose of supplying gas to Egypt in the amount of approx. $38.1 million in Q1 and $38.8 million in Q2 of 2023 (in 100% terms).

7 The average production costs per unit of output include current production costs only and do not include the exploration and development costs of the reservoir, future abandonment costs and levy and tax payments that will be paid in the future by the Partnership.

# Chapter B

## 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.***

August 23, 2023

**Report of the Board of Directors of the General Partner**
**on the State of the Partnership's Business for the Six-Month period ended June 30, 2023**

The board of directors of the general partner, Ratio Energies Management Ltd. 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. and Leviathan Development (2016) Ltd. ("**Ratio Financing**" and "**Leviathan Development**" respectively, and collectively with the Partnership – the "**Group**"), as of June 30, 2023 and for the six-month period then ended (the "**Report Period**"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Reports Regulations**").

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

The Partnership presents quarterly financial statements (the "**Financial Statements**") which consolidate the financial statements of Ratio Financing and Leviathan Development. As of June 30, 2023 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 to the export markets began such that from 2020, the Partnership has significant revenues from the sale of natural gas to customers in the export markets and in the domestic market. The Partnership holds 15% of the Leviathan Project.

During the Report Period, a total quantity of approx. 5.33 BCM (100%) of natural gas was sold from the Leviathan Reservoir. In addition, from the beginning of 2023 until shortly before the date of approval of the Financial Statements, approx. 7.17 BCM of natural gas was sold from the Leviathan Reservoir (100%). The Partnership's revenues in the Report Period totaled approx. \$176.2 million; the EBITDA in the Report Period totaled approx. \$121.3 million. For details regarding the results of operations, see Section 2 below.

On March 28, 2023, the board of directors of the General Partner approved a distribution of profit in the total sum of U.S. \$35 million, which was added to the approval of (interim) distribution of profits in the total sum of \$25 million on August 30, 2022, based on the Partnership's financial results for 2022.

In addition, on August 23, 2023, the board of directors of the General Partner approved an (interim) distribution of profit in the total sum of U.S. $30 million. Such distribution of profit shall be conducted on September 14, 2023.

On July 16, 2023, the Partnership submitted a bid, as part of a consortium, in the fourth competitive process for the receipt of licenses for natural gas exploration in Israeli waters, which was released by the Ministry of Energy and Infrastructure. For further details, see the immediate report of July 17, 2023 (Ref. no.: 2023-01-080979) the information appearing in which is incorporated herein by reference.

## 1. Key events in the Report Period and after the date of the report

For a comprehensive description of the key changes that occurred in the Partnership's activity in the Report Period and after the date of the report, see "Update of Chapter A (Description of the Corporation's Business) to the 2022 Periodic Report" and the notes to the Financial Statements attached below.

## 2. Results of operations and financial position

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

| | For the six-months ended June 30 | | For the three-months ended June 30 | | For the year ended Dec. 31 |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| | $ in millions | | | | |
| **Revenues** | | | | | |
| From natural gas sales | 176.2 | 178.5 | 83.2 | 96.6 | 380.0 |
| Net of royalties | (27.6) | (25.0) | (12.7) | (11.3) | (58.0) |
| **Net revenues** | **148.6** | **153.5** | **70.5** | **85.3** | **322.0** |
| **Expenses and costs** | | | | | |
| Cost of natural gas and condensate production | (22.7) | (22.3) | (11.1) | (11.6) | (42.6) |
| Depreciation and amortization expenses | (13.2) | (14.3) | (6.5) | (7.3) | (29.7) |
| Oil and natural gas exploration costs | (*) | (*) | (*) | (*) | (0.1) |
| G&A expenses | (4.5) | (4.5) | (2.2) | (2.5) | (9.5) |
| **Operating income** | **108.1** | **112.4** | **50.7** | **63.8** | **240.1** |
| Net financial expenses | (22.7) | (15.5) | (9.2) | (6.7) | (43.4) |
| **Profit before taxes on income** | **85.4** | **96.9** | **41.5** | **57.1** | **196.7** |
| Taxes on income | (21.0) | (22.5) | (10.0) | (11.2) | (47.2) |
| **Net profit and other comprehensive income for the period** | **64.4** | **74.4** | **31.5** | **45.9** | **149.5** |
| Natural gas sales in BCM[1] | **5.33** | **5.52** | **2.50** | **2.80** | **11.38** |
| Condensate production in Israel (barrels in thousands)[2] | **422.1** | **435.9** | **199.61** | **220.6** | **901.53** |

*Represents an amount lower than $100 thousand.

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

[2] The data refers to the production of condensate from the Leviathan Project (100%) rounded off to thousands of barrels; also see Note 25C8 to the Annual Financial Statements regarding an agreement in connection with the sales of condensate from the Leviathan Reservoir.

2.1.1 **Net revenues** – Revenues from natural gas sales totaled approx. $176.2 million in the Report Period compared with approx. $178.5 million in the same period last year, a decrease of approx. 1.3%. Revenues from natural gas sales in Q2/2023 totaled approx. $83.2 million, compared with approx. $96.6 million in the same period last year, a decrease of approx. 13.8%. The decrease mostly derives from the decrease in the quantities of natural gas sold from the Leviathan Reservoir from approx. 5.52 BCM (100%) in the same period last year to approx. 5.33 BCM (100%) in the Report Period, and from approx. 2.8 BCM (100%) in Q2/2022 to approx. 2.5 BCM (100%) in Q2/2023, as well as from the decrease in the prices of natural gas sold in the export markets, which is partly linked to the Brent barrel price.

Total royalties include royalties to the State and overriding royalties in accordance with the Partnership agreement. Royalty expenses totaled approx. $27.6 million in the Report Period, compared with approx. $25 million in the same period last year. Royalty expenses totaled approx. $12.7 million in Q2/2023, compared with approx. $11.3 million in the same period last year. The increase results from an adjustment made by the Partnership to the royalty expenses in Q2/2022 in order for them to reflect the specific directives for the manner of calculation of the royalty value at the wellhead for the Leviathan Project, which were released by the Natural Resources Administration at the Ministry of Energy on July 24, 2022 (this adjustment was made to the Partnership's royalty expenses from the date of commencement of the natural gas supply from the Leviathan Reservoir to the date of such adjustment). This increase was counterbalanced by the decrease in natural gas sales in the Report Period compared with the same period last year. From the date of commencement of the supply of gas from the Leviathan Reservoir, the Leviathan Partners make advance payments to the State on account of the State royalties in respect of revenues from the Leviathan Project at the rate of 11.26%, and the Partnership additionally pays, in accordance with the Partnership agreement, overriding royalties at the rate of approx. 5.40%[3]. For further details on royalties, see Note 18 to the 2022 Annual Financial Statements (the "**Annual Financial Statements**") and Note 8A to the Financial Statements.

[3] 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 to the Annual Financial Statements and Note 8A to the Financial Statements.

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

| | For the six-month period ended June 30 | | For the three-month period ended June 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** | **2022** |
| | | | **BCM** | | |
| Israel | 0.94 | 1.74 | 0.28 | 0.85 | 3.77 |
| Jordan | 1.23 | 1.30 | 0.57 | 0.63 | 2.71 |
| Egypt | 3.16 | 2.48 | 1.65 | 1.32 | 4.90 |
| **Total** | **5.33** | **5.52** | **2.50** | **2.80** | **11.38** |

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 natural gas and condensate production totaled approx. $22.7 million in the Report Period, compared with approx. $22.3 million in the same period last year. The cost of natural gas and condensate production in Q2/2023 totaled approx. $11.1 million compared with approx. $11.6 million in the same period last year. The decrease between the periods mainly derives from a decrease in costs of salaries and management of the operation and maintenance, which were offset from an increase in transportation and shipping expenses for the transmission of gas to Egypt, which derived from the increase in sales of natural gas to Egypt.

2.1.3 **Depreciation and amortization expenses** totaled approx. $13.2 million in the Report Period, compared with approx. $14.3 million in the same period last year. In Q2/ 2023. depreciation and amortization expenses totaled approx. $6.5 million, compared with approx. $7.3 million in the same period last year. The expenses 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 decrease in depreciation and amortization expenses between the periods mainly derives from the decrease in the natural gas quantities sold from the Leviathan Reservoir between the period, and from an update to evaluations of the resources in the Leviathan Reservoir in accordance with the evaluation report on reserves and contingent resources in the Leviathan Leases, updated as of December 31, 2022 (which serves as a basis for calculation of the depreciation rate). For further details, also see Note 4G to the Financial Statements.

2.1.4 **Oil and natural gas exploration expenses** in the Report Period totaled approx. $81 thousand, compared with approx. $63 thousand in the same period last year. In Q2/2023, oil and natural gas exploration expenses totaled approx. $56 thousand, compared with approx. $63 thousand in the same period last year.

2.1.5 **G&A expenses** totaled approx. $4.5 million in the Report Period and in the same period last year. In Q2/2023, G&A expenses totaled approx. $2.2 million, compared with approx. $2.5 million in the same period last year. These mostly consist of expenses in respect of professional services, payroll expenses and management fees to the General Partner.

2.1.6 **Net financial expenses** totaled approx. $22.7 million in the Report Period, compared with net financial expenses of approx. $15.5 million in the same period last year.
The main changes in the 'net financial expenses' item in the Report Period compared with the same period last year are as follows:

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. $30.1 million, compared with approx. $24.6 million in the same period last year.
b. Exchange rate differentials due to changes in the dollar exchange rate. Total exchange rate differential expenses, due to the increase in the dollar rate during the comparable periods, amounted to approx. $0.6 million in the Report Period compared with income from exchange rate differentials in the sum of approx. $9.6 million in the same period last year. Such income from exchange rate differentials mainly resulted from the Series B Bonds.
c. During the Report Period, the fair value of hedging transactions into which the Partnership entered in the context of its risk management increased by approx. $4.5 million compared with approx. $2.3 million in the same period last year. For further details, see Note 5A to the Financial Statements and Section 3.1 below.
d. During the Report Period, the fair value of the Partnership's investments in securities decreased by approx. $0.5 million. In the same period last year, expenses from a revaluation of the Partnership's investments in securities totaled approx. $3.1 million.
e. During the Report Period, the Partnership derived interest revenues of approx. $4 million in respect of investment in short-term deposits and in respect of an income tax refund arising from the update to the participation unit holders' tax liability for 2021.

Net financial expenses totaled approx. $9.2 million in Q2/2023, compared with net financial expenses of approx. $6.7 million in the same period last year.

The main changes in the 'net financial expenses' item in Q2/2023 compared with the same period last year are as follows:

a. In Q2/2023, the 'net financial expenses' item included financial costs in connection with the bonds and loans from banking corporations provided for the purpose of financing the Leviathan Leases in the amount of approx. $15.4 million, compared with approx. $12.8 million in the same period last year.
b. Exchange rate differentials due to changes in the dollar exchange rate. Total exchange rate differential expenses, due to the increase in the dollar rate during the comparable periods, amounted to approx. $0.9 million in the Report Period compared with income from exchange rate differentials in the sum of approx. $6.7 million in the same period last year. Such income from exchange rate differentials mainly resulted from the Series B Bonds.
c. During the Report Period, the fair value of hedging transactions into which the Partnership entered in the context of its risk management increased by approx. $5.3 million compared with approx. $1.3 million in the same period last year. For further details, see Note 5A to the Financial Statements and Section 3.1 below.
d. During the Report Period, the fair value of the Partnership's investments in securities decreased by approx. $0.3 million. In the same period last year, expenses from a revaluation of the Partnership's investments in securities totaled approx. $2.2 million.

It is additionally noted that part of the securities balances in the Partnership's investment portfolio are primarily exposed to changes in the condition of the market and the shekel-dollar exchange rate. Fluctuations in the capital market and the relation between the exchange rates of the shekel and the dollar are taken into account in the management of readily available sources. The effect of these factors is reflected in the 'net financial expenses' item.

2.1.7 **Taxes on income** totaled approx. $21.0 million in the Report Period, compared with approx. $22.5 million in the same period last year. In Q2/2023, income tax expenses totaled approx. $10.0 million compared with approx. $11.2 million in the same period last year.
The decrease derived mainly from the decrease in the profit before tax which was offset mainly by deferred tax update.

2.2 **Current assets** as of June 30, 2023 totaled approx. $263.0 million, compared with a total of approx. $232.9 million as of December 31, 2022.

The Group's current assets as of June 30, 2023 primarily consist of cash and cash equivalents, financial assets at fair value through profit or loss and short-term deposits (partly designated to be used for the purchase of bonds issued by Ratio Financing for the Partnership), in the sum of approx. $176.2 million compared with approx. $146.6 million as of December 31, 2022. The change in balances mainly stems from proceeds from natural gas sales during the

Report Period net of payment of royalties and payments for the development and operation of the Leviathan Project, payment of interest in respect of Series D Bonds and loans from banking corporations, payment in respect of distribution of profit to holders of participation units, partial repayment of the outstanding loan to banking corporations (see Section 2.5.2 below), payments of tax advances and payment of current expenses.

Furthermore, the Partnership's current assets as of June 30, 2023 include trade receivables in the sum of approx. $68.1 million compared with approx. $65.3 million as of December 31, 2022 for supply of natural gas from the Leviathan Reservoir. The increase in trade receivables between the periods is due to an increase in the volume of export sales from the Leviathan Project.

For details regarding the composition of the Partnership's readily available assets (including the marketable securities' composition) see Notes 4, 5, 6 and 7 to the Annual Financial Statements.

2.3 **Non-current assets** as of June 30, 2023 totaled approx. $896.8 million, compared with approx. $885.6 million as of December 31, 2022.

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 a retirement and disposal asset, total approx. $801.7 million as of June 30, 2023, compared with approx. $794.0 million as of December 31, 2022. The change in the Report Period derives mainly from investments in the Leviathan Project in the amount of approx. $18.3 million (most of which in the Leviathan-8 well). Conversely, the Partnership recorded depreciation and amortization expenses of approx. $10.6 million.

2.3.2 A net retirement and disposal asset presented under the 'net investments in oil and natural gas assets' item totaled approx. $10.9 million as of June 30, 2023, compared with approx. $9.8 million as of December 31, 2022. The increase mainly results from an update of the estimate of costs of the retirement and disposal asset.

2.3.3 Other long-term assets, net, totaled approx. $68.8 million as of June 30, 2023, compared with approx. $68.2 million as of December 31, 2022. The change in the Report Period derives mainly from: (1) Investment of approx. $0.8 million in FAJR infrastructure and condensate pipeline. (2) Increase of approx. $1.8 million in the royalty receivable asset in the Report Period. Conversely, (3) Depreciation expenses of approx. $2.0 million in respect of the other long-term assets in the Report Period.

2.3.4 The Partnership holds 20% of 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 June 30, 2023 is approx. $3.7 million compared with approx. $4.2 million as of December 31, 2022.

2.3.5 Derivative financial instruments totaled approx. \$5.0 million as of June 30, 2023, compared with \$2.8 million as of December 31, 2022. The increase mainly derives from another IRS hedging transaction made during the period. See Section 3.1 below

2.4 **Current liabilities** as of June 30, 2023 total approx. \$122.7 million, compared with approx. \$108.7 million as of December 31, 2022.

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

2.4.1 Interest payable totaled approx. \$15.1 million as of June 30, 2023, compared with approx. \$11.3 million as of December 31, 2022. Interest payable includes interest in respect of Series C and D Bonds and in respect of the bank loan. Most of the increase derives from the dates and rate of the interest payments according to the terms of the bonds and conditions of the banking loan.

2.4.2 Current maturities of long-term loans from banking corporations totaled approx. \$11.2 million as of June 30, 2023, in accordance with the conditions of the loans as stated in Note 11A2(C)(3) to the Annual Financial Statements and Note 5A to the Financial Statements.

2.5 **Non-current liabilities** as of June 30, 2023 totaled approx. \$645.8 million, compared with approx. \$659.4 million as of December 31, 2022.

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

Below are the main changes in the 'non-current liabilities' item as of the Report Period:

2.5.1 Deferred tax liability as of June 30, 2023 totaled approx. \$70.5 million compared with approx. \$56.2 million as of December 31, 2022. 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 derives mainly from an increase in differences between the cost and depreciation and amortization in the books and the cost and depreciation and amortization for tax purposes for the 'oil and natural gas assets' item (including for oil and natural gas asset retirement and disposal).

2.5.2 Loans from banking corporations totaled approx. \$481.2 million as of June 30, 2023, compared with approx. \$510.6 million as of December 31, 2022. The decrease mostly derives from the repayment of \$20 million during the period and the classification of approx. \$11.2 million under current maturities in accordance with the terms and conditions of the loans, see Section 2.4.2 above.

2.5.3 A provision for an oil and natural gas asset retirement and disposal obligation as of June 30, 2023 totaled approx. $14.0 million, compared with approx. $12.5 million as of December 31, 2022. The increase mostly derives from an update to the retirement and disposal obligation for the Leviathan Project assets due to an update to the estimate of retirement costs between the periods.

For further details regarding the loan agreements between the Partnership and Ratio Financing in connection with the issue proceeds received and the loan agreements between the Partnership and Leviathan Development, see Notes 24C5 and 24C7 to the Annual Financial Statements and Section 3 below.

2.6 **The Partners' equity**

Partners’ equity totals approx. $391.3 million as of June 30, 2023, compared with approx. $350.4 million as of December 31, 2022. The change derives from comprehensive income of approx. $64.4 million recorded in the Report Period, from revenues deriving from an update to the tax liability of the participation unit holders in the sum of approx. $11.5 million for 2021, which was offset by profits declared and distributed in the Report Period in the sum of approx. $35.0 million.

2.7 **Cash flow**

**Net cash flow generated from operating activities** totaled approx. $101.8 million in the Report Period, compared with a net cash flow generated from operating activities of approx. $72.6 million in the same period last year. The main increase is due to an increase in trade receivables balance in the amount of approx. $2.8 million in the Report Period compared to a total of approx. $27.2 million in the same period last year, as well as from the sale of financial instruments at fair value through profit or loss in the amount of approx. $10.9 million in the Report Period compared to the purchase of financial instruments at fair value through profit or loss in the amount of approx. $5.4 million in the same period last year. Net cash flow generated from operating activities totaled approx. $44.8 million in Q2/2023, compared with a net cash flow generated from operating activities of approx. $33.5 million in the same period last year. Most of the rise derives from a decrease in trade receivables balance in the amount of approx. $3.4 million in Q2/2023 compared to an increase in trade receivables balance in the amount of approx. $17.9 million in the same period last year.

According to the Partnership’s accounting policy, interest paid and interest received are classified under operating activities in the cash flow statement.

**Net cash flow used for investment activities** totaled approx. $46.3 million in the Report Period, compared with approx. $20.6 million in the same period last year. Net cash flow used for investment activities totaled approx. $23.2 million in Q2/2023, compared with approx. $0.2 million in the same period last year. Investment activities mainly consist of investments in the Leviathan Project, in other long-term assets and in short-term deposits. Most of the change between the periods arises from the maturity of or deposits into short-term deposits.

**Net cash flow used for financing activities** in the Report Period totaled approx. $44.9 million that were mainly used for the repayment of loans from banking corporations, in the sum of $20 million, a distribution of profit in the sum of approx. $35 million. Conversely, during the period, tax advances paid for the participation unit holders in the sum of approx. $11.5 million were received as a result of the update to the tax liability for 2021. In the same period last year, cash flows used for financing activities totaled approx. $13.9 million that were used for balancing payments in respect of 2021.

Net cash flows used for financing activities in Q2/2023 totaled approx. $43.5 million that were used for the repayment of loans from banking corporations, distribution of profit to holders of the participation units and tax advance revenues for 2021, as noted above. During Q2/2022, no cash flows were used for financing activities.

## 3. Liquidity and financing sources

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

### 3.1 Loans from banking corporations

Further to Note 11A to the Annual Financial Statements regarding a loan agreement between Leviathan Development and a consortium of local and foreign banks, a loan facility of $650 million was provided to the Partnership (through Leviathan Development, which provides the loan to the Partnership back-to-back) (the "**Loan**").
As of the date of approval of the Financial Statements, the total facility available for drawdown is $650 million. As of June 30, 2023 and as of the date of approval of the Financial Statements, loan amounts drawn from the Loan facility total approx. $500 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.

June 30, 2023 saw the discontinuation of use of the LIBOR interest rate, such that as of subsequent interest period, the loan is linked to the Term SOFR interest rate plus a credit margin. This interest rate is a forward-looking periodic interest rate based on the SOFR interest rate.

As part of the Loan agreement, the Partnership is committed to comply with the following financial covenants that were determined in the financing agreement:

1. Liquidity Coverage Ratio ("**LCR**"), that is calculated as the ratio between the discounted cash flow from 2P reserves[4] (as defined in the Loan agreement) and the balance of the Loan that was withdrawn (net of the reserve fund amount for debt service) at each test date, shall be no less than 1.2;
   Repayment of amounts on account of the principal at variable rates shall be carried out in accordance with specific liquidity coverage ratios (LCR between 1.3-1.4 – 30%, between 1.25-1.3 – 60%, below 1.25 – 100%) out of an adjusted cash balance as of the end of each quarter according to the mechanism specified in the agreement (LCR Cash Sweep).

2. Debt service 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. Such ratio shall be no less than 1.05;
   Starting in 2024, amounts will be repaid on account of the principal at variable rates according to specific debt service ratios (DSCR above 1.3 – 25%, below 1.3 – 40%) out of an adjusted cash balance as of the end of each quarter in accordance with the mechanism specified in the agreement (DSCR Cash Sweep ).

3. Compliance with the liquidity test according to which it has enough financing sources to meet its expected liabilities.

Accordingly, as of June 30, 2023, the Partnership' management estimated that in the course of the 12 months following the date of the balance sheet (i.e., by June 30, 2024), it was expected that out of the outstanding loans from banking corporations a sum would be repaid of approx. $11.2 million which are classified in the condensed consolidated statement of financial position under current liabilities, as current maturities of loans from banking corporations.

As of June 30, 2023, the Partnership is compliant with all the aforesaid financial covenants: LCR is 2.11 and DSCR is 5.4.
As of the date of approval of the Financial Statements, the said ratios do not materially differ from the ratios as of June 30, 2023.

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.

[4] Cash flow from 2P reserves until December 31, 2034, is calculated according to a banking scenario based on stricter and more conservative assumptions than those used in the discounted cash flow published by the Partnership as part of resource reports under the provisions of the Securities Law, including with respect to the amount and timing of the capital investments, to the sale prices of natural gas (according to price deck in the banking scenario). Such cash flow is before debt service costs and is capitalized at a rate of 7% ("**Cash Flow from 2P Reserves**").

b. In Q3/2022, the Partnership made an IRS hedging transaction of $100 million until July 15, 2027.

c. In Q2/2023, the Partnership made an IRS hedging transaction of $100 million from January 16, 2024 until July 15, 2027.

It is noted that the IRS hedging transactions (see Sections (b) and (c) above) were made through Leviathan Development (the company providing the loan to the Partnership on back-to-back terms).

For further details, see Note 11A to the Annual Financial Statements and Note 5A to the Financial Statements.

3.2 Debt raising rounds by Ratio Financing

For details regarding the issue of Series C and D Bonds through Ratio Financing and the loans given against them to the Partnership, see Note 11B and Note 24C5 to the Annual Financial Statements.

In Q1/2023, the Partnership made purchases of par value 4,659,575 Series C Bonds of Ratio Financing (which constitute approx. 2.2% of the total par value Series C Bonds of Ratio Financing) for the consideration of approx. ILS 4.8 million (approx. $1.4 million).
As of the date of the report and approval of the Financial Statements, the Partnership holds approx. 2.2% of the total par value Series C Bonds of Ratio Financing.

As part of a debt reduction process and in accordance with the resolution of the board of directors of the General Partner of March 28, 2023, the Partnership intends to purchase 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 (over and above the quantity of Series C Bonds currently held as of the date of the resolution of the board). Accordingly, the ‘short-term deposits’ item in the condensed consolidated statement of financial position is chiefly intended for the purchase of such bonds. In accordance with the resolution of the board of directors of the General Partner, the bonds to be acquired by the Partnership (if any) will not be offered for sale either on or off TASE.
For further details regarding the Partnership's financing sources, see Notes 24C5 and 24C7 to the Annual Financial Statements and Notes 5A and 5B to the Financial Statements.

## 4. Distributions of profit

4.1 On March 28, 2023, the board of directors of the General Partner approved a distribution of profit in the amount of $35 million with the record date for the distribution being April 10, 2023. Such distribution of profit was carried out on April 24, 2023. Such distribution was added to the (interim) distribution of profit in the total sum of $25 million which was approved on August 30, 2022, based on the Partnership's financial results for 2022.

4.2 On August 23, 2023, the board of directors of the General Partner approved an (interim) distribution of profit in the amount of $30 million, with the record date for the distribution being August 31, 2023. Such distribution of profit will be conducted on September 14, 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 possible further interest rate increases in the future in order to moderate the aforementioned price index increases.

The increase in prices 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 financial 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 financial expenses in respect thereof are not affected by interest rate changes. However, an interest increase affects the Partnership's financial position, primarily the assets and liabilities in the statement of financial position that contain components of capitalization, as well as the Partnership's financial expenses in respect of loans from banking corporations that bear the Term SOFR interest rate which is paid on a quarterly basis. Furthermore, and insofar as the Partnership needs to raise additional debt in the future, this may affect the Partnership’s financial expenses.

As part of the Partnership's risk management, and in order to reduce exposure in connection with a possible increase in the Term SOFR interest rate on loans taken thereby, the Partnership has made several hedging transactions. See Note 11A2(e) to the Annual Financial Statements, Note 5A to the Financial Statements and Section 3.1 above.

In H1/2023, the Partnership recorded net interest expenses of approx. $20.0 million in the condensed consolidated statement on comprehensive income, reflecting an average annual LIBOR interest rate of approx. 4.23%.

Furthermore, the table below summarizes the possible impact of an increase in the Term SOFR interest rate on the Partnership's interest expenses in respect of loans from banking corporations as of Q3/2023 and until the final repayment date. The analysis is based on the assumption that the calculation of the base interest rate on loans from banking corporations accounts for a fixed Term SOFR interest rate of approx. 5.30796% (the 3-month Term SOFR interest rate determined on July 17, 2023) throughout the remaining term of the loan.

| | For the six-months ending Dec. 31 | For the year ending December 31 | | | |
|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 |
| | | $ in millions | | | |
| **Base interest rate** | 20.6 | 41.1 | 36.9 | 30.2 | 16.1 |
| **0.5 pt increase in base interest rate** | 21.4 | 42.8 | 38.2 | 31.1 | 16.3 |
| **1 pt increase in base interest rate** | 22.3 | 44.5 | 39.5 | 32.0 | 16.6 |

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

## Part B – Report on Exposure to and Management of Market Risks

During the reported period there has been no material change in the areas of the Partnership's exposure or in the market risks, as reported in the board of directors' report for 2022 which was included in the Periodic Report.

**Sensitivity tests**

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

Description of parameters, assumptions and models

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

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

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

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

e. Shekel-dollar exchange rate is the representative rate as of June 30, 2023.

Analysis of sensitivity to market risks

Below is a breakdown of the Partnership's financial instruments as of June 30, 2023, which are sensitive to the market risks entailed therein. The liabilities and assets that are sensitive to various market risks were presented in accordance with the analysis of sensitivity to each one of the risks:

## 1. Report on linkage bases of financial balances

| | June 30, 2023 | | | |
|---|---|---|---|---|
| | In $ | In ILS, No Indexation | In ILS, Indexed | Total |
| | $ in thousands | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents | 81,770 | 19,489 | - | 101,259 |
| Financial assets at fair value through profit or loss | 9,394 | 3,184 | 1,464 | 14,042 |
| Short-term deposits | 60,861 | - | - | 60,861 |
| Restricted deposits | - | 3,522 | - | 3,522 |
| Derivative financial instruments | 4,736 | - | - | 4,736 |
| Trade receivables | 68,135 | - | - | 68,135 |
| Joint venture operator | 8,414 | - | - | 8,414 |
| Ratio Trusts Ltd. – the Trustee – Current account | - | 255 | - | 255 |
| Other receivables | 22 | 766 | - | 788 |
| **Total current assets** | 233,332 | 27,216 | 1,464 | 262,012 |
| **Non-current assets:** | | | | |
| Financial assets at fair value through profit or loss | - | 3,658 | - | 3,658 |
| Derivative financial instruments | 5,034 | - | - | 5,034 |
| Other long-term assets, net | 7,137 | - | - | 7,137 |
| Restricted deposits | 3,940 | 2,577 | - | 6,517 |
| **Total non-current assets** | 16,111 | 6,235 | - | 22,346 |
| | | | | |
| **Current liabilities:** | | | | |
| Trade payables | 57 | 145 | - | 202 |
| Joint venture payables | 16,186 | - | - | 16,186 |
| Ratio Energies Management Ltd. – General Partner – Current account | 1,170 | - | - | 1,170 |
| Others | 500 | 127 | - | 627 |
| Current maturities of bonds | 70,298 | - | - | 70,298 |
| Current maturities of long-term loans from banking corporations | 11,216 | - | - | 11,216 |
| Interest payable | 15,057 | - | - | 15,057 |
| Expenses payable | 4,547 | 407 | - | 4,954 |
| Current taxes payable | - | 2,949 | - | 2,949 |
| **Total current liabilities** | 119,031 | 3,628 | - | 122,659 |
| **Non-current liabilities:** | | | | |
| Bonds | 80,139 | - | - | 80,139 |
| Net loans from banking corporations | 481,168 | - | - | 481,168 |
| **Total non-current liabilities** | 561,307 | - | - | 561,307 |

## 2. Sensitivity to changes in the Dollar/ILS exchange rate

| Assets and Liabilities | Profit (Loss) from the Change: 10% Increase in Exchange Rate | Profit (Loss) from the Change: 5% Increase in Exchange Rate | Fair Value | Profit (Loss) from the Change: 5% Decrease in Exchange Rate | Profit (Loss) from the Change: 10% Decrease in Exchange Rate |
|---|---|---|---|---|---|
| | | | $ in thousands | | |
| Cash and cash equivalents | (1,772) | (928) | 19,489 | 1,026 | 2,165 |
| Financial assets at fair value through profit or loss | (423) | (221) | 4,648 | 245 | 517 |
| Restricted deposits | (320) | (168) | 3,522 | 185 | 391 |
| Ratio Trusts | (23) | (12) | 255 | 13 | 28 |
| Trade and other receivables | (70) | (36) | 766 | 40 | 85 |
| Financial assets at fair value through profit or loss – investment in Ratio Petroleum | (333) | (174) | 3,658 | 193 | 406 |
| Restricted deposits | (234) | (123) | 2,577 | 136 | 286 |
| Trade payables | 13 | 7 | (145) | (8) | (16) |
| Others | 12 | 6 | (127) | (7) | (14) |
| Expenses payable | 37 | 19 | (407) | (21) | (45) |
| Current taxes payable | 268 | 140 | (2,949) | (155) | (328) |
| **Total** | **(2,845)** | **(1,490)** | **31,287** | **1,647** | **3,475** |

## 3. Sensitivity to changes in the dollar interest rate

| Sensitive Instrument | Profit (Loss) from the Change: 20% Increase in Yield | Profit (Loss) from the Change: 10% Increase in Yield | Profit (Loss) from the Change: 5% Increase in Yield | Fair Value | Profit (Loss) from the Change: 5% Decrease in Yield | Profit (Loss) from the Change: 10% Decrease in Yield | Profit (Loss) from the Change: 20% Decrease in Yield |
|---|---|---|---|---|---|---|---|
| Series C Bonds* | 219 | 109 | 55 | (64,267) | (55) | (109) | (219) |
| Series D Bonds | 5,457 | 2,738 | 1,369 | (86,368) | (1,369) | (2,738) | (5,476) |
| Loans from banking corporations | 19,525 | 9,569 | 4,817 | (533,149) | (4,884) | (9,837) | (19,102) |

| Sensitive Instrument | Profit (Loss) from the Change: 5% Increase in Interest Rate | Profit (Loss) from the Change: 2% Increase in Interest Rate | Profit (Loss) from the Change: 0.5% Increase in Interest Rate | Fair Value | Profit (Loss) from the Change: 0.5% Decrease in Interest Rate | Profit (Loss) from the Change: 2% Decrease in Interest Rate | Profit (Loss) from the Change: 5% Decrease in Interest Rate |
|---|---|---|---|---|---|---|---|
| Derivative financial instruments – CAP options | - | - | - | 1,456 | - | - | - |
| Derivative financial instruments – IRS transaction | 56,767 | 24,560 | 6,376 | 8,314 | (6,546) | (22,701) | (73,816) |

* The data presented discount the bonds acquired by the Partnership. See Note 5B to the Financial Statements.

## Part C – Disclosure on Various Aspects of Corporate Governance

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

According to Section 10(b)(14) of the Reports Regulations, a corporation which, on the date of release of the Financial Statements, has bond certificates in circulation, shall examine whether it demonstrates warning signs, and if the corporation demonstrates warning signs, it shall attach a projected cash flow disclosure.

As the warning signs listed in the aforementioned section are not demonstrated, no projected cash flow is included herein.

## 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 Part A hereof and the Notes to the Financial Statements.

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

   2.1 For subsequent events, see Part A hereof and Note 10 to the Financial Statements.

   2.2 Separate financial statements

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

3. **Critical accounting estimates**

   There was no material change in the Report Period compared with the report in 2022, other than as described in Note 2C to the Financial Statements.

Date: August 23, 2023

| | |
|---|---|
| **Ligad Rotlevy**<br>**Chairman of the Board** | **Yigal Landau**<br>**CEO and Board Member** |

# Chapter C

## Financial Statements

RATIO ENERGIES

# Ratio Energies – Limited Partnership

# Interim Financial Information

# (Unaudited)

# June 30, 2023

***This report is a translation of Ratio Energies, Limited Partnership's Hebrew-language unaudited Interim Financial Information as of June 30, 2023. It is prepared solely for convenience purposes. Please note that the Hebrew version is the binding version, and in any event of discrepancy, the Hebrew version shall prevail.***

# Ratio Energies – Limited Partnership

# Interim Financial Information

# (Unaudited)

# June 30, 2023

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

## Introduction

We have reviewed the accompanying financial information of Ratio Energies – Limited Partnership (the "**Partnership**") and consolidated companies (the "**Group**"), which includes the Condensed Consolidated Statement of Financial Position as of June 30, 2023 and the Condensed Consolidated Statements of Comprehensive Income, the Changes in the Partners' Equity and the Cash Flows for the six- and three-month period then ended. The board of directors and management of Ratio Energies Management Ltd., the Partnership's general partner (the "**GP**"), are responsible for the preparation and presentation of financial information for such interim periods in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of financial information for such interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on financial information for such interim periods based on our review.

## Scope of Review

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

## Conclusion

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

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

Tel Aviv,
August 23, 2023

Kesselman & Kesselman
Certified Public Accountants
Member of PricewaterhouseCoopers International Limited

**Ratio Energies – Limited Partnership**
Condensed Consolidated Statement of Financial Position
as of June 30, 2023

| | June 30 | | December 31 |
|---|---|---|---|
| | 2023 | 2022 | 2022 |
| | (Unaudited) | | (Audited) |
| | $ in thousands | | |
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | 101,259 | 161,393 | 91,253 |
| Financial assets at fair value through profit or loss | 14,042 | 13,985 | 24,966 |
| Short-term deposits | 60,861 | 63,707 | 30,355 |
| Restricted deposits | 3,522 | - | 3,657 |
| Derivative financial instruments | 4,736 | - | 5,035 |
| Trade and other receivables: | | | |
| Trade receivables | 68,135 | 75,184 | 65,329 |
| Operator of the joint venture | 8,414 | 5,250 | 10,737 |
| Ratio Trusts Ltd. – the trustee – current account | 255 | 277 | 269 |
| Other receivables | 1,781 | 2,514 | 1,304 |
| **Total current assets** | 263,005 | 322,310 | 232,905 |
| **Non-current assets:** | | | |
| Financial assets at fair value through profit or loss – investment in Ratio Petroleum | 3,658 | 4,227 | 4,153 |
| Derivative financial instruments | 5,034 | - | 2,849 |
| Other long-term assets, net | 68,769 | 71,559 | 68,209 |
| Restricted deposits | 6,517 | 13,630 | 6,507 |
| Fixed assets, net | 149 | 61 | 104 |
| Investments in oil and natural gas assets, net | 812,666 | 809,868 | 803,803 |
| **Total non-current assets** | 896,793 | 899,345 | 885,625 |
| **Total assets** | 1,159,798 | 1,221,655 | 1,118,530 |
| **Liabilities and the partners' equity** | | | |
| **Current liabilities:** | | | |
| Trade and other payables: | | | |
| Trade payables | 202 | 237 | 118 |
| Payables of the joint venture | 16,186 | 13,597 | 13,277 |
| Ratio Energies Management Ltd. – the GP - current account | 1,170 | 487 | 1,056 |
| Others | 627 | 92 | 599 |
| Current maturities of bonds | 70,298 | 112,171 | 72,456 |
| Current maturities of long-term loans from banking corporations | 11,216 | - | - |
| Interest payable | 15,057 | 30,816 | 11,278 |
| Payables | 4,954 | 5,477 | 6,223 |
| Current taxes receivable | 2,949 | 9,804 | 3,685 |
| **Total current liabilities** | 122,659 | 172,681 | 108,692 |
| **Non-current liabilities:** | | | |
| Provision for oil and natural gas asset retirement and disposal obligation | 13,991 | 14,618 | 12,488 |
| Bonds | 80,139 | 207,800 | 80,139 |
| Loans from banking corporations, net | 481,168 | 488,869 | 510,627 |
| Deferred taxes | 70,526 | 37,468 | 56,167 |
| **Total non-current liabilities** | 645,824 | 748,755 | 659,421 |
| **Total liabilities** | 768,483 | 921,436 | 768,113 |
| **Partners' equity** | 391,315 | 300,219 | 350,417 |
| **Total liabilities and partners' equity** | 1,159,798 | 1,221,655 | 1,118,530 |

**Ratio Energies Management Ltd. – the GP, by:**

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

Date of approval of the Interim Financial Information by the GP's board: August 23, 2023.

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

**Ratio Energies – Limited Partnership**

Condensed Consolidated Statement of Comprehensive Income

for the 6- and 3-month periods ended June 30, 2023

| | 6 months ended June 30 | | 3 months ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| | (Unaudited) | | | | (Audited) |
| | $ in thousands (other than figures of profit per participation unit) | | | | |
| **Revenues** | | | | | |
| From the sale of natural gas | 176,192 | 178,529 | 83,167 | 96,550 | 379,944 |
| Net of royalties | (27,591) | (24,976) | (12,723) | (11,314) | (57,951) |
| | 148,601 | 153,553 | 70,444 | 85,236 | 321,993 |
| **Expenses and costs** | | | | | |
| Natural gas and condensate production cost | 22,693 | 22,257 | 11,060 | 11,616 | 42,584 |
| Depreciation and amortization expenses | 13,180 | 14,297 | 6,450 | 7,286 | 29,674 |
| Oil and natural gas exploration expenses | 81 | 63 | 56 | 63 | 131 |
| G&A expenses | 4,512 | 4,495 | 2,227 | 2,510 | 9,545 |
| **Total expenses and costs** | 40,466 | 41,112 | 19,793 | 21,475 | 81,934 |
| **Operating income** | 108,135 | 112,441 | 50,651 | 63,761 | 240,059 |
| Financial income | 8,993 | 12,606 | 7,610 | 8,572 | 16,020 |
| Financial expenses | (31,736) | (28,147) | (16,837) | (15,244) | (59,383) |
| Financial expenses, net | (22,743) | (15,541) | (9,227) | (6,672) | (43,363) |
| **Income before income taxes** | 85,392 | 96,900 | 41,424 | 57,089 | 196,696 |
| Income taxes | (20,971) | (22,549) | (9,966) | (11,204) | (47,150) |
| **Net income and comprehensive income for the period** | 64,421 | 74,351 | 31,458 | 45,885 | 149,546 |
| **Basic and diluted profit per participation unit (in $)** | 0.057 | 0.066 | 0.028 | 0.041 | 0.133 |

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

**Ratio Energies – Limited Partnership**

Condensed Consolidated Statement of Changes in the Partners' Equity

for the 6- and 3-month periods ended June 30, 2023

| | Equity of the Partnership | Capital Reserve from Control Holders | Profit (loss) Balance | Total Equity |
|---|---|---|---|---|
| | $ in thousands | | | |
| **Balance as of December 31, 2022** (audited) | 318,864 | 1,101 | 30,452 | 350,417 |
| **Movement in the 6 months ended June 30, 2023** (unaudited): | | | | |
| Profits distributed | - | - | (35,001) | (35,001) |
| Tax advances receivable for previous years | - | - | 11,478 | 11,478 |
| Net income and comprehensive income for the period | - | - | 64,421 | 64,421 |
| **Balance as of June 30, 2023** (unaudited) | 318,864 | 1,101 | 71,350 | 391,315 |
| **Balance as of December 31, 2021** (audited) | 318,864 | 1,101 | (94,097) | 225,868 |
| **Movement in the 6 months ended June 30, 2022** (unaudited)- | | | | |
| Net income and comprehensive income for the period | - | - | 74,351 | 74,351 |
| **Balance as of June 30, 2022** (unaudited) | 318,864 | 1,101 | (19,746) | 300,219 |
| **Balance as of March 31, 2023** (unaudited) | 318,864 | 1,101 | 39,892 | 359,857 |
| **Movement in the 3 months ended June 30, 2023** (unaudited)- | | | | |
| Net income and comprehensive income for the period | - | - | 31,458 | 31,458 |
| **Balance as of June 30, 2023** (unaudited) | 318,864 | 1,101 | 71,350 | 391,315 |
| **Balance as of March 31, 2022** (unaudited) | 318,864 | 1,101 | (65,631) | 254,334 |
| **Movement in the 3 months ended June 30, 2022** (unaudited)- | | | | |
| Net income and comprehensive income for the period | - | - | 45,885 | 45,885 |
| **Balance as of June 30, 2022** (unaudited) | 318,864 | 1,101 | (19,746) | 300,219 |
| **Balance as of December 31, 2021** (audited) | 318,864 | 1,101 | (94,097) | 225,868 |
| **Movement during 2022** (audited): | | | | |
| Profits distributed | - | - | (24,997) | (24,997) |
| Net income and comprehensive income for the year | - | - | 149,546 | 149,546 |
| **Balance as of December 31, 2022** (audited) | 318,864 | 1,101 | 30,452 | 350,417 |

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

**Ratio Energies – Limited Partnership**

Condensed Consolidated Statement of Cash Flows

for the 6- and 3-month periods ended June 30, 2023

(Cont.) – 1

| | 6 months ended June 30 | | 3 months ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| | (Unaudited) | | | | (Audited) |
| | $ in thousands | | | | |
| **Cash flows from operating activities:** | | | | | |
| Net cash derived from operations, see Annex A | 100,343 | 72,233 | 43,813 | 33,297 | 150,108 |
| Interest received | 1,406 | 320 | 921 | 224 | 1,232 |
| Dividend received | 47 | 26 | 23 | 15 | 58 |
| **Total net cash deriving from operating activities** | 101,796 | 72,579 | 44,757 | 33,536 | 151,398 |
| **Cash flows from investment activities:** | | | | | |
| Repayment (deposit) of short-term deposits, net | (29,296) | 467 | (13,615) | 11,721 | 9,932 |
| Repayment (deposit) of restricted deposits | (108) | (144) | (108) | (144) | 28,369 |
| Investment in other assets | (310) | (6,913) | (180) | (994) | (9,122) |
| Purchase of fixed assets | (60) | (13) | (5) | (9) | (64) |
| Investment in oil and natural gas assets | (16,477) | (14,036) | (9,265) | (10,734) | (28,470) |
| **Total net cash derived from (used for) investment activities** | (46,251) | (20,639) | (23,173) | (160) | 645 |
| **Cash flows from financing activities:** | | | | | |
| Loans (repayment of loans) from banking corporations, net | (20,000) | - | (20,000) | - | 20,000 |
| Repayment of Series B and C bond principal | - | - | - | - | (111,600) |
| Tax advances and balancing payments received (paid) for participation unit holders for 2021 | 11,478 | (13,920) | 11,478 | - | (13,920) |
| Profits distributed | (35,001) | - | (35,001) | - | (24,997) |
| Prepayment of Series B Bonds, net | - | - | - | - | (53,107) |
| Purchase of Series C Bonds, net | (1,356) | - | - | - | - |
| **Total net cash used for financing activities** | (44,879) | (13,920) | (43,523) | - | (183,624) |
| **Increase (decrease) in cash and cash equivalents** | 10,666 | 38,020 | (21,939) | 33,376 | (31,581) |
| **Balance of cash and cash equivalents at the beginning of the period** | 91,253 | 125,383 | 123,924 | 130,980 | 125,383 |
| **Losses from exchange rate differences on cash and cash equivalents** | (660) | (2,010) | (726) | (2,963) | (2,549) |
| **Balance of cash and cash equivalents at the end of the period** | 101,259 | 161,393 | 101,259 | 161,393 | 91,253 |

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

## Ratio Oil Exploration (1992) – Limited Partnership

Condensed Consolidated Statement of Cash Flows

for the 6- and 3-month periods ended June 30, 2023

(End) – 2

| | 6 months ended June 30 | | 3 months ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| | (Unaudited) | | | | (Audited) |
| | $ in thousands | | | | |
| **(A) Annex to the condensed consolidated report on cash flows -** | | | | | |
| **Net cash derived from operations:** | | | | | |
| Net income and comprehensive income for the period | 64,421 | 74,351 | 31,458 | 45,885 | 149,546 |
| Adjustments for: | | | | | |
| Interest and dividend revenues | (2,663) | (346) | (2,154) | (239) | (1,290) |
| Depreciation and amortization | 13,180 | 14,458 | 6,450 | 7,286 | 29,674 |
| Profit from change in the fair value of derivative financial assets | (1,886) | - | (3,803) | - | (7,360) |
| Non-cash revenues and expenses: | | | | | |
| Losses from exchange rate differences on cash and cash equivalents | 660 | 2,010 | 726 | 2,963 | 2,546 |
| Income taxes | 13,623 | 22,549 | 6,050 | 11,204 | 35,129 |
| Expenses of exchange rate differences in respect of restricted deposits | 233 | 1,221 | 110 | 982 | 61 |
| Interest and discount in respect of loans from banking corporations | 2,667 | 2,602 | 1,106 | 1,705 | 8,054 |
| Revenues (expenses) from exchange rate differences, discount and interest on bonds | 2,069 | (6,052) | (234) | (9,080) | (31,951) |
| Provision for oil and gas asset retirement and disposal obligation | 284 | 170 | 144 | 86 | 342 |
| Loss from change in the fair value of financial assets – fair value through profit or loss | 525 | 869 | 267 | 953 | 3,409 |
| | 93,113 | 111,832 | 40,120 | 61,745 | 188,160 |
| Changes in operating asset and liability items: | | | | | |
| Decrease (increase) in trade and other receivables: | | | | | |
| Trade receivables | (2,806) | (27,243) | 3,402 | (17,924) | (17,388) |
| Sale (purchase) of financial instruments at fair value through profit or loss, net | 10,894 | (5,383) | (184) | (67) | (16,567) |
| Change in balance with Ratio Trusts Ltd. | 13 | 61 | 5 | 53 | 69 |
| Royalty rate calculation differences | (1,771) | (4,776) | (1,136) | (4,776) | (5,365) |
| Other | (477) | (1,108) | 1,763 | (498) | 102 |
| Increase (decrease) in trade and other payables: | | | | | |
| Trade payables | 84 | 193 | 11 | 179 | 74 |
| Payables of the joint venture | 127 | (688) | 652 | (2,087) | 4,025 |
| Payables and other payables | (1,268) | 565 | (562) | 245 | 1,311 |
| Other | 28 | - | (327) | - | 507 |
| Change in balance with joint venture operator | 2,323 | (2,552) | (62) | (1,117) | (6,687) |
| Change in balance with Ratio Energies Management Ltd. – the GP | 83 | 1,332 | 131 | (2,456) | 1,867 |
| | 7,230 | (39,599) | 3,693 | (28,448) | (38,052) |
| **Net cash derived from operations** | 100,343 | 72,233 | 43,813 | 33,297 | 150,108 |
| **(B) Information on non-cash activities:** | | | | | |
| Investment in oil and natural gas explorations | 9,543 | 12,315 | (166) | 3,593 | 7,282 |
| Investment in other assets | 521 | (388) | 521 | (388) | (1,740) |
| Oil and gas asset retirement obligation against oil and natural gas assets | 1,219 | (6,334) | 538 | (2,552) | (8,636) |
| **(C) Interest paid** | 24,461 | 12,252 | 14,079 | 7,489 | 62,353 |
| **(D) Taxes paid** | 6,931 | - | 3,917 | - | 12,532 |

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

**Ratio Energies – Limited Partnership**

Notes to the Condensed Consolidated Financial Statements

as of June 30, 2023

(Unaudited)

**Note 1 – General**

**A.** Ratio Energies - Limited Partnership (the "**Partnership**" or "**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.

**B.** The Partnership's income in the report period from the sale of natural gas is affected mainly by the demand for natural gas, by the production and transmission capacity and the natural gas price which is partially linked to the Brent oil barrel prices.

Set forth 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:

| | **6 months ended June 30** | | **3 months ended June 30** | | **Year ended December 31** |
|---|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** | **2022** |
| | **(unaudited)** | | | | **(audited)** |
| **Revenues (in millions of $)** | | | | | |
| Export Markets | 150.9 | 137.1 | 74.9 | 76.4 | 284.2 |
| Domestic market | 25.3 | 41.4 | 8.3 | 20.1 | 95.7 |
| | **176.2** | **178.5** | **83.2** | **96.5** | **379.9** |
| **Quantities (BCM)*** | | | | | |
| Export Markets | 0.66 | 0.57 | 0.34 | 0.30 | 1.14 |
| Domestic market | 0.14 | 0.26 | 0.04 | 0.12 | 0.57 |
| | **0.80** | **0.83** | **0.38** | **0.42** | **1.71** |

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

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

The ongoing management of the Partnership is carried out by Ratio Energies Management Ltd. (the "**GP**") under the supervision of the supervisor, Adv. and CPA Simon Yaniv (the "**Supervisor**"). Ratio Trusts Ltd. (the "**LP**") acts as trustee and holds the participation units (which confer a right to participate in the LP's rights in the Partnership) and the warrants issued thereby, in escrow for the unitholders and the warrant holders.

The GP and the LP hold 0.01% and 99.99% of the Partnership's equity, respectively.

**Note 1 – General** (Cont.):

**D. As of June 30, 2023, and the date of approval of the financial statements, the Partnership has a holding in several entities:**

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

2) The Partnership is the control holder (100%) of Leviathan Development (2016) Ltd. ("Leviathan **Development**"), a private special-purpose company (SPC) which was established by the Partnership for the purpose of receipt of 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, owned by the Leviathan partners, which hold it proportionately to the rate of their holdings in the Leviathan Project. The Marketing Company was established for the purpose of engagement in an agreement for the export of natural gas from the Leviathan Project to NEPCO.
As of June 30, 2023, the activity of the Marketing Company does not affect the Partnership's financial results.

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

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

**Note 1 – General** (Cont.):

**E. The Russia-Ukraine war**

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

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

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

**A.** The Group's financial information as of June 30, 2023 and for the 6- and 3-month interim periods then ended (the "**Interim Financial Information**") was prepared in accordance with IAS 34 "Interim Financial Reporting" ("**IAS-34**") and in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The Interim Financial Information does not include all of the information and disclosures required in annual financial statements. The Interim Financial Information should be read in conjunction with the annual financial statements for 2022 and the notes attached thereto (the "**Annual Financial Statements**"), which comply with the International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (the "**IFRS**"), and include the additional disclosure required pursuant to the Securities Regulations (Annual Financial Statements), 5770-2010.

The Interim Financial Information is reviewed and unaudited.

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

**B. Functional currency and presentation currency**

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

**C. Estimates and judgements**

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

In the preparation of these condensed consolidated interim financial statements, the significant judgements exercised by the management in the application of the Group's accounting policy and the uncertainty entailed by the key sources of the estimates were identical to those in the Annual Financial Statements, other than:

Estimate of current maturities of loans from banking corporations.

The timing and the amount of repayment of the loans from banking corporations (the "**Loans**") are based on an assessment by the Partnership's management of the available cash flow to be used for repayment of the Loans according to the cash sweep mechanism, in accordance with the terms of the Partnership's loan agreement, as stated in Note 5A below. Such amounts and the classification thereof are checked periodically for a review of the adequacy of the assessment.

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

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

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

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

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

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

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

**Note 3 – Significant Accounting Policies**

The significant accounting policies and calculation methods that were applied in the preparation of the Interim Financial Information are consistent with those used in the preparation of the Annual Financial Statements, other than the provisions of Section B below.

**A. Income Taxes**

Taxes on income for interim periods are recognized based on the management's best estimate with respect to the average tax rate applicable to the total projected annual income.

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

**1.** Amendments to existing standards which took effect and are binding starting from 2023:

a. Amendment to IAS 1 "Presentation of Financial Statements" – on Disclosure of Accounting Policies (the "**Amendment to IAS 1**")

The Amendment to IAS 1 requires companies to disclose their material accounting policies, in lieu of their significant accounting policies. According to the Amendment to IAS 1, information about the accounting policy is material if, when taken into account together with another information presented in the financial statements, it is reasonably expected to affect decisions made by the primary users of the financial statements based on such financial statements.

**Note 3 – Significant Accounting Policies** (Cont.)**:**

The Amendment to IAS 1 also clarifies that information on the accounting policy is expected to be material if, without it, the users of the financial statements will not be able to understand other material information in the financial statements. . In addition, the Amendment to IAS 1 clarifies that there is no need to disclose information on an immaterial accounting policy. However, insofar as such information is provided, it should not distract users from material information on an accounting policy.

The Amendment to IAS 1 applies to annual periods beginning on or after January 1, 2023. The Group is preparing to apply the Amendment to IAS 1 to the disclosure given on its accounting policy in the annual consolidated financial statements for 2023.

b. Amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Error - on the definition of accounting estimates (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.

According to the provisions of the Amendment to IAS 8, the amendment was applied prospectively commencing on January 1, 2023. Initial application of the Amendment to IAS 8 had no material effect on the Group's consolidated financial statements.

**2.** New standards and amendments to existing standards that have not yet taken binding effect and with respect to which the Group has not chosen early application:

In the Group's Annual Financial Statements, information was provided regarding amendments to existing standards that have not yet taken binding effect and with respect to which the Group has not chosen early application.

As of the date of approval of these financial statements, there are no new standards or amendments to existing standards that were not presented in the Group's Annual Financial Statements.

**Note 4 – Investments in Oil and Natural Gas Assets**

**Developments in the Leviathan Leases**

**A.** Further to Note 8C3(f) to the Annual Financial Statements regarding the decision to drill the Leviathan-8 development and production well in the area of the I/14 Leviathan South lease, as of the date of approval of the financial statements, the connection and completion of the well to the existing subsea production system of the Leviathan Project were completed, and in June 2023 a regular production from the well has begun according to the timetables and on budget. The costs of the drilling, as of the date of the financial statements, totaled approx. $187.5 million (100%, the Partnership's share – approx. $28.1 million).

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

**B.** Further to Note 25C5(l) to the Annual Financial Statements regarding the engagement with INGL for the construction of the Ashdod-Ashkelon combined section, on February 26, 2023, Chevron received a letter from INGL, whereby due to a malfunction in a ship carrying out infrastructure work for the laying of a subsea pipeline for INGL in the combined section, and further to a preliminary assessment received by INGL 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. INGL'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 Chevron 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. As of the date of approval of the financial statements, in June 2023, INGL reported the completion of ~90% of the works on the Ashdod and Ashkelon shores. In addition, INGL reported the planned resumption of the laying of the subsea pipeline during August 2023 and a forecast for the commencement of gas flow in December 2023.

**C.** Further to Note 25C8 to the Annual Financial Statements regarding an 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:

1) The Sellers undertook to supply to PAR the condensate produced from the Leviathan Reservoir, which will be transported through systems of Energy Infrastructures Ltd. (“**PEI**”).
2) 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 provisions as customary in agreements of this kind.
3) 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 December 2023, subject to fulfillment of the closing conditions in the transportation agreement.
4) 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.

**D.** Further to Note 8C5 to the Annual Financial Statements regarding a project which mainly involves laying a third subsea transmission pipeline from the production wells in the Leviathan field to the platform (the “**Project**”), which will make it possible to increase the maximum capacity for gas supply from the Leviathan Project to the INGL transmission system from ~1.2 BCF/d to ~1.4 BCF/d, starting from mid 2025, on June 29, 2023, the partners in the Leviathan Project adopted an FID (Final investment Decision) to perform the Project which mainly involves laying a third subsea transmission pipeline from the production wells in the Leviathan field to the platform, with a total budget of approx. $568 million (100%, the Partnership’s share – approx. $85 million). Out of such budget, by the date of approval of the financial statements, the partners in the Leviathan Project approved approx. $208 million (100%, the Partnership’s share – approx. $31 million). In the Partnership’s estimation, it will finance its share in such budget from its internal sources and current cashflows.

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

**E.** Further to Note 8C5 to the Annual Financial Statements, in the context of examination of the natural gas marketing alternatives in Phase I – Second Stage, and the Leviathan partners' preparation for each one of them, including the construction of an FLNG facility, on June 21, 2023, the partners in the Leviathan Project submitted an application to the Petroleum Commissioner in the Ministry of Energy and Infrastructures for approval of the export of natural gas from the Leviathan Project via an FLNG facility and via (existing and future) regional pipelines. As of the date of approval of the financial statements, no response has yet been received from the Ministry of Energy and Infrastructure and there is no certainty that the application will be granted, and if it is granted, under what terms and conditions.

**F.** Further to Note 25C3 to the Annual Financial Statements, regarding an agreement for the sale of natural gas to NEPCO, on July 3, 2023, the parties to the agreement agreed on an increase in the natural gas quantities to be supplied to NEPCO on a firm basis, temporarily, in relation to several months in 2023-2024, and that the minimum annual quantity that NEPCO undertook to take or pay for (Take or Pay) during 2023-2024 will increase accordingly. For the avoidance of doubt, it is clarified that the aforesaid does not change the total supply volume under the said export agreement (approx. 45 BCM).

**G. Update of evaluations 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 to be produced through the Leviathan Project's facilities, including the Third Pipeline project's facilities, is classified 'on production', and the Leviathan Reservoir also has natural gas and condensate contingent resources, which are classified as a project at a maturity stage of development pending.

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 IA | 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 |

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

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 1 - First Stage stated above) and on the signing of additional agreements for the sale of natural gas .

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

**H. Reserves and contingent resource evaluations of natural gas and condensate**

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

**Note 5 – Financing of the Leviathan Project**

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

**A. Loans from banking corporations**

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

As of June 30, 2023, the Partnership is in compliance with all financial covenants assumed thereby under the loan agreement, and whose highlights were specified in the Annual Financial Statements.

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

As of June 30, 2023 and as of the date of approval of the financial statements, the loan amounts that have been drawn down from the loan facility total $500 million. See Note 9C below for details on the fair value of the loan.

Further to Note 11A2(d) to the Annual Financial Statements regarding an amendment to the loan agreement of August 1, 2022, use of the LIBOR interest rate was terminated on June 30, 2023, such that as of the next interest payment date, the loan is linked to the TERM SOFR interest which is published by an authorized body, the CME GROUP (Chicago Mercantile Exchange) plus a credit margin. This loan is a forward-looking periodic interest which is based on the SOFR interest. 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.

Further to Note 11A2(e) to the Annual Financial Statements, regarding hedging transactions entered into by the Partnership in connection with the TERM SOFR interest:

1. In May 2023, the Partnership entered into an IRS hedging transaction in the sum of $100 million starting from January 16, 2024 until July 15, 2027. The interest rate is fixed at 2.917% rather than variable (TERM SOFR interest). (The hedging transaction was made through Leviathan Development, which provides the loan to the Partnership on back-to-back terms).
2. In July 2023, the CAP options for the hedging of $150 million, which were purchased by the Partnership in Q1/2022, expired.

According to the cash sweep mechanism described in Note 11A2(C) to the Annual Financial Statements, from 2024, repayment of amounts on account of the principal at variable rates will be carried out in accordance with specific debt coverage ratios (DSCR above 1.3 – 25%, below 1.3 – 40%), out of an adjusted cash balance as of the end of each quarter in accordance with the mechanism specified in the agreement (DSCR Cash Sweep). The debt coverage ratio is calculated as a ratio between the operating cash flow before the debt service cost and the debt service costs (principal, interest and fees) for the last 12 months. Accordingly, as of June 30, 2023, the Partnership's management estimated that during the 12 months from the balance sheet date (namely, by June 30, 2024), out of the outstanding loans from banking corporations, repayments will be made in the sum of approx. $11.2 million that are classified in the Consolidated Condensed Statement of Financial Position under current liabilities, under current maturities of loans from banking corporations item.

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

**B. Buy-back of bonds**

As part of the process of reducing the Partnership's debts, on March 28, 2023 the GP's board approved to purchase 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 were and 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.

During Q1/2023, the Partnership purchased par value 4,659,575 of Series C Bonds of Ratio Financing (constituting 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).

The 'short-term deposits' item presented in the Consolidated Condensed Statement of Financial Position is partially intended to serve for the bond purchasing as aforesaid.
The 'current maturities of bonds' and 'interest payable' items that are included in the Statement of Financial Position are presented net of the bonds that were purchased as aforesaid.

**Note 6 – Related Parties**

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

| | 6 months ended June 30 | | 3 months ended June 30 | | Year ended Dec. 31, |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| | (Unaudited) | | | | (Audited) |
| | $ in thousand | | | | |
| Operator fees to the GP | 570 | 570 | 285 | 285 | 1,140 |
| Geological advice | 48 | 72 | 12 | 36 | 144 |
| Overriding royalties | 8,948 | 8,100 | 4,126 | 3,669 | 18,795 |
| Director fees and related expenses | 187 | 233 | 75 | 95 | 466 |
| Fees to and expenses of the LP, the trustee | 1 | 1 | * | * | 2 |

* An amount less than $1 thousand.

Short-term deposits in the Condensed Consolidated Statement of Financial Position are partially used for the purchase of bonds of Ratio Financing, for the Partnership, in accordance with the resolution of the GP's board. See also Note 5B above.

**Note 7 – Contingent Liabilities**

**Legal Proceedings**

**A.** Motion for class certification – Sapir v. Ratio Oil Exploration (1992) Limited Partnership

Further to Note 25D2 to the Annual Financial Statements regarding a motion for class certification filed by a holder of participation units (the "**Petitioner**"), a complaint and a motion for class certification thereof regarding an alleged breach of the duty of disclosure regarding the agreement with Dolphinus Holdings Limited (now Blue Ocean), in June 2023 a first trial hearing was held, in which the Petitioner's witnesses were cross-examined. Another trial hearing for cross-examination of the Respondents' witnesses is scheduled for October 2023.

As of the date of approval of the financial statements, the Partnership, based on the assessment of its legal counsel, estimates that the certification motion has a higher chance of being denied than granted.

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

Further to Note 25D3 to the Annual Financial Statements, regarding the claim of the Fields partnership, on April 27, 2023, the plaintiff filed a motion for leave to file a motion for discovery and inspection of documents from a petition for approval of a derivative claim, specified in Section (B) below. After the filing of a response to the motion by the Fields partnership's defendants, the court issued its decision, granting the motion, while emphasizing that the granting of the motion does not derogate from claims made by the Fields partnership's defendants, whereby the transcripts of the witnesses' examinations in the Langotzky claim are inadmissible and carry no evidential weight.

Further to Note 25D4 to the Annual Financial Statements, regarding the consolidation of the hearings in the Fields company claim with the Fields partnership claim, during the pretrial hearing that was held in May 2023, dates were scheduled for trial hearings, and it was further ruled that for the time being there is no room to appoint a court expert. However, considering the difficulty in finding an appropriate expert, the court ordered the parties to cooperate and start looking for a potential expert.

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

**C.** Nof v. Rotlevy - Motion for approval of a derivative suit

Further to Note 25D7 to the Annual Financial Statements, regarding a motion for approval of a derivative suit on behalf of Ratio partnership, in March and April 2023, the parties filed motions and responses with respect to the witnesses and the revisit. As of the date of approval of the financial statements, the matter has not yet been decided.

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 for approval of a derivative suit being granted. However, based on the information that the Partnership and its legal counsel currently have in their possession, as of the date of approval of the financial statements, the chances of the claim being accepted are lower than the chances of the claim being denied.

**Note 7 – Contingent Liabilities** (Cont.):

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

1. Further to Note 25D8(a) to the the Annual Financial Statements regarding a class certification motion which was filed by a resident of the Dor Beach area on behalf of "anyone who was exposed to the air, marine and coastal pollution due to prohibited emissions from the gas platform which is operated by the respondents in the sea, located offshore Dor Beach, and treats the Leviathan natural gas reservoir, in the period from commencement of the platform's activity in December 2019 until a judgment is issued in the claim", in July 2023, the petitioner filed the closing statements on his behalf, and according to the court's decision, Chevron is required to file its closing statements by October 31, 2023.

   The lawyers representing Chevron estimate that the chances of the certification motion being granted are lower than 50%.

2. Further to Note 25D8(b) to the Annual Financial Statements regarding a claim filed by Haifa Port Company Ltd. ("**Haifa Port**") against Chevron, Coral Maritime Services Ltd. and Gold-Line Shipping Ltd., on April 3, 2023, Haifa Port filed a motion for summary dismissal of the counterclaim. According to Haifa Port there is no privity between Haifa Port and Chevron, since the invoices and the mooring fees were paid by the ship agent. Chevron filed an answer to the motion for summary dismissal, rejecting the claims asserted therein. On June 21, 2023, the court denied the motion for summary dismissal and ruled that the hearing of the claim will proceed. In addition, the court awarded costs against Haifa Port for filing the motion. Despite the attempt to reach agreements, the parties filed mutual motions regarding the preliminary proceedings. The parties filed answers to these motions and they were heard in a pretrial in June 2023. In July 2023, the court dismissed the motions filed by the parties and decided that no party is required to file supplementations in the context of the preliminary proceedings. The last pretrial hearing was scheduled for January 24, 2024, after the filing of affidavits in lieu of direct testimony.

   At this preliminary stage, the lawyers representing Chevron are unable to estimate the chances of the claim and the counterclaim. However, according to the lawyers representing Chevron, it is more likely that the primary claim be dismissed than accepted.

3. Further Note 25D8(f) to the Annual Financial Statements regarding a hearing that was held before the MoEP for non-compliance with the terms and conditions of the Leviathan Project's sea discharge permit and violation of the Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988 (the "**Sea Pollution Prevention Law**"), on August 2, 2023 the operator received a notice from the MoEP of its intention to impose a financial penalty in the sum of approx. ILS 2.9 million (100%, the Partnership's share – ILS 0.4 million) due to such violation, following the hearing that was held on January 6, 2022.

   The operator is required to submit its response to the notice within 30 days from receipt thereof, namely by September 3, 2023. At this stage it is impossible to estimate the chances of reducing the financial penalty or cancelling any of the penalty's components.

**Note 7 – Contingent Liabilities** (Cont.):

In addition, on August 6, 2023, the operator received a letter of notice and summons to a hearing before the MoEP for non-compliance with the terms and conditions of the sea discharge permit granted to the Leviathan platform and violation of the Sea Pollution Prevention Law. The summons to the hearing claims that the operator discharged prohibited wastewater into the sea. It is impossible to estimate at this stage whether financial penalties will be imposed on the operator following the hearing.

On August 6, 2023, the operator also received a letter of notice and summons to a hearing before the MoEP for non-compliance with the terms and conditions of the toxins permit granted to the Leviathan platform and violation of the Hazardous Substances Law, 5753-1993. The summons to the hearing claims that the operator stored the diesel fueling hose in violation of the terms of the toxins permit. It is impossible to estimate at this stage whether financial penalties will be imposed on the operator following the hearing.

**Note 8 – Additional Information:**

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

**A. Royalties**

Further to Note 18 to the Annual Financial Statements, the Partnership records in its financial statements expenses for the state royalties according to a rate of 11.26% (according to the Ministry of Energy's demand regarding payment of royalty advances). However, it is the Partnership's position that a calculation of the actual rate of the state 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. According to a calculation based on the principles of the Specific Instructions released for the Leviathan lease further to Note 18 to the Annual Financial Statements, the Partnership estimates that the actual rate of the state royalty should be approx. 10.72% and approx. 10.93% in the 6 months ended on June 30, 2023 and in the year ended December 31, 2022, respectively. 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. $4.8 million and was included in the Condensed Consolidated Statement of Financial Position under the 'other long-term assets, net' item as of June 30, 2023.

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. 5.14% and approx. 5.25% in the 6 months ended June 30, 2023 and in the year ended December 31, 2022, respectively.

The aggregate difference between the overriding royalties actually paid and the effective overriding royalty rate as aforesaid, totaled approx. $2.3 million and was included in the Condensed Consolidated Statement of Financial Position under 'other long-term assets, net' item as of June 30, 2023.

**Note 8 – Additional Information:** (Cont.)

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.

**B. Shelf prospectus**

On May 23, 2023, the Partnership released a shelf prospectus for a public offering of securities. The issuance of securities of the Partnership according to the shelf prospectus and the listing thereof, are subject to the receipt of the approvals required by law and shall be according to the shelf prospectus reports, to the extent released.

**C. Profit distribution**

1. On March 28, 2023, the GP's board approved a profit distribution in the sum of $35 million, while the effective date for distribution is April 10, 2023. Such profit distribution was on April 24, 2023.
2. On August 23, 2023, the GP's board approved an (interim) profit distribution in the sum of $30 million, while the effective date for distribution is August 31, 2023. Such profit distribution will be made on September 14, 2023.

**D.** On May 2, 2023, the Ministry of Energy published for public comment a draft policy document on decommissioning of offshore oil and natural gas exploration and production infrastructures (the "**Draft Policy**"). The purpose of the Draft Policy is to outline general principles with regard to decommissioning of offshore oil and natural gas exploration and production infrastructures, without derogating from the provisions of the law applicable in this regard and the provisions of the lease deeds and operation permits. The Draft Policy offers, among other things, rules, standards and time frames for the decommissioning of drilling and production facilities as well as the abandonment of subsea infrastructures and pipelines that are no longer in use, according to, *inter alia*, the location of said facilities in the deep sea or on the bottom of or below the seabed. The Leviathan partners transferred their comments on the Draft Policy to the Ministry of Energy. To the extent that the requirements in the Draft Policy are approved, this is expected to increase the decommissioning costs in the Partnership's assets. As of the date of approval of the financial statements, the Partnership continues to examine the provisions of the Draft Policy and its effect on the volume of the decommissioning costs as aforesaid, if applied.

**Note 8 – Additional Information:** (Cont.)

**E.** Further to Note 25G2 to the Annual Financial Statements, regarding the Leviathan partners' consideration of investments in onshore infrastructure facilities, for the purpose of transmitting additional quantities of natural gas to customers in the regional markets, including the export of natural gas through the Jordan Valley terminal ("**Jordan North**") and through a new onshore connection that INGL is planning to build between the Israeli transmission system and Egypt in the Nitzana area, which includes, *inter alia*, the construction of a compressor station near Ramat Hovav and a pipeline section from this area to the Egyptian border in Pithat Nitzana (the "**Nitzana Pipeline**"), in June 2023 the Leviathan partners approved a preliminary budget for technical design and preliminary procurement for the Leviathan partners' share for Jordan North and for the Nitzana Pipeline in order to meet short timeframes, prior to making final investments decisions (FID) for one of the following alternatives:

1. A budget for technical design and preliminary procurement in the sum of approx. $10.2 million (100%, the Partnership's share – approx. $1.53 million) for the construction of a compressor station and further related work on the Jordanian side, to increase the total capacity of export from Jordan North to Egypt, according to Chevron's estimate, from ~6.5 BCM to ~10.5 BCM.

2. A budget for technical design and preliminary procurement in the sum of approx. $3.5 million (100%, the Partnership's share – approx. $525 thousand) for the Nitzana Pipeline which is expected, according to Cheron's estimate, to increase the total capacity of natural gas export from Israel to Egypt by another ~6 BCM.

Regarding the publication of the Natural Gas Authority dated March 28, 2023, with a call to any interested party to present an offer or position to the Natural Gas Council (the "**Council**") on the issue of financing of and space allocation in all of the export lines using the Israeli transmission system, as well as the planned "Ramat Hovav-Nitzana line" and part of the additional future capacity in the Jordan North line, on May 7, 2023 the Leviathan partners submitted to the Council their comments on the decision draft. On August 9, 2023, the Gas Authority released its decision. The Partnership is studying the decision of the Natural Gas Authority and its expected impact on the performance of the two projects, as aforesaid.

**F.** Further to Note 15E to the Annual Financial Statements, regarding the tax report submitted by the Partnership for Y2021, under which the Partnership had no taxable income, on May 8, 2023 a tax refund was received for the corporate tax advances paid for Y2021, as stated in Note 15G1 to the Annual Financial Statements.

**G.** On December 13, 2022, the Ministry of Energy announced a fourth competitive process for receipt of licenses for natural gas exploration in Israeli waters (the "Fourth Process"), the purpose of which, as announced by the Ministry of Energy, is to increase the certainty of the supply of natural gas to the Israeli market and to increase competition between natural gas suppliers, in the context of which 4 zones of exploration licenses will be offered. In some of the zones, exploration licenses have already been given in the past, and seismic surveys and other exploration activities have already been performed, which attest to a possible potential for discovery of hydrocarbon reservoirs. On July 16, 2023, the Partnership submitted an offer, as part of a consortium, in the framework of the Fourth Process. This is an initial stage and there is no certainty that the consortium will win the process. In the event that the consortium wins any exploration licenses in the context of such process, the Partnership will report the same and act to obtain all approvals required by law, including the approval of the general meeting of the holders of the Partnership's participation units.

**Note 9 – Financial Instruments and Financial Risks**

**A. Fair value disclosures**

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

| | June 30, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $ in thousands | | | |
| **Assets:** | | | | |
| Financial assets at fair value through profit and loss: | | | | |
| Financial assets at fair value through profit or loss | 14,042 | - | - | 14,042 |
| Financial assets at fair value through profit or loss - investment in Ratio Petroleum | 3,658 | - | - | 3,658 |
| Derivative financial assets | - | 9,770 | - | 9,770 |
| **Total assets** | 17,700 | 9,770 | - | 27,470 |

| | June 30, 2022 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $ in thousands | | | |
| **Assets:** | | | | |
| Financial assets at fair value through profit and loss: | | | | |
| Financial assets at fair value through profit or loss | 13,985 | - | - | 13,985 |
| Financial assets at fair value through profit or loss - investment in Ratio Petroleum | 4,227 | - | - | 4,227 |
| **Total assets** | 18,212 | - | - | 18,212 |

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $ in thousands | | | |
| **Assets:** | | | | |
| Financial assets at fair value through profit and loss: | | | | |
| Financial assets at fair value through profit or loss | 24,966 | - | - | 24,966 |
| Financial assets at fair value through profit or loss - investment in Ratio Petroleum | 4,153 | - | - | 4,153 |
| Derivative financial assets | - | 7,884 | - | 7,884 |
| **Total assets** | 29,119 | 7,884 | - | 37,003 |

**Note 9 – Financial Instruments and Financial Risks** (Cont.)

During the 6- and 3-month periods ended June 30, 2023, and the 12-month period ended December 31, 2022, no transfers were made between Level 1 and Level 2.

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

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

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

The book value of the financial assets and the financial liabilities as of June 30, 2023, including cash and cash equivalents, other receivables, short-term investments, short-term deposits, trade payables, other payables and other liabilities, with the exception of liabilities in respect of bonds and loans from corporations, is consistent with or reasonably proximate to the fair value thereof.

The fair value of liabilities in respect of the bonds and loans from banking corporations is specified below:

| | As of June 30 | | As of Dec. 31 |
|---|---|---|---|
| | 2023 | 2022 | 2022 |
| | (Unaudited) | | (Audited) |
| | $ in thousands | | |
| **Fair value:** | | | |
| Series B Bonds* | - | 123,641 | - |
| Series C Bonds** | 64,267 | 132,668 | 63,572 |
| Series D Bonds | 86,368 | 89,829 | 86,309 |
| Loans from banking corporations | 533,149 | 506,032 | 554,118 |
| **Total** | 683,784 | 852,170 | 703,999 |

* Series B Bonds were fully redeemed on November 6, 2022.
** Net of Series C Bonds that were purchased by the Partnership. See also Note 5B above.

**D. Management of financial risks**

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

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

**Note 10 – Subsequent Events**

**A. Increase in the natural gas quantities to be supplied to NEPCO on a firm basis**

See Note 4F for subsequent development.

**B. Expiration of CAP options**

See Note 5A for subsequent development.

**C. Motion for class certification which was filed by a resident of the Dor beach area**

See Note 7D1 for subsequent development.

**D. Haifa Port against Chevron, Coral Maritime Services Ltd. and Gold-Line Shipping Ltd.**

See Note 7D2 for subsequent development.

**E. Hearings before the MoEP for non-compliance with the terms and conditions of the sea discharge permit**

See Note 7D3 for subsequent development.

**F. (Interim) profit distribution**

See Note 8C for subsequent development.

**G. Decision of the Natural Gas Council**

See Note 8E for subsequent development.

**H. Submitting an offer for the Fourth Process**

See Note 8G for subsequent development.