



Ratio Energies

Financial Report 2023

As of December 31, 2023



Ratio Energies

Chapter A

Board of Directors report

Chapter B

Financial report

Chapter A

Board of Directors report



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

27 March 2024

Report of the Board of Directors of the General Partner
on the State of the Partnership's Business for the Year ended 31
December 2023

The board of directors of the general partner, Ratio Energies General Partner Ltd.¹ (the "**New General Partner**") 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 31 December 2023 and for the year then ended (the "**Report Period**"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Reports Regulations**").

The board of directors' report is an integral part of the periodic report for 2023 including all parts thereof. The entire periodic report should be read as a single whole.

The Partnership presents consolidated financial statements for 2023 (the "**Financial Statements**") which consolidate the financial statements of Ratio Financing and Leviathan Development.

As of 31 December 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 for export began such that from 2020, and for the first time since its establishment, the Partnership has significant revenues from the sales

¹ On 5 March 2024, the general meeting of the holders of the participation units approved amendments to the Partnership Agreement pursuant to which Ratio Energies Management Ltd. (the previous general partner) was replaced with a new general partner, Ratio Energies General Partner Ltd. (the "**General Partner**"), which is a special purpose subsidiary, wholly owned by the previous general partner. Also see Note 24C2 to the Financial Statements.



of natural gas to customers in the domestic market and in Jordan and Egypt. The Partnership holds 15% of the Leviathan Project.

During the Report Period, a total quantity of approx. 10.97 BCM of natural gas (100%) was sold from the Leviathan Reservoir. In addition, from the beginning of 2024 until shortly before the date of approval of the Financial Statements, approx. 2.5 BCM of natural gas was sold from the Leviathan Reservoir (100%). The Partnership's revenues in the Report Period totaled approx. \$362.3 million; the EBITDA in the Report Period totaled approx. \$246.6 million. For details regarding the results of operations, see Section 1.1 below.

On 27 March 2024, the board of directors of the General Partner approved a profit distribution in the total sum of \$30 million that was added to the approval of the (interim) profit distribution in the total sum of \$30 million on 23 August 2023, based on the Partnership's financial results for 2023.

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

On 29 October 2023, the Partnership received a notice from the Petroleum Commissioner whereby the Partnership, together with its partners, ENI East Med BV and Dana Petroleum (East Med) Limited have won the tender in six offshore exploration licenses in one zone, Zone G – which includes licenses 27, 28, 36, 37, 70, 74 (the "**Tender**"). The Tender was published in December 2022 by the Ministry of Energy in the context of a fourth competitive process for receipt of licenses for natural gas exploration in Israeli waters.

Further to the murderous attack committed by the Hamas terrorist organization on 7 October 2023 against communities and military bases in the south of Israel, the Israeli government declared the Iron Swords war against the aforementioned terrorist organization (the "**War**"). As of the date of approval of the Financial Statements, the War is ongoing and it cannot be foreseen how long it will last and what its impact on the Partnership will be. For additional details, see Note 1E to the Financial Statements.

Concurrently with the Partnership's activity in the field of exploration, development and production of natural gas and oil in Israel, and in view of an amendment to TASE Rules, enabling oil and gas partnerships to operate overseas as well, the Partnership began to examine the possibility of purchasing all of the participation units in the limited partnership Ratio Petroleum Energy – Limited Partnership ("**Ratio Petroleum**"), and turning it into a private limited partnership which is wholly owned by the Partnership.

The control holders of the general partner in Ratio Petroleum are the control holders of the General Partner in the Partnership.



As of the report date, the Partnership holds 20% of the participation units of Ratio Petroleum, and in view of the developments in Ratio Petroleum's business, the management of the Partnership deems that increasing the aforesaid investment up to a full purchase is a good business opportunity. In the context of the aforesaid examination, the Partnership is exploring the possibility of performing the aforesaid purchase by way of a full tender offer for Ratio Petroleum's participation units, at a price and on a date yet to be determined. It is hereby clarified that as of the date of approval of the Financial Statements, this possibility is merely being explored and there is no certainty that it will materialize.

It is clarified that the making of a tender offer for the participation units in Ratio Petroleum (if made) is contingent, *inter alia*, on the receipt of any and all approvals required therefor by law, including approval from the audit committee, the board of directors and the general meeting of the holders of the participation units of the Partnership, and on the amendment of the Partnership Agreement, in such manner as will enable operations overseas and holding the petroleum assets of Ratio Petroleum. In addition, a full tender offer requires acceptance by more than 95% of the holders of the participation units in Ratio Petroleum.

For the avoidance of doubt, is clarified that nothing in the aforesaid creates a commitment of any kind on the part of the Partnership to perform the purchase as aforesaid.

It is clarified that the aforesaid constitutes forward-looking information within its meaning in the Securities Law 5728-1968, which is uncertain and based on the plans of the Partnership's management on the date of this report and it may not materialize and/or materialize in a different manner, including materially, *inter alia*, as a result of market conditions and/or the obtaining of required approvals.

It is clarified that as of the date of approval of the Financial Statements, there is no certainty regarding whether and when the move of the above-described change will be completed and what its precise phases and performance timetables will be.

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



1. Results of operations and financial position

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

	<u>1-3/2023</u>	<u>4-6/2023</u>	<u>7-9/2023</u>	<u>10-12/2023</u>	<u>2023</u>	<u>10-12/2022</u>	<u>2022</u>
Revenues							
From natural gas sales	93.0	83.2	94.6	91.5	362.3	95.6	380.0
Net of royalties	(14.9)	(12.7)	(15.1)	(14.5)	(57.2)	(15.5)	(58.0)
Net revenues	78.1	70.5	79.5	77.0	305.1	80.1	322.0
Expenses and costs							
Cost of natural gas and condensate production	(11.6)	(11.1)	(12.5)	(12.5)	(47.7)	(11.3)	(42.6)
Depreciation and amortization expenses	(6.7)	(6.5)	(7.2)	(6.2)	(26.6)	(7.6)	(29.7)
oil and gas exploration costs	(*)	(*)	(*)	(1.2)	(1.2)	*	(0.1)
G&A expenses	(2.3)	(2.2)	(2.3)	(2.8)	(9.6)	(3.1)	(9.5)
Operating income	57.5	50.7	57.5	54.3	220.0	58.1	240.1
Net financing expenses	(13.5)	(9.2)	(11.5)	(19.4)	(53.6)	(15.8)	(43.4)
Profit before taxes on income	44.0	41.5	46.0	34.9	166.4	42.2	196.7
Taxes on income	(11.0)	(10.0)	(12.2)	(6.4)	(39.6)	(11.5)	(47.2)
Profit and other comprehensive income for the period	33.0	31.5	33.8	28.5	126.8	30.7	149.5
Sales of natural gas in BCM ²	2.83	2.50	2.89	2.75	10.97	2.84	11.38
Condensate production in Israel barrels in thousands ³	222.52	199.61	233.29	218.23	873.65	225.88	901.53

*Represents an amount lower than \$100 thousand.

1.1.1 **Net revenues** – Revenues from the sale of natural gas in the Report Period totaled approx. \$362.3 million compared with approx. \$380.0 million in the same period last year, a decrease of approx. 4.7%. The decrease between the periods derives mainly from the decrease in the quantities of the natural gas that were sold from the Leviathan Reservoir, from a quantity of approx. 11.4 BCM (100%) in the same period last year to a quantity of approx. 10.97 BCM (100%) in the Report Period, and from the decrease in the prices of the natural gas sold in the export markets, which is partially linked to the price of a Brent type barrel.

Revenues from the sale of natural gas amounted in Q4/2023 to approx. \$91.5 million compared with approx. \$95.6 million in the same period last year, a decrease of approx. 4.3%. The decrease between the periods derives mainly from the decrease in the quantities of the natural gas that were sold from

²The data refers to sales of natural gas from the Leviathan Project (100%), rounded off to two digits after the decimal point.

³The data refers to the production of condensate from the Leviathan Project (100%) rounded off to thousands of barrels, also see Note 25C6 and 25C8 to the Financial Statements regarding agreements in connection with the sales of condensate from the Leviathan Reservoir.



the Leviathan Reservoir, from a quantity of approx. 2.84 BCM (100%) in the same period last year to a quantity of approx. 2.75 BCM (100%) in Q4/2023, and from the decrease in the prices of the natural gas sold in the export markets, which is partially linked to the price of a Brent type barrel.

Total royalties include royalties to the State and overriding royalties in accordance with the Partnership Agreement. From the date of commencement of the supply of gas from the Leviathan Reservoir, the Leviathan Partners make 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%. On 29 October 2023, a notice was received from the Ministry of Energy, whereby the rate of the advance payments on account of the State's royalties due to the revenues from the Leviathan Project in 2023 will be reduced from 11.26% to 11.06% effective from the beginning of 2023. On 8 January 2024, a notice was received from the Ministry of Energy, whereby the rate of the advance payments on account of the State's royalties due to the revenues from the Leviathan Project in 2024 will remain at the rate of 11.06%. Accordingly, the rate of the advance payments on account of the overriding royalties will be reduced to approx. 5.31%⁴. For additional details regarding the royalties see Note 18 and Note 24C to the Financial Statements.

Expenses due to the royalties amounted in the Report Period to approx. \$57.2 million compared with approx. \$58.0 million in the same period last year. The decrease between the periods derives from the decrease in the revenues from the sale of natural gas, and from the decrease in the rate of the advance payments approved by the Ministry of Energy as aforesaid. Such decrease was offset against the adjustment made by the Partnership in the same period last year to the royalties expenses for them to reflect the specific provisions regarding the method of calculation of the royalty value at the wellhead for the Leviathan Project which were published by the Natural Resources Administration at the Ministry of Energy on 24 July 2022 (such adjustment was made for the royalties expenses of the Partnership, starting from the date of commencement of

⁴ The royalty rates may be different as a result of deduction of expenses for the gas transmission and treatment systems up to the actual delivery points. The method of calculation of the said overriding royalties rate is done in accordance with the principles according to which the State royalties for the project are calculated, and therefore the said rate may change insofar as the method of calculation of the State royalties changes. For further details, see Note 18 and Note 24C to the Financial Statements.



supply of the natural gas from the Leviathan Reservoir and until such adjustment date). As aforesaid, in view of the specific instructions from the State.

Expenses due to the royalties amounted in Q4/2023 to approx. \$14.5 million compared to approx. \$15.5 million in the same period last year. The decrease between the periods derives from the decrease in the revenues from the sale of natural gas, and from a decrease in the rate of the advance payments approved by the Ministry of Energy, as aforesaid.

Below is a breakdown of the quantities of the natural gas⁵ sold from the Leviathan Reservoir in the Report Period according to the customers' geographic location:

	For the year ended 31 December 2023				
	BCM				\$/MMBTU
	Israel	Jordan	Egypt	Total	Average Price ⁶
Q1	0.66	0.66	1.51	2.83	6.09
Q2	0.28	0.57	1.65	2.50	6.14
Q3	0.37	0.80	1.72	2.89	6.06
Q4	0.74	0.65	1.36	2.75	6.17
Total/Average	2.05	2.68	6.24	10.97	6.11

	For the year ended 31 December 2022				
	BCM				\$/MMBTU
	Israel	Jordan	Egypt	Total	Average Price ⁶
Q1	0.89	0.67	1.16	2.72	5.59
Q2	0.85	0.63	1.32	2.80	6.40
Q3	1.18	0.70	1.14	3.02	6.47
Q4	0.85	0.71	1.28	2.84	6.25
Total/Average	3.77	2.71	4.90	11.38	6.19

1.1.2 **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, environmental protection, insurance and the cost of transmission of natural gas to Egypt. The cost of gas and condensate production in the Report Period totaled approx. \$47.7 million, compared with approx. \$42.6 million in the same period last year, an increase of approx. 12%. The increase between the periods mainly derives from an increase in transportation and shipping expenses due to transmission of

⁵The data refers to sales of natural gas from the Leviathan Project (100%), rounded off to two digits after the decimal point.

⁶ Price per MMBTU in dollars rounded-off to 2 digits after the decimal point.



gas to Egypt which derived from the increase in sales of the natural gas to Egypt, that was offset by a decrease in the expenses of payroll and management of the operation and maintenance expenses.

In Q4/2023, the cost of natural gas and condensate production totaled approx. \$12.5 million compared with approx. \$11.3 million in the same quarter last year. The increase in the period derived from the reasons specified above.

1.1.3 **Depreciation and amortization expenses** in the Report Period totaled approx. \$26.6 million, compared with approx. \$29.7 million in the same period last year. In Q4/2023, depreciation and amortization expenses totaled approx. \$6.2 million compared with approx. \$7.6 million in the same period last year. The expenses mainly reflect the depreciation depletion expenses for the investments in the development of the Leviathan gas reservoir and depreciation expenses for other long-term assets. The decrease in depreciation and amortization expenses derives mainly from the decrease in the quantities of natural gas sold from the Leviathan Reservoir between the periods.

1.1.4 **Oil and gas exploration expenses** in the Report Period totaled approx. \$1.2 million compared with expenses of approx. \$0.1 million in the same period last year. The increase between the periods derives mainly from winning the Cluster G licenses in the fourth tender. For further details, see also Note 8E to the Financial Statements.

1.1.5 **G&A expenses** in the Report Period totaled approx. \$9.6 million, compared with approx. \$9.5 million in the same period last year. G&A expenses in Q4/2023 totaled approx. \$2.8 million, compared with approx. \$3.1 million in the same quarter last year.

The expenses mostly consist of expenses in respect of professional services, legal expenses, payroll expenses, D&O insurance and management fees for the General Partner.

1.1.6 **Net financial expenses** in the Report Period totaled approx. \$53.6 million compared with net financial expenses of approx. \$43.4 million in the same period last year.

Below are the main changes in the 'net financial expenses' item in the Report Period compared with the same period last year:



- a. In the Report Period, the 'financial expenses' item included financial costs in connection with bonds and loans from banking corporations provided for financing of the Leviathan Leases in the amount of approx. \$60.9 million, compared with approx. \$42.0 million in the same period last year.
- b. Total financial costs, as provided in Section (a) above, include exchange rate differentials due to changes in the dollar exchange rate. Total income from exchange rate differentials due to the increase in the dollar exchange rate in the same period last year totaled approx. \$13.2 million. Revenues from exchange rate differentials as aforesaid, derived mainly from Series B bonds which were repaid during 2022.
- c. The Report Period saw an increase in the fair value of hedging transactions in which the Partnership engaged as part of the Partnership's risk management, in the amount of approx. \$3.4 million, compared with the amount of approx. \$8.0 million in the same period last year. For further details, see Note 11A5 to the Financial Statements.
- d. During the Report Period, the fair value of the Partnership's investments in securities decreased by approx. \$1.9 million compared with approx. \$3.4 million in the same period last year. The change mainly derives from a decrease in the fair value of the investment in Ratio Petroleum between the periods.
- e. During the Report Period, revenues of interest from deposits totaled approx. \$5.3 million compared with approx. \$1.0 million in the same period last year.
- f. During the Report Period, expenses of exchange rate differentials totaled approx. \$0.8 million, compared with expenses of exchange rate differentials of approx. \$6.9 million in the same period last year, due to changes in the dollar exchange rate.

Net financial expenses in Q4/2023 totaled approx. \$19.4 million compared with net financial expenses of approx. \$15.8 million in the same period last year.

Below are the main changes in the 'financing expenses, net' item in Q4/2023 compared with the same period last year:

- a. In Q4/2023, the fair value of hedging transactions in which the Partnership engaged in the context of the Partnership's risk management decreased by approx. \$4.5 million.
- b. In Q4/2023, financing costs were attributed to the 'financing expenses' item in relation to the bonds and loans from banking corporations that were provided for the benefit of financing the Leviathan Leases, in the amount of approx. \$15.5 million compared with approx. \$16.1 million in the same period last year.

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

- 1.1.7 **Taxes on income** totaled approx. \$39.6 million in the Report Period, compared with approx. \$47.2 million in the same period last year. The decrease derived from the decrease in the deferred taxes expenses which was offset against an increase in the current taxes expenses between the periods.

The decrease in the deferred taxes expenses mainly derives from the increase in the dollar exchange rate in 2022 (approx. 13%) compared with 2023 (approx. 3%). The increase in the current taxes expenses mainly derived from an increase in the dollar exchange rate that was offset against the decrease in profit before tax between the periods.

In Q4/2023, income tax expenses totaled approx. \$6.4 million compared with approx. \$11.5 million in the same quarter last year. The decrease mainly derived from the reasons specified above.

- 1.2 **Current assets** as of 31 December 2023 totaled approx. \$230.8 million, compared with a total of approx. \$232.9 million as of 31 December 2022.

- 1.2.1 Cash and cash equivalents as of 31 December 2023 totaled approx. \$87.5 million compared with approx. \$91.3 million as of 31 December 2022. The decrease mainly derives from payment of interest due to Series C and Series D bonds and due to loans from banking corporations in the amount of approx. \$56.7 million, repayment of principal of Series C and Series D bonds in

the amount of approx. \$69.9 million, investments and payments due to the Leviathan Project, deposits into short-term deposits and restricted deposits, and payment due to distribution of profits to holders of the participation units in the amount of approx. \$65 million. Conversely, the Partnership derived revenues from sale of natural gas from the Leviathan Project and revenues from tax advances paid for the holders of the participation units deriving from an update to the 2021 tax liability.

- 1.2.2 Financial assets at fair value through profit or loss as of 31 December 2023 amounted to approx. \$15.0 million compared with approx. \$25 million as of 31 December 2022. The decrease mainly derives from the sale of financial assets, net, in the amount of approx. \$10.6 million in the period.
- 1.2.3 Short-term deposits as of 31 December 2023 amounted to approx. \$50.7 million compared with approx. \$30.4 million as of 31 December 2022, which were partly designed to be used for the purchase of Ratio Financing bonds. The increase mainly derives from a net deposit into a deposit used to purchase Ratio Financing bonds and from depositing into other deposits.
- 1.2.4 Restricted deposits as of 31 December 2022 totaled approx. \$3.7 million, which were designed to be used for the purchase of Series C bonds of Ratio Financing. The deposits were repaid in Q3/2023 as part of the repayment of the last one third of the Series C bonds in August 2023, according to the terms and conditions thereof.
- 1.2.5 The balance of the Operator of the joint transaction as of 31 December 2023 totaled approx. \$7.3 million compared with approx. \$10.7 million as of 31 December 2022. The decrease mainly derives from a decrease in the debt balance of the Operator in the context of the joint transaction.
- 1.3 **Non-current assets** as of 31 December 2023 totaled approx. \$932.4 million, compared with approx. \$885.6 million as of 31 December 2022.

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

- 1.3.1 Net investments in oil and natural gas assets, excluding a retirement and disposal asset, total approx. \$815.4 million as of 31 December 2023, compared with approx. \$794.0 million as of 31 December 2022. The change in the Report Period derived mainly from investments in the Leviathan Project of approx. \$43.2 million (the majority of which in the Leviathan 8 well and



an investment in a third transmission pipeline). Conversely, the Partnership recorded depreciation and amortization expenses of approx. \$21.8 million.

- 1.3.2 A retirement and disposal asset presented under the 'net investments in oil and natural gas assets' item totaled approx. \$10.7 million as of 31 December 2023, compared with approx. \$9.8 million as of 31 December 2022. The increase mainly results from an update to the estimate of the retirement and disposal asset in the sum of approx. \$1.1 million following the Leviathan-8 well. Conversely, the Partnership recorded depreciation and amortization expenses of approx. \$0.2 million.
 - 1.3.3 Other long-term assets, net, totaled approx. \$72.2 million as of 31 December 2023, compared with approx. \$68.2 million as of 31 December 2022. The change in the Report Period derives mainly from: 1) Investment in the FAJR Plus project, condensate pipeline and the Nitzana Pipeline project in the sum of approx. \$5.6 million. 2) Increase in a royalty receivable asset in the Report Period in the sum of approx. \$2.1 million. Conversely, 3) Depreciation expenses due to the other long-term assets in the sum of approx. \$4.1 million in the Report Period.
 - 1.3.4 The Partnership holds 20% in the participation units of Ratio Petroleum. Such investment is classified as financial assets at fair value through profit or loss and is presented in the Financial Statements under non-current assets. The fair value of the investment as of 31 December 2023 is approx. \$1.6 million compared with approx. \$4.2 million as of 31 December 2022.
 - 1.3.5 Restricted deposits totaled approx. \$30.7 million as of 31 December 2023 compared with approx. \$6.5 million as of 31 December 31 2022. The increase mainly results from depositing the sum of approx. \$24.0 million in a reserve fund deposit for the benefit of the debt service of the bank loan due to payments of principal and interest for the six subsequent months, as required pursuant to the loan agreement.
 - 1.3.6 Derivative financial instruments totaled approx. \$1.6 million as of 31 December 2023 compared with approx. \$2.8 million as of 31 December 2022. Also see Note 11A5 to the Financial Statements.
- 1.4 **Current liabilities** as of 31 December 2023 total approx. \$82.8 million compared with approx. \$108.7 million as of 31 December 2022.

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

- 1.4.1 The provision for current taxes, net, totaled approx. \$12.2 million as of 31 December 2023. The balance is comprised mainly of a provision for current taxes, net, for 2022 in the sum of approx. \$3.6 million that was paid after the balance sheet date with the filing of the Partnership's 2022 tax report, and of a provision for current taxes for 2023 in the sum of approx. \$22.7 million, net of tax advances that were paid in 2023 in the sum of approx. \$13.8 million. The provision for current taxes totaled approx. \$3.7 million as of 31 December 2022. The balance is comprised of a provision for current taxes for 2022 net of tax advances paid in 2022.
- 1.4.2 Current maturities of bonds totaled approx. \$10.7 million as of 31 December 2023 compared with approx. \$72.5 million as of 31 December 2022. The decrease mainly derives from the repayment of the last one third of the Series C Bonds in August 2023, in accordance with their conditions. Also see Note 11B1B to the Financial Statements.
- 1.4.3 Current maturities of long-term loans from banking corporations totaled approx. \$18.1 million as of 31 December 2023, in accordance with the conditions of the loans as stated in Note 11A2 to the Financial Statements.
- 1.4.4 Amounts payable of the joint transaction as of 31 December 2023 totaled approx. \$23.4 million compared with approx. \$13.3 million as of 31 December 2022. The increase mainly derives from an increase in other payables in the context of the joint transaction.
- 1.5 **Non-current liabilities** as of 31 December 2023 totaled approx. \$656.6 million, compared with approx. \$659.4 million as of 31 December 2022.

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

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

- 1.5.1 A provision for an oil and natural gas asset retirement and disposal obligation as of 31 December 2023 totaled approx. \$14.2 million compared with approx. \$12.5 million as of 31 December 2022. The increase derives from an update to the retirement and disposal obligation for the Leviathan Project assets due to the lapse of time and the growth of the retirement asset.

- 1.5.2 Series D Bonds as of 31 December 2023 totaled approx. \$68.4 million compared with approx. \$80.1 million as of 31 December 2022. The decrease is mainly due to the repayment of 12% of the par value of the Series D Bonds in October 2023, in accordance with their terms.
- 1.5.3 Loans from banking corporations as of 31 December 2023 totaled approx. \$502.0 million compared with approx. \$501.1 million as of 31 December 2022. The decrease mainly derives from the classification of approx. \$18.1 million under current maturities according to the terms and conditions of the loans, see Section 2 which was offset due to a drawdown of approx. \$5 million from the loan facility in the Report Period.
- 1.5.4 Deferred tax liability as of 31 December 2023 totaled approx. \$73.0 million compared with approx. \$56.2 million as of 31 December 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 as well as depreciation and amortization on the books compared with the cost and depreciation and amortization for tax purposes for oil and natural gas assets (including for oil and natural gas asset retirement and disposal) and due to the increase in the exchange rate and its impact on the temporary differences between the measurement base reported for tax purposes (in shekels) and the measurement base reported in the Financial Statements (in dollars).

1.6 **The Partners' equity**

As of 31 December 2023, totaled approx. \$423.7 million compared with approx. \$350.4 million as of 31 December 2022. The change derives from comprehensive income recorded in the Report Period of approx. \$126.8 million from revenues deriving from an update to the tax liability of the holders of the participation units for 2021 in the sum of approx. \$11.5 million which was offset by profits declared and distributed in the Report Period in the sum of approx. \$65 million. For a specification of changes in equity in the Report Period, see the consolidated statements of changes to the Partners' equity in the Financial Statements.



1.7 Cash flow

Net cash flow generated from operating activities totaled approx. \$197.3 million in the Report Period, compared with net cash flow generated from operating activities of approx. \$151.4 million in the same period last year. The increase mainly derives from an increase in the trade receivables balance in the amount of approx. \$17.4 million in the same period last year, compared with a decrease in the amount of approx. \$0.9 million in the Report Period, and from sale of financial assets, net, at fair value through profit or loss in the amount of approx. \$10.6 million in the Report Period compared with purchase of financial assets, net, at fair value through profit or loss in the amount of approx. \$16.6 million in the same period last year.

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

Net cash flow used for investment activities totaled approx. \$76.5 million in the Report Period, compared with net cash flow derived from investment activities totaling approx. \$0.6 million in the same period last year. Investment activities mainly consist of investments in the Leviathan Project, in other long-term assets, in short-term deposits and in restricted deposits. The main change between the periods derived from deposits or repayments of short-term deposits and restricted deposits.

Net cash flow used for financing activities totaled approx. \$121.0 million in the Report Period, compared with approx. \$183.6 million in the same period last year.

Financing activities in the Report Period were primarily used for the repayment of the principal of Series C and Series D Bonds in the sum of approx. \$69.9 million, in accordance with the terms and conditions thereof, and for distribution of profits in the amount of approx. \$65.0 million. Conversely, in the period tax advances were received that were paid for the participation unit holders in the sum of approx. \$11.5 million deriving from an update to the tax liability for 2021 and from a drawdown of the bank loan in the amount of \$5.0 million.

In the same period last year, the net cash flow used for financing activities totaled approx. \$183.6 million used primarily for repayment of the principal of the Series B and Series C Bonds in the amount of approx. \$111.6 million according to the terms and conditions thereof and to the early redemption conditions of Series B Bonds, for profit distribution in the amount of approx. \$25 million and for tax and balancing payments for holders of the participation units in the amount of approx. \$13.9 million for 2021. Conversely, in the Report Period, a



drawdown was made in the amount of \$20 million from the bank loan facility.

The cash and cash equivalents balance as of 31 December 2023 totaled approx. \$87.5 million compared with approx. \$91.2 million as of 31 December 2022.

2. Liquidity and financing sources

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

Loans from banking corporations

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

As of 31 December 2023, the total facility available for drawdown is \$650 million. Effective from January 2024, the total facility available for drawdown is reduced in installments on a quarterly basis, according to the terms and conditions of the loan. As of 31 December 2023, and as of the date of approval of the Financial Statements, loan amounts drawn from the Loan facility total approx. \$525 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.

On 30 June 2023, use of the LIBOR interest was discontinued, such that from the interest payment date immediately thereafter, the loan is linked to the TERM SOFR interest plus a credit margin. This interest is a forward-looking periodic interest which is based on the SOFR interest.

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 reserves⁷ (as defined in the Loan agreement) and the balance of the Loan that was withdrawn (net of the principal reserve amount for debt service) at each inspection date, shall be no less than 1.2;

The repayment of sums on account of the principal at variable rates will be made according to specific debt coverage ratios (LCR between 1.3-1.4, 30%, between 1.25-1.3, 60%, below 1.25, 100%) out of an adjusted balance of the cash amounts as of the end of each quarter in accordance with the mechanism described in the agreement (LCR cash sweep).

2. Debt service coverage ratio ("DSCR") that is calculated as the ratio between the actual cash flow before debt service and debt service amounts (principal, interest and non-utilization fee) for the 12 months before the test date. This ratio shall be no less than 1.05;

Effective from 2024, the repayment of amounts on account of the principal at variable rates will be made according to specific debt service ratios (DSCR above 1.3, 25%, below 1.3, 40%) out of an adjusted balance of the cash amounts as of the end of each quarter in accordance with a mechanism described in the agreement (DSCR cash sweep).

3. Meeting the liquidity test whereby it has sufficient financing sources in order to fulfill its expected undertakings.

Accordingly, as of 31 December 2023, the Partnership's management estimated that in the 12 months from the balance sheet date (i.e. by 31 December 2024) it is expected that out of the balance of the loans from banking corporations, the amount of approx. \$18.1 million classified in the consolidated statement of financial position under the current liabilities, will be repaid as current maturities of long-term loans from banking corporations.

As of 31 December 2023, the Partnership is compliant with all the aforesaid financial covenants: LCR is 1.96 and DSCR is 4.5.

As of the date of approval of the Financial Statements, the aforesaid ratios do not materially differ from the ratios as of 31 December 2023.

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

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



transactions. For further details, see Note 11A to the annual Financial Statements.

3. The debt raising rounds by Ratio Financing

On 31 August 2023, in accordance with the terms and conditions of the Series C Bonds, the last one third of the par value of the Series C Bonds was repaid, amounting to approx. \$58.9 million (which is the net amount after deduction of the Partnership's share) and in addition, interest was paid in the sum of approx. \$5.9 million (which is the net amount after deduction of the Partnership's share) on the Series C Bonds. Accordingly, on the same date, the Partnership paid Ratio Financing the Partnership's liabilities for payment of the principal and interest in respect of the loan provided to the Partnership by Ratio Financing under terms and conditions identical to those of the Series C Bonds. Upon the full redemption of the Series C Bonds, Ratio Financing repaid its entire undertakings to the holders of the Series C Bonds of Ratio Financing, and the Series C Bonds were delisted.

According to the terms and conditions of the Series D Bonds, on 30 April 2023 and on 31 October 2023, approx. \$2.6 million and approx. \$2.6 million (the net amount after deduction of the Partnership's share) which constitute the interest payments on the Series D Bonds, respectively, were paid.

On 31 October 2023, 12% of the par value of the Series D Bonds were repaid, in the amount of approx. \$11.0 million (the net amount after deduction of the Partnership's share) due to the Series D Bonds.

As part of a process of reducing the Partnership's debts, and in accordance with the resolutions of the board of directors of the General Partner whereby it is possible to purchase bonds of Ratio Financing, insofar as the same constitutes an appropriate business opportunity at such time, in Q1/2023, the Partnership purchased 4,659,575 par value Series C Bonds of Ratio Financing (which constituted, until the date of redemption of the Series C Bonds, approx. 2.2% of the total issued par value of the Series C Bonds of Ratio Financing) for the consideration of approx. ILS 4.8 million (approx. \$1.4 million) and in Q4/2023, the Partnership purchased 3,924,400 par value Series D Bonds of Ratio Financing (which constitute approx. 1.35% of the total issued par value of the Series D Bonds of Ratio Financing) in consideration for approx. ILS 4.6 million (approx. \$1.1 million). The 'short term deposits' item presented in the consolidated statement of financial position was partially designed to be used for the purchase of the bonds as aforesaid. In accordance with the resolution of the board of directors of the General Partner, additional Series D Bonds that will be purchased 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 11A and 11B to the Financial Statements.

4. Profit distributions

- 4.1 On 27 March 2024, the board of directors of the General Partner approved a profit distribution in the total sum of \$30 million, with the record date for distribution being set for 4 April 2024. The profit distribution will be made on 16 April 2024. This distribution was added to the (interim) profit distribution as stated in Section 4.2 based on the Partnership's financial results for 2023.
- 4.2 On 23 August 2023, the board of directors of the General Partner approved an (interim) profit distribution of \$30 million with the record date for distribution being 31 August 2023. The aforesaid distribution of profits was carried out on 14 September 2023.
- 4.3 On 28 March 2023, the board of directors of the General Partner approved the distribution of profits in a sum total of \$35 million, with the record date for distribution being set for 10 April 2023. The distribution of profits was carried out on 24 April 2023. This distribution was added to the (interim) profit distribution in the total sum of \$25 million that was approved on 30 August 2022 based on the Partnership's financial results for 2022.

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 Israel, in the U.S. and in other countries. 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 in order to moderate the aforementioned price index increases.

The increase in prices affects the increase in the prices of goods. This is mainly expressed in the increase in the Partnership's revenues from the sale of natural gas resulting from the increase in Brent barrel prices, to which the gas export agreements to Jordan and Egypt are linked, in part. In addition, 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.

According to a current forecast of the bank of Israel⁸, further to the Iron Swords war uncertainty exists in the domestic market, and there are several possible

⁸ See macro-economic forecast of the Research Department of the Bank of Israel dated January 2024. (https://www.boi.org.il/publications/regularpublications/staff-forecast/macro010124/#_ftnref1)



scenarios for the continuation of the war, some of which could have adverse effects on the economy. These effects may be expressed in an increase in the risk premium of the economy and in the bond yield, in a possible lowering of the credit rating, in the devaluation of the ILS, in an increase in the interest rate and in an increase in inflation.

As of the date of approval of the Financial Statements, there is an evident trend of moderation of the inflation environment in the United States and in other countries in the world while curbing the rising of the interest rate, and even a trend of lowering the interest rate in the various countries.

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

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

As part of the Partnership's risk management, and in order to reduce exposure in connection with a possible increase in the TERM SOFR interest rate on the loans taken thereby, the Partnership made several hedging transactions in the Report Period. See also Note 11A5 to the Financial Statements.

In 2023, the Partnership recorded interest expenses, net, due to loans from banking corporations in the statement of profit or loss of approx. \$42.4 million, reflecting an average annual TERM SOFR interest rate of approx. 4.57%. For the effect of the increase in the TERM SOFR interest rate on the Partnership's comprehensive income for 2023, see Note 4A2E2.

In addition, the table below summarizes a possible effect of the increase in the TERM SOFR interest rate on the Partnership's interest expenses for the loans from banking corporations starting in 2024 until the maturity date. The analysis is based on the assumption that in calculating the base interest rate on the loans from banking corporations, a fixed TERM SOFR interest rate of approx. 5.58% (the TERM SOFR interest rate for 3 months set on 12 January 2024) was taken into account throughout the remaining loan period.



For the year ended 31 December

	2024	2025	2026	2027
	\$ in millions			
Base interest	41.5	38.1	30.3	16.0
0.5 point increase in base interest	43.2	39.5	31.2	16.3
1 point increase in base interest	44.8	40.9	32.1	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

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

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

2. Description of the market risks

2.1 The exchange rate risk

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

2.2 The price risk

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

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

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

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

2.3 The natural gas and condensate price risk

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

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

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

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

Similarly, other global events, such as war, See Note 1F, to the Financial Statements regarding the Russia-Ukraine war, which has significant impact on the global demand for energy and its prices.

Until 7 March 2024, the condensate was sold for no consideration to ORL, the Leviathan Partners have engaged in several agreements that enabled an alternative for the piping and sale of the condensate that is produced from the Leviathan Reservoir, see also Note 25C(6-8) to the Financial Statements.

2.4 Linkage to Index risk

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

2.5 Cash flow risk and fair value for interest rate

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



date of approval of the Financial Statements, in dollar deposits. Changes in interest rates may affect the deposits' current yield.

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

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

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

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

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

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

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

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

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

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

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

5. **Sensitivity tests**

In accordance with Amendment 5767 to the provisions of the Second Schedule to the Securities Regulations (Periodic and Immediate Reports), 5730-1970,



the Partnership carried out tests of sensitivity to changes in risk factors affecting the fair value of “sensitive instruments”.

5.1 Description of parameters, assumptions and models

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

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

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

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

5.1.5 Shekel-dollar exchange rate is the representative rate as of 31 December 2023.

5.2 Analysis of sensitivity to market risks

Below is a breakdown of the Partnership's financial instruments as of 31 December 2023, which are sensitive to the market risks entailed therein. The liabilities and assets that are sensitive to various market risks were presented several times in accordance with the analysis of sensitivity to each one of the risks:



5.2.1 Sensitivity to changes in the Dollar/ILS exchange rate (\$ in thousands):

Assets and Liabilities	Profit (Loss) from the Change			Profit (Loss) from the Change	
	10% Increase in Exchange Rate	5% Increase in Exchange Rate	Fair Value	5% Decrease in Exchange Rate	10% Decrease in Exchange Rate
Cash and cash equivalents	(1,280)	(670)	14,078	741	1,564
Financial assets at fair value through profit or loss	(459)	(240)	5,046	266	561
Ratio Trusts	(23)	(12)	257	14	29
Trade and other receivables	(34)	(18)	371	20	41
Financial assets at fair value through profit or loss – investment in					
Ratio Petroleum	(150)	(79)	1,649	87	183
Trade payables	11	6	(126)	(7)	(14)
others	11	6	(116)	(6)	(13)
Expenses payable	56	30	(620)	(33)	(69)
Provision for current taxes	1,105	579	(12,157)	(640)	(1,351)
Total	(762)	(399)	8,382	441	931

5.2.2 Sensitivity to changes in the dollar interest (\$ in thousands)

Sensitive Instrument	Profit (Loss) from the Change			Fair Value	Profit (Loss) from the Change		
	Extreme Test*	10% Increase in Yield	5% Increase in Yield		5% Decrease in Yield	10% Decrease in Yield	Extreme Test*
Series D Bonds**	4,900	2,450	1,225	(77,041)	(1,225)	(2,450)	(4,900)
Loans from banking corporations	16,209	7,897	3,970	(563,053)	(4,014)	(8,072)	(15,662)

Sensitive Instrument	Profit (Loss) from the Change			Fair Value	Profit (Loss) from the Change		
	5% Increase	2% Increase	0.5% Increase		0.5% Decrease	2% Decrease	5% Decrease
Derivative financial instruments – IRS transaction	24,486	12,134	3,134	6,100	(3,199)	(13,249)	(35,494)

* According to a clarification released by the Israel Securities Authority on February 28, 2010, two additional extreme tests are required in the sensitivity to interest tests.

The absolute change that was tested in the extreme tests is 20%.

** The figures presented are net of bonds purchased by the Partnership. See Note 11B5A to the Financial Statements.

5.2.3 **Report on linkage bases of the financial balances**

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



Part C – Disclosure on Various Aspects of Corporate Governance

1. Directors having accounting and financial expertise

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

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

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

2. Disclosure on the internal auditor at the Corporation

a. **Details of the internal auditor**

Internal auditor's name: CPA Gil Rogozinsky.

Date of commencement of office: March 13, 2013.

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

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

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

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

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



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

b. Appointment procedure

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

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

c. Identity of the supervisor of the internal auditor

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

d. The work plan

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

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

The work plan leaves discretion to the internal auditor to deviate therefrom subject to the approval of the audit committee. In the Report Period, the internal auditor performed an audit on knowledge management and key personnel, monitoring and control of gas royalties, discounted cash flow (DCF), marketing and sales, and monitoring of the implementation of the recommendations in the reports of the previous year.

In addition to the internal auditor's work and in accordance with the Joint Operating Agreement (JOA), the Partnership, through external companies, performs a joint audit with its partners, on the work of the operator in the Leviathan Project.

e. Scope of engagement

The scope of engagement of the internal auditor and the staff who report to him from his firm, amounted in 2023 to approx. 615 hours. The scope of engagement is reasonable considering the size of the Partnership. The audit committee has the option of expanding the scope depending on the circumstances.

f. **Conduct of the audit**

The audit is conducted according to the internal audit standards that are accepted in Israel and worldwide, and in accordance with professional directives in the field of internal auditing including standards of the Internal Auditors Office and in accordance with the Internal Audit Law. The General Partner's board of directors is satisfied that the auditor met all of the requirements in the conditions stated above, taking into account the update provided by the internal auditor to the audit committee.

g. **Access to information**

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

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

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

In 2023, internal audit reports were submitted to the members of the audit committee in April and November. In 2024, internal audit reports were submitted in March. Discussions on the reports are held in proximity to their submission.

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

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

j. **Compensation**

The compensation of the internal auditor is based on actual working hours. In 2023, the engagement of the internal auditor and his staff amounted to approx. ILS 141 thousand.

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



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

The auditors of the Partnership are the firm of PwC.

The board of directors of the General Partner, which was authorized therefor by the general meeting, approved the salary of the auditor for 2023 and determined that it is reasonable considering the assessment of the scope of his activities, all after the audit committee examined the scope of work and salary of the auditors and presented its recommendations to the board of directors of the General Partner.

The auditor's fee is determined by the lump sum method. The fees amounted to approx. ILS 633 thousand in 2023 (approx. ILS 588 thousand in 2022). Fee expenses for the auditors for additional services such as: tax work, contacting regulatory authorities and updating accounting policy by the professional department totaled approx. ILS 126 thousand in 2023 (approx. ILS 66 thousand in 2022).

The Partnership's share of the expenses for the auditors in connection with the audit of the joint transaction in 2023, for audit services totaled approx. ILS 245 thousand (approx. ILS 210 thousand in 2022).

The Partnership's share in the fee expenses for the other auditors auditing the joint transaction totaled approx. ILS 74 thousand in 2023 (approx. ILS 74 thousand in 2022).

4. **General meetings**

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

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

According to Section 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, a corporation that holds, on the date of release of the Financial Statements, bond certificates in the turnover, will examine whether there are warning signs therein, and if there are warning signs in the corporation, the corporation will attach a disclosure regarding projected cash flow.

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

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

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

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

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

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

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

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

In 2023, Ratio expanded its donations to Israeli communities in need. Immediately when the Iron Swords war broke out, Ratio came forward to support war victims, soldiers, residents of the south and medical teams.

In the Report Period, the Partnership donated, directly and through its share in the Leviathan Project, for the aforementioned communities and for Iron Swords victims a sum total of approx. \$820 thousand.

The recipients of donations exceeding ILS 50 thousand in the Report Year have no relations with the Partnership, the General Partner, the directors of the General Partner, and the control holders or their relatives.

7. **ESG at the Partnership**

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

Accordingly, the Partnership built a comprehensive and orderly work plan to promote these issues within the framework of an Environmental Social and Governance (ESG) report which is posted on the Partnership's website.



The report includes issues and commitments undertaken by the Partnership beyond the issues and commitments preexisting and required by current law, as well as considerations related to environmental protection and sustainability, corporate governance, involvement in and support of the community, health and safety, transparency, the working environment in the Partnership, etc.

In 2023, the Partnership worked to expand environmental and social sustainability and to deepen its contribution to the environmental and social robustness in Israel and in the region, *inter alia*, by providing energy security and continued supply of natural gas to the domestic market and the export markets against the backdrop of the Iron Swords war, and through measures taken to reduce emissions, maintain the ratio of greenhouse gas emissions to production and expansion of the contribution to Israeli communities in need and to victims of the Iron Swords war.

The ESG report was prepared according to the world-leading international reporting standard of the GRI organization (Global Reporting Initiative).

Part D – Disclosure on the Partnership's Financial Reporting

1. Key events in the Report Period

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

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

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

2.2 Separate financial statements

In accordance with the provisions of Regulation 9C and the Tenth Schedule to the Securities Regulations (Periodic and Immediate Reports), 5730-1970, the Partnership has not included separate financial information in the Financial Statements, following an examination by the Partnership's management together with its legal advisors, because the additional information that would be provided as separate financial information that is attributed to the Partnership relative to the information included in the consolidated financial statements is negligible, and therefore, in accordance with the accounting rules and the securities laws, there is no need for the attachment thereof. The Partnership will continue to examine the future effect of the inclusion of separate financial information in each reporting period.

Date: 27 March 2024

Ligad Rotlevy
Chairman of the Board

Yigal Landau
CEO and Board Member

Chapter B

Financial report

Ratio Energies – Limited Partnership

2023 Annual Financial Statement

This report is a translation of Ratio Energies, Limited Partnership's Hebrew-language Consolidated Financial Statements as of 31 December 2023. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

Ratio Energies – Limited Partnership

2023 Annual Financial Statement

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

We have audited components of internal control over financial reporting of Ratio Energies – Limited Partnership and subsidiaries (jointly below, the “**Partnership**”) as of 31 December 2023. These components of control were determined as explained in the following paragraph. The Board of Directors (the “**Board**”) and Management of the Partnership’s GP are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the components of internal control over financial reporting, attached to the periodic report as of the above date. Our responsibility is to express an opinion on the components of internal control over financial reporting of the Partnership, based on our audit.

We did not examine the effectiveness of IT general controls of a consolidated joint venture whose assets and income that are included in the consolidation constitute approx. 72% and approx. 100%, respectively, of the respective amounts in the Consolidated Financial Statements as of 31 December 2023 and the year then ended. The effectiveness of IT general controls of the aforesaid joint venture was audited by other auditors, whose reports were provided to us, and our opinion, insofar as it relates to the effectiveness of IT general controls of the aforesaid joint venture, is based on the reports of the other auditors.

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

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

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

In our opinion, based on our audit and the other auditors' reports, the Partnership effectively maintained, in all material respects, the Audited Components of Control as of 31 December 2023.

We have also audited, based on Generally Accepted Auditing Standards in Israel, the Consolidated Financial Statements of the Partnership as of 31 December 2023 and 2022, and for each of the three years in the period ended 31 December 2023, and our report of 27 March 2024, included an unqualified opinion on such financial statements.

Tel Aviv,
27 March 2024

Kesselman & Kesselman
CPAs
Member of PricewaterhouseCoopers International Limited



Auditor's Report

to the holders of the participation units and the partners of
Ratio Energies – Limited Partnership

We have audited the accompanying Consolidated Statements of Financial Position of Ratio Energies – Limited Partnership (formerly – Ratio Oil Exploration (1992) – Limited Partnership) (the “**Partnership**”) as of 31 December 2023 and 2022 and the Consolidated Statements of Profit or Loss and Other Comprehensive Profit, of Changes in the Equity, and of Cash Flows for each of the years in the three-year period ended 31 December 2023. The Board and Management of the Partnership’s GP are responsible for these Financial Statements. Our responsibility is to express an opinion on these Financial Statements based on our audit.

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

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of the Partnership and the consolidated companies thereof as of 31 December 2023 and 2022 and the results of their operations, the changes in their capital and cash flows for each of the years in the three-year period ended 31 December 2023 in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

Key audit matters

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

(1) Evaluation of gas and condensate reserves

As described in Note 8A to the Partnership's financial statements, the balance of investments in oil and gas assets as of 31 December 2023 and 2022 are \$826,035 thousand and \$803,803 thousand, respectively. The expenses for depreciation of oil and gas assets (in the depletion method) for the years ended 31 December 2023 and 2022 total \$22,021 thousand and \$25,564 thousand, respectively. Investments in oil and gas assets are presented in the statement of financial position at cost, and are depreciated in the statement of comprehensive income from the date of production as described below.

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

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

Investments in oil and gas assets, the evaluation of reserves and the depletion expenses of oil and gas assets of the Partnership are described in Notes 2D(3) and 3I of the Consolidated Financial Statements. Due to the size of the effect of the gas and condensate reserves estimate on the Financial Statements, and due to the judgments and subjectivity involved in such estimate, we identified this issue as a Key Audit Matter.

The response given to this Key Audit Matter

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

- Achieving an understanding of the Partnership's existing processes and procedures regarding the estimate of the evaluation of gas and condensate reserves, and auditing the planning and implementation of controls used in the process;
- Evaluating the qualifications of the experts on behalf of the Partnership, including their skill and objectivity in performing the gas and condensate estimate, and considering whether they have professional qualifications to carry out reserves estimates for gas and oil reservoirs;
- Checking the completeness of the data underlying the evaluation of the reserves, *inter alia*, by analyzing the key changes in 2023 and comparing the reserves estimated by the Partnership to, and checking their agreement with, the information included in the gas and condensate reserves report prepared by the external experts on behalf of the Partnership;
- Checking that the updated estimates of gas and condensate reserves were properly included in the accounting treatment for determination of the depletion rate of the gas and oil assets;
- Checking the agreement of the calculations and adequacy of disclosures in the Partnership's financial statements.

(2) Provision for current taxes and deferred tax balances

As described in Notes 14A(3) and 14A(4) to the Partnership's financial statements, the current tax expenses for the years ended 31 December 2023 and 2022 totaled \$22,740 thousand and \$15,706 thousand, and the deferred tax balances as of 31 December 2023 and 2022 totaled \$72,976 thousand and \$56,167 thousand.

As specified in Notes 2D(4), 3R and 14 to the Financial Statements, the management of the Partnership's GP is required to exercise broad discretion in order to determine the Partnership's tax consequences. The Partnership recognizes liabilities for its tax consequences based on management's estimate in connection with the taxes on income, which the Partnership will, more likely than not, be liable to pay. Such estimate involves significant uncertainty and is based on management's subjective assessment. A change in such estimate or assessments may have a material effect on the amount of the Partnership's tax provision.

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

The Partnership uses the following main assumptions and estimates which serve as a basis for calculating a provision for current taxes and deferred tax balances:

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

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

The response given to this Key Audit Matter

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

- Assessment of the design and implementation of the Partnership's controls of taxes on income, including review of the effectiveness of such controls;
- Audit of the integrity and accuracy of the data underlying the income tax calculation, including current tax balances and deferred tax balances in the statement of financial position;
- Examination of the opinion of the experts on behalf of the Partnership;
- Review of the underlying assumptions used by the Partnership in the assessment of the tax provision;
- Review of the relevant experience and qualifications of the experts used by the Partnership;
- Performance of an independent calculation of the total tax provision and deferred tax balances.

We have also audited, pursuant to Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", components of the Partnership's internal control over financial reporting as of 31 December 2023 and our report as of 27 March 2024 included an unqualified opinion on the effective maintenance of such components.

Tel Aviv,
27 March 2024

Kesselman & Kesselman
CPAs
Member of PricewaterhouseCoopers International Limited

Ratio Energies – Limited Partnership
Consolidated Statements of Financial Position

	Note	December 31	
		2023	2022
		\$ in thousands	
Assets			
Current assets:			
Cash and cash equivalents	5, 3K	87,524	91,253
Financial assets at fair value through profit or loss	6	14,975	24,966
Short-term deposits		50,661	30,355
Restricted deposits	10	-	3,657
Derivative financial instruments	6, 11A5	4,534	5,035
Trade and other receivables:			
Trade receivables	17B, 4A3	64,460	65,329
Operator of the joint venture	3K, 8C	7,267	10,737
Ratio Trusts Ltd. – the trustee – current account	24	257	269
Other receivables	7	1,078	1,304
Total current assets		230,756	232,905
Non-current assets:			
Financial assets at fair value through profit or loss – investment in Ratio Petroleum	6	1,649	4,153
Derivative financial instruments	6, 11A5	1,566	2,849
Net other long-term assets	9	72,187	68,209
Restricted deposits	10	30,733	6,507
Net fixed assets	3F	182	104
Net investments in oil and gas assets	8	826,035	803,803
Total non-current assets		932,352	885,625
Total assets		1,163,108	1,118,530
Liabilities and the partners' equity			
Current liabilities:			
Trade and other payables:			
Trade payables		200	118
Payables of the joint venture	3M, 8C	23,370	13,277
Ratio Energies Management Ltd. – the GP – current account	24	1,891	1,056
Others		116	599
Current maturities of bonds	11B	10,704	72,456
Current maturities of long-term loans from banking corporations	11A	18,062	-
Interest payable	12	11,070	11,278
Expenses payable		5,236	6,223
Current taxes payable	14	12,157	3,685
Total current liabilities		82,806	108,692
Non-current liabilities:			
Provision for oil and gas asset retirement and disposal obligation	13	14,156	12,488
Bonds	11B	68,378	80,139
Net loans from banking corporations	11A	501,080	510,627
Deferred taxes	14	72,976	56,167
Total non-current liabilities		656,590	659,421
Total liabilities		739,396	768,113
Contingent liabilities and engagements	25	-	-
Partners' equity	15	423,712	350,417
Total liabilities and partners' equity		1,163,108	1,118,530

Ratio Energies General Partner Ltd. - the GP, by:

Ligad Rotlevy Chairman of the Board	Yigal Landau CEO and Board Member	Amir Brami CFO
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Date of approval of the Consolidated Financial Statements by the GP's Board: 27 March 2024.

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

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

	Note	Year ended December 31		
		2023	2022	2021
		\$ in thousands (Except profit per participation unit figures)		
Income				
From sale of natural gas	17	362,294	379,944	293,354
Net of royalties	18	(57,176)	(57,951)	(48,887)
		<u>305,118</u>	<u>321,993</u>	<u>244,467</u>
Expenses and costs				
Cost of natural gas and condensate production	19	47,737	42,584	37,337
Depreciation and amortizations expenses	3I, 8A, 9	26,613	29,674	27,998
Oil and natural gas exploration expenses	20	1,156	131	1,093
G&A expenses	21	9,635	9,545	6,733
Total expenses and costs		<u>85,141</u>	<u>81,934</u>	<u>73,161</u>
Operating income		219,977	240,059	171,306
Financial income	22	11,061	16,020	291
Financial expenses	22	(64,660)	(59,383)	(69,433)
Financial expenses, net		<u>(53,599)</u>	<u>(43,363)</u>	<u>(69,142)</u>
Income before taxes on income		166,378	196,696	102,164
Taxes on income	14, 15E	(39,561)	(47,150)	(24,723)
Net profit for the year		<u>126,817</u>	<u>149,546</u>	<u>77,441</u>
Basic and diluted profit per participation unit (\$)	23	<u>0.113</u>	<u>0.133</u>	<u>0.069</u>

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

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

Note	Partnership's Equity	Capital Reserve for Benefits from Control Holders	Balance of Profit (Loss)	Total Equity
\$ in thousands				
Balance as of 31 December 2020	318,846	1,101	(144,387)	175,560
Movement in 2021:				
Exercise of Series 19 Warrants	15D 18	-	-	18
Advance tax payments for participation unit holders	15E, 15G -	-	(13,231)	(13,231)
Balancing payments for corporations and tax payments for individuals	15E, 15G -	-	(13,920)	(13,920)
Net profit for the year	-	-	77,441	77,441
Balance as of 31 December 2021	318,864	1,101	(94,097)	225,868
Movement in 2022:				
Distributed profit	15F -	-	(24,997)	(24,997)
Net profit for the year	-	-	149,546	149,546
Balance as of 31 December 2022	318,864	1,101	30,452	350,417
Movement in 2023:				
Distributed profit	15F -	-	(65,000)	(65,000)
Advance tax payments received for previous years	15G -	-	11,478	11,478
Net profit for the year	-	-	126,817	126,817
Balance as of 31 December 2023	318,864	1,101	103,747	423,712

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

Ratio Energies – Limited Partnership
Consolidated Statements of Cash Flows

	Year ended December 31		
	2023	2022	2021
	\$ in thousands		
Cash flows from operating activities:			
Net cash derived from operations, see Annex A	191,859	150,108	122,118
Interest received	5,348	1,232	308
Dividend received	94	58	14
Total net cash derived from operating activities	<u>197,301</u>	<u>151,398</u>	<u>122,440</u>
Cash flows from investment activities:			
Purchase of financial instruments at fair value through profit or loss -Investment in Ratio Petroleum Energy – Limited Partnership	-	-	(4,585)
Repayment (deposit) of short-term deposits, net	(20,158)	9,932	(18,034)
Repayment (deposit) of restricted deposits	(20,728)	28,369	(6,253)
Investment in other assets	(3,801)	(9,122)	(10,593)
Purchase of fixed assets	(112)	(64)	(6)
Investment in natural gas and oil assets	(34,083)	(28,470)	(9,288)
Total net cash derived from investment activities (used for the activity)	<u>(78,882)</u>	<u>645</u>	<u>(48,759)</u>
Cash flows from financing activities:			
Net loans from banking corporations, see Note 4B2	5,000	20,000	-
Issuance of Series D Bonds, net	-	-	90,771
Repayment of bond principal	(69,937)	(111,600)	(113,894)
Advance tax payments and balancing payments received (paid) for participation unit holders for 2021	11,478	(13,920)	(13,231)
Distributed profit	(65,000)	(24,997)	-
Purchase of Series B and Series C Bonds, net	(2,549)	-	(2,331)
Prepayment of Series B Bonds, net	-	(53,107)	-
Total net cash used for financing activities	<u>(121,008)</u>	<u>(183,624)</u>	<u>(38,685)</u>
Increase (decrease) in cash and cash equivalents	(2,589)	(31,581)	34,996
Cash and cash equivalents balance at the beginning of the year	91,253	125,383	89,781
Profits (losses) from exchange rate differences due to cash and cash equivalents	(1,140)	(2,549)	606
Cash and cash equivalents balance at year end	<u>87,524</u>	<u>91,253</u>	<u>125,383</u>

Ratio Energies – Limited Partnership
Consolidated Statements of Cash Flows

	Year ended December 31		
	2023	2022	2021
	\$ in Thousands		
(a) Annex to the Consolidated Statements of Cash Flows -			
Net cash derived from operations			
Net profit for the year	126,817	149,546	77,441
Adjustments for:			
Interest and dividend income	(5,589)	(1,290)	(322)
Depreciation and amortizations	26,613	29,674	27,998
Changes in derivative financial instruments	1,784	(7,360)	-
Losses (profits) from exchange rate differences due to cash and cash equivalents	1,140	2,546	(606)
Taxes on income	25,281	35,129	24,723
Expenses (revenues) of exchange rate differences in respect of restricted deposits	158	61	(374)
Interest and discount in respect of loans from banking corporations	5,447	8,054	3,233
Exchange rate differences, discount and interest on bonds	(3,167)	(31,951)	(19,724)
Provision for natural gas and oil asset retirement and disposal obligation	580	342	231
Loss from a change in fair value of financial instruments at fair value through profit or loss	1,860	3,409	14,419
	<u>180,924</u>	<u>188,160</u>	<u>127,019</u>
Changes in operating asset and liability items:			
Decrease (increase) in trade and other receivables:			
Trade receivables	869	(17,388)	(9,727)
Sale (purchase) of financial assets at fair value through profit or loss, net	10,636	(16,567)	(4,285)
Change in balance with Ratio Trusts Ltd.	12	69	*
Royalty rate calculation differences	(2,131)	(5,365)	-
Others	226	102	(299)
Increase (decrease) in trade and other payables:			
Trade payables	82	74	23
Joint venture payables	(1,537)	4,025	653
Trade and other payables	(987)	1,311	(1,057)
Others	(483)	507	(92)
Change in balance with joint venture operator	3,470	(6,687)	(114)
Change in balance with Ratio Energies Management Ltd. – the General Partner	778	1,867	9,997
	<u>10,935</u>	<u>(38,052)</u>	<u>(4,901)</u>
Net cash derived from operations	<u>191,859</u>	<u>150,108</u>	<u>122,118</u>
(b) Information on non-cash flow investment and financing activities:			
Investment in natural gas and oil assets against a liability	16,768	7,282	9,492
Investments in other long-term assets against a liability	2,144	(1,740)	-
Natural gas and oil asset retirement obligation against natural gas and oil assets	1,088	(8,636)	1,499
Declared tax and balancing payments	-	-	13,920
(c) Interest paid	<u>56,745</u>	<u>62,353</u>	<u>69,680</u>
(d) Taxes paid	<u>13,491</u>	<u>12,532</u>	<u>-</u>

* Represents a sum lower than \$1 thousand

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

Ratio Energies – Limited Partnership
Notes to the Consolidated Financial Statements

Note 1 - General

- A.** 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 partners in the Leviathan Project are NewMed Energy - Limited Partnership (“**NewMed**”) which holds 45.34%, Chevron Mediterranean Limited (“**Chevron**” or the “**Operator**”) which holds 39.66%, and Ratio which holds 15% of the Leviathan Project.
- B.** The Partnership’s income in the report period from the sale of natural gas is mainly affected by the demand for natural gas, production capacity and the sale price of natural gas in the export markets and the domestic market, which is partly linked to the Brent barrel price.

The Partnership’s share in the revenues and natural gas quantities sold to export markets and the domestic market during the report period is presented below:

	Year ended December 31		
	2023	2022	2021
Revenues (\$ in millions)			
Export markets	306.3	284.2	186.0
Domestic market	56.0	95.7	107.4
	362.3	379.9	293.4
Quantities (BCM)*			
Export markets	1.34	1.14	0.93
Domestic market	0.31	0.57	0.68
	1.65	1.71	1.61

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

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

On 5 March 2024, the general meeting of the participation unit holders approved amendments to the partnership agreement, whereby Ratio Energies Management Ltd. (the “**GP**”) was replaced by a new general partner, Ratio Energies General Partner Ltd. (the “**New GP**”), a special-purpose company wholly owned by the Former GP. Also see Note 24C2 below. The ongoing management of the Partnership is conducted by the GP and overseen by the supervisor, Simon Yaniv, Adv. and CPA (the “**Supervisor**”). Also see Note 24.

Ratio Trusts Ltd. (the “**LP**”) acts as trustee and holds the participation units (which confer a working interest in the rights of the LP in the Partnership) issued thereby in trust for the unit holders.

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

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

Note 1 - General (Cont.):

D. As of 31 December 2023, and as of the date of approval of the Financial Statements, the Partnership has holdings in several entities:

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

Ratio Financing's results are consolidated in the Partnership's financial statements.

2) The Partnership is the control holder (100%) of Leviathan Development (2016) Ltd. ("**Leviathan Development**"), a private SPC which was established by the Partnership for the purpose of receipt of project finance to finance the Partnership's share in the development of the Leviathan Project.

Leviathan Development's results are consolidated in the Partnership's financial statements.

The Partnership, Ratio Financing and Leviathan Development shall hereinafter be referred to collectively as: the "**Group**".

3) The Partnership holds 15% of the issued and paid-up share capital of NBL Jordan Marketing Ltd. (the "**Marketing Company**"), a private company registered in the Cayman Islands, held by the Leviathan Partners, which hold it proportionately to the rate of their holdings in the Leviathan Project. The Marketing Company was established for the purpose of engagement in an agreement for the export of natural gas from the Leviathan Project to the national electric company of Jordan.

As of 31 December 2023, the said Marketing Company's activity does not affect the Partnership's financial results.

4) The Partnership holds 15% of the issued and paid-up share capital of Leviathan Transmission System Ltd., a private company held by the Leviathan Partners, which hold it proportionately to the rate of their holdings in the Leviathan Project for the purpose of receipt of a gas transmission license from the production platform of the Leviathan Project to the northern entry point to the national transmission system of Israel Natural Gas Lines Ltd. ("**INGL**").

Leviathan Transmission System Ltd. holds the transmission license and its activity does not affect the Partnership's financial results.

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

E. The Iron Swords War

October 2023 saw the outbreak of the Iron Swords War (the "**War**") in Israel. The War started with a murderous terrorist attack of localities and army bases in the south of Israel, since which time, thousands of rockets have been fired from the Gaza Strip mainly to the south and center of the State of Israel. Along with the progress of the military campaign, the 'Hezbollah' terrorist organization has escalated tensions on Israel's northern border and initiated hostilities against the State of Israel.

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

Note 1 - General (Cont.):

Following the foregoing, and given the eventuality of expansion of the War on the northern border and on additional fronts, the IDF mobilized hundreds of thousands of soldiers on reserve duty, residents were evacuated from localities situated close to the frontlines of the conflict on the southern and northern borders of Israel and the Homefront Command released directives, which are updated from time to time, restricting the activity of workplaces and educational institutions. As of the date of approval of the Financial Statements, the Israeli economy has resumed normal operations under the shadow of war, most of the restrictions imposed upon the outbreak of the War have been lifted, and most of the people called for reserve duty by emergency decrees have been discharged and returned to their homes. Yet, the duration of the War and its effects on the Partnership, its business and its assets cannot be foreseen.

1. Shortly after the outbreak of the War, the Houthi Rebels organization, which controls parts of Yemen and is supported by Iran, launched attacks and missiles and UAVs at Israel and at ships and tankers sailing near the Yemen Red Sea coast. Such hostilities by the Houthi Rebels disrupt the maritime trade routes to Israel and other countries and affect the rise in maritime shipping prices and may also affect the rise in prices of energy products.
2. Following the War, in October 2023, the credit rating agencies of Moody's and Fitch announced that the credit rating of the State of Israel was on review for downgrade and S&P Global Rating announced a downgrade of the State of Israel's credit rating outlook from stable to negative, leaving the existing credit rating unchanged. Further thereto, on 10 February 2024, Moody's credit rating agency announced a downgrade of the State of Israel's credit rating by one notch to A2 and stated that Israel's credit rating had been placed on negative rating watch. Moody's credit agency explained that the downgrade was primarily motivated by Moody's assessments that the continued war, its effects and its extensive implications materially raised the political risk in Israel and weakened the executive and legislative branches and financial strength in the foreseeable future, and added that the negative outlook resulted from the existing additional risks, particularly the risk of escalation vis-à-vis the Hezbollah terrorist organization in the North, which has the potential for a much more significant adverse effect on the economy than at present. Further thereto, it is possible that other rating agencies may also announce negative rating actions with respect to the Israeli economy in the near future.
3. To the best of the Partnership's knowledge, shortly after the War broke out and until 13 November 2023, gas production from the Tamar reservoir was halted at the order of the Ministry of Energy. Such order was not given in relation to the Leviathan and Karish reservoirs, and as of the date of approval of the Financial Statements, production from the Leviathan Reservoir continued and continues as usual. Following the said halting of production from the Tamar reservoir, and until it was resumed, the Leviathan Partners supplied natural gas to several customers of the Tamar reservoir in the domestic market, primarily Israel Electric Corp. Ltd. (IEC), and the quantity of natural gas allocated for export to Egypt was consequently reduced. At the same time, due to the War, gas piping through the EMG pipeline, which serves as the primary transmission infrastructure for piping gas from Israel to Egypt, had been halted, and its operation restarted on 14 November 2023. Following the foregoing, the entire gas supply to Egypt during the said time period was piped via the Jordan-North Export Pipeline and the Jordanian transmission system, which entails additional transmission costs.

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

Note 1 - General (Cont.):

As a consequence of the aforesaid, the total gas quantity supplied to Egypt in October was approx. 82% of the contractual gas quantity the Leviathan Partners were obligated to supply according to the export agreement. Such changes are not expected to have a material effect on the results of the Partnership.

4. The natural gas platforms in Israel, the offshore and onshore production and transmission facilities, and other essential infrastructure systems in Israel and in export countries might serve as a target for missile fire / UAVs and/or terrorist attacks and/or cyber-attacks, and any impact they may suffer, if any, may cause extremely substantial damage and disrupt or shut down production and/or transmission activities for an unknown amount of time and at scales which may be significant. In such cases, the insurance policies acquired by Chevron Mediterranean Limited (“**Chevron**”) and the Partnership may possibly prove insufficient to cover the damage and losses suffered by the Partnership. In this context, it is noted that there is risk that at the renewal date of the insurance policies in March 2024, in connection with war and terrorism insurance, a material increase in cost and material changes in insurance coverage levels have occurred. To the extent that the War continues, there is a risk that at the future renewal date of the insurance policies, chiefly in connection with war and terrorism, it will be impossible to acquire appropriate policies on reasonable commercial terms or at all. Another risk of the War is damage to the facilities for intake of condensate, a byproduct of natural gas production. The risk of events of this type may be greatly exacerbated in the event of expansion of the War into additional fronts. In such case of expansion of the War, the risk that the Government will impose restrictions on the regular production operations of the Leviathan Reservoir and/or the Tamar or Karish reservoirs may also increase. Restriction or discontinuation of the operations for production from the Karish and/or Tamar reservoirs, in case it takes place, is expected to compel the Leviathan Partners to increase the quantities of supply to the domestic market, predominantly at the expense of the export to Egypt.
5. In view of the continuation of the War, there is a rise in the geopolitical risk related to the export of natural gas from the Leviathan Reservoir, which made up most of the Partnership’s revenues in 2023. It is noted, however, that since the outbreak of the War, the export of gas from the Leviathan Reservoir has continued.
6. Since the outbreak of the War and until the date of approval of the Financial Statements, production from the Leviathan Reservoir has continued as usual, and accordingly the revenues and profitability of the Partnership have suffered no material adverse effect. However, as a result of the War, operating expenses entailed in the production of natural gas have increased by an immaterial rate, chiefly due to the difficulty of foreign companies in sending crews to the region, which has led to an increase in the paid rates and a need for further logistic activities for the transport of manpower and equipment. Furthermore, planned maintenance activities have been postponed, changed and modified.
7. Moreover, following the War, a delay has occurred in several projects that are promoted by the Leviathan Partners, as follows:
 - a. The operations of laying down the Ashdod-Ashkelon offshore pipeline as part of the Combined Section project. For further details, see Note 25C5a(4) below;

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

Note 1 - General (Cont.):

- b. Commencement of condensate piping to Ashdod Refinery Ltd. (“**ARF**”) via the pipeline of Energy Infrastructures Ltd. (“**PEI**”). Condensate piping from the Leviathan Project to ARF commenced on 7 March 2024. For further details, see Note 25C8 below.
8. As of the date of approval of the Financial Statements, the Partnership does not foresee a material effect of the War on its financial strength and its ability to repay its liabilities in the foreseeable future. Furthermore, in the Partnership’s estimation, it has the ability to obtain additional financing as required. However, due to the continuation of the War and in the event that risk factors materialize, such as the early termination of export agreements and/or physical damage which is not repaired to the Leviathan Project, the Partnership may suffer damage that has a material adverse effect on the Partnership’s ability to repay its liabilities and/or obtain additional financing. In the Partnership’s estimation, assuming that the aforementioned and undermentioned risk factors do not materialize, no material adverse effect on the Partnership’s revenues and profitability is expected to occur in 2024.
9. As of the date of approval of the Financial Statements, significant uncertainty exists, making it impossible to estimate how the War will develop and whether it will expand to additional fronts, how long it will be, and what results and repercussions it will have for the Partnership’s operations and results. Under these circumstances, it is impossible to estimate the chances of materialization of the risk factors arising from the War and their possible effect, including the aforesaid specific risk factors whose materialization could have a material adverse effect on the Partnership, its assets and its business.

The Partnership’s estimations as specified above, including in relation to the War’s possible impact on the Partnership, may not materialize, in whole or in part, or materialize differently, including in a manner materially different than foreseen, all primarily due to the vast uncertainty at this time, including in relation to the duration of the War, its scale and its repercussions for the Israeli economy, as well as due to the existence of occurrences which are not within the Partnership’s control.

F. The Russia-Ukraine War and the energy crisis in Europe

On 24 February 2022, the Russian army invaded Ukraine as part of an initiated campaign which included mobilizing ground forces, alongside air and artillery assaults. As a result, the United States and the member states of the European Union imposed a series of economic punitive measures against Russia, which included, among others, sanctions on trade with Russia and Russian seniors, a decision to suspend the completion of the Nord Stream 2 project, which is intended to double the volume of gas exported from Russia to Germany, discontinuation of some collaboration with Russian entities by international companies, including significant companies in the fields of natural gas and oil production, and more. Following the above and in light of Russia’s status as a major global supplier of natural gas and oil, a global energy crisis emerged, expressed, *inter alia*, in the concern of a long-term shortage of natural gas and oil, which led to a rise in energy prices. The war in Ukraine led in 2022 to a sharp and irregular rise in global oil and natural gas prices, while in June 2022, the Brent oil price reached an all-time high of over \$120 per barrel, which price was significantly higher than the prices to which the world had become accustomed in recent years.

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

Note 1 - General (Cont.):

As of the date of approval of the Financial Statements, the Partnership cannot estimate the long-term effect it will have on the energy markets and the Partnership's business in particular. Against this backdrop, many European countries are seeking to diversify their natural gas sources, with the aim of reducing dependency on Russian natural gas. This may lead to an additional significant demand for natural gas from areas that can be connected to a natural gas pipeline to Europe, and to increase demand for LNG. The Partnership, together with its partners in the Leviathan Project, are examining the influence of the aforesaid factors on the development and/or expansion options of the Leviathan Project.

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

Note 2 - Basis of Preparation of the Financial Statements

A. Compliance with IFRS and presentation of the disclosures required under the Securities Regulations

The financial statements of the Group (the “**Financial Statements**” or the “**Consolidated Financial Statements**”) as of 31 December 2023 and 2022 and for each of the three years in the period ended 31 December 2023, comply with the International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standard Board (the “**IFRS**”), and include the additional disclosure required under the Securities Regulations (Annual Financial Statements), 5770-2010.

B. Basis of presentation of the Financial Statements

- 1) The significant accounting policies described in Note 3 below were consistently applied with respect to all of the presented periods, unless otherwise noted.
- 2) The preparation of financial statements in accordance with the IFRS requires use of specific material accounting estimates. It also requires the GP to exercise discretion in the process of application of the Partnership's accounting policy. Note 2D below provides disclosure of areas that involve an extensive degree of discretion or complexity is involved, or areas in which assumptions and estimates have a material effect on the Consolidated Financial Statements. Actual results may materially differ from the estimates and assumptions used by the management.
- 3) The Group's operating cycle period is 12 months.

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

Note 2 - Basis of Preparation of the Financial Statements (Cont.):

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

In accordance with the provisions of Section 9C and the Tenth Schedule to the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and after the GP's management examined this matter together with its legal advisors, the Partnership did not include separate financial information in the Financial Statements, because the additional information that would be provided as separate financial information that is attributed to the Partnership relative to the information included in the Consolidated Financial Statements is negligible, and therefore in accordance with accounting principles and securities laws, there is no need for the inclusion thereof.

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

- 1) The total assets in the separate statement (net of an investment in Ratio Financing and in Leviathan Development) out of the Partnership's total assets in the Consolidated Financial Statements.
- 2) The total liabilities in the separate statement out of the Partnership's total liabilities in the Consolidated Financial Statements.
- 3) The total comprehensive income in the separate financial statements out of the Partnership's total comprehensive income in the Consolidated Financial Statements.
- 4) The cash flow from operating activity in the separate financial statements out of the cash flow from operating activity in the Consolidated Financial Statements.

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

For information about connections and engagements with Ratio Financing and Leviathan Development, see Note 11 and Note 24C below.

D. Significant Accounting Estimates and Judgements

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

The Partnership forms estimates and assumptions with regard to the future. By their very nature, it is rare for the resulting accounting estimates to be identical to the actual respective results.

The significant judgments exercised and the estimates and assumptions in respect of which there is a significant risk of performance of material adjustments in the book value of assets and liabilities in the course of the subsequent financial year are specified below:

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

Note 2 - Basis of Preparation of the Financial Statements (Cont.):

1. Legal proceedings

In estimating the prospects of results of legal claims that have been filed against the Partnership, the Partnership relied on the opinion of its legal counsel. Such estimations by legal counsel are based on the best of their professional judgement, considering the stage of the proceedings, and the legal experience accumulated in the various issues. Since the results of the claims will be determined by the courts, such results may differ from these estimations. See Note 3P below.

2. Provision for asset retirement obligation

The Partnership recognizes an asset and a liability at the same time in respect of its obligation to retire oil and gas assets at the end of the period of use thereof. The timing and amount of the financial resources required for discharge of the obligation are based on the Partnership's estimation and determined, *inter alia*, according to the opinion of independent outside experts. Such amounts are examined periodically to ensure the fairness of such estimations. See Note 3P below.

3. Estimate of gas reserves

The estimate of gas reserves serves, *inter alia*, to determine the rate of amortization of the producing assets serving the operations during the reported period, as well as to examine potential impairment. Investments related to the discovery and production of proved gas reserves are amortized according to the depletion method as stated in Section 3I below.

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

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

4. Current taxes and deferred taxes on Income

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

The Partnership is assessed for tax purposes, and accordingly the Partnership's management is required to exercise significant judgment and use estimates in order to determine the total provision for taxes on income. The Partnership has many transactions and calculations, determination of the final tax liability in respect of which is uncertain in the ordinary course of business. The Partnership recognizes provisions for amounts expected to be paid to the tax authorities following tax audits, based on its estimates with respect to the possibility that it will be charged additional tax payments. If the final tax liability and/or updated estimates in the future are different to the estimates that have been used, the differences may affect the amounts of income tax expenses and the provisions for income taxes and/or the deferred tax liabilities to be recognized.

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

Note 2 - Basis of Preparation of the Financial Statements (Cont.):

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

5. Current maturities of loans from banking corporations

The timing and amount of repayment of loans from banking corporations (the "Loans") are based on the estimation of the GP's management with respect to the available cash flow to serve the repayment of the Loans according to the cash sweep mechanism, in accordance with the terms and conditions of the Partnership's loan agreement as specified in Note 11A below. Such amounts and their classification are periodically reviewed for the purpose of examining the fairness of the said estimation.

Note 3 - Significant Accounting Policies

A. Consolidated Financial Statements

A subsidiary is an entity which is controlled by the Partnership. A subsidiary is fully included in the consolidation from the date when control thereof is obtained by the Partnership. Its consolidation is terminated on the date when control terminates.

B. Translation of foreign currency transactions and balances

1) Functional currency and presentation currency

Items included in the financial statements of each of the Group's entities are measured in the currency of the principal economic environment in which that entity operates (the "Functional Currency"). The Consolidated Financial Statements are presented in U.S. dollars ("dollars" or "\$"), which is the Functional Currency of the Partnership and of each of the companies of the Group.

2) Transactions and balances

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

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

Note 3 - Significant Accounting Policies (Cont.):

C. Financial assets

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

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

a) Financial assets at amortized cost

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

The Group's financial assets at amortized cost are included in the following items, which appear in the statement of financial position: Cash and cash equivalents, short-term deposits, restricted deposits, trade receivables, operator of the joint venture, Ratio Trusts Ltd. – the Trustee – current account, other receivables, and net other long-term assets.

The Group recognizes a provision for credit losses in respect of financial assets measured at amortized cost.

b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets that are not classified into one of the other categories specified in IFRS 9.

Profits or losses deriving from changes in the fair value of financial assets at fair value through profit or loss are presented in profit or loss under the item of financial income or financial expenses in the period in which they derived.

Financial assets at fair value through profit or loss of the Group are included in the following items, which appear in the statement of financial position: Financial assets at fair value through profit or loss, financial assets at fair value through profit or loss - investment in Ratio Petroleum, derivative financial instruments.

As concerns the manner of measurement of the fair value of financial instruments of the Group, see Note 4.

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

Note 3 - Significant Accounting Policies (Cont.):

D. Bonds and loans from banking corporations

Bond and loan liabilities are initially recognized according to their fair value, net of transaction costs. In subsequent periods, bond and loan liabilities are measured at amortized cost. The difference between the amount of initial recognition of these liabilities (net of transaction costs) and the value of redemption thereof is recognized in profit or loss over the term of the bonds or the loans according to the effective interest method. Fees calculated based on the amount of the undrawn facility are recorded in profit or loss upon formation thereof.

E. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value, and also remeasured in subsequent periods at fair value. The method of recognition of profit or loss due to changes in the fair value of derivative financial instruments depends on the question whether the derivative instrument is intended as a hedging instrument, and in case it is so intended – the nature of the hedged item. Changes in the fair value of derivative financial instruments that are not qualified for hedge accounting are recorded in profit or loss under the financial income or financial expenses item. The Group has no financial instruments that satisfy the requirements for hedge accounting recognition.

F. Fixed assets and other long-term nonfinancial assets

Fixed assets and other long-term nonfinancial assets are measured by implementing the cost model. The depreciation in respect thereof is measured according to the straight-line method, so as to depreciate their cost to their salvage value over their expected useful life, as follows:

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

Leasehold improvements are depreciated according to the straight-line method over the term of the lease contract or the expected useful life of the improvements, whichever is shorter.

Other long-term nonfinancial assets are depreciated in a straight line over the estimated period of gas supply in the respective agreements, with the exception of assets under formation which the Group has not yet began to depreciate. Also see Note 9 below.

For oil and gas assets, see Section I below.

G. Borrowing Costs

Costs in respect of specific and general credit which are directly attributable to the acquisition, establishment of construction of an asset that meets the definition of “qualifying asset” were capitalized as part of the cost of the asset as of the date on which the conditions for capitalization are satisfied. Such credit cost capitalization was discontinued when, materially, all the activities required for preparation of the qualifying asset for its designated use or its sale have been completed. Oil and gas assets constituted a “qualifying asset” during their development period.

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

Note 3 - Significant Accounting Policies (Cont.):

H. Investments in and expenses of oil and gas exploration

The provisions of IFRS 6 – Exploration for and Evaluation of Mineral Resources (“**IFRS 6**”) determine the accounting treatment of gas and oil exploration costs. The Group applies the successful efforts method to its investments and expenses that pertain to oil and gas exploration. The key principles of the method are as follows:

- 1) Expenses of participation in the performance of seismic and geological surveys and tests that take place during the preliminary exploration stages are carried to profit or loss immediately when they are incurred, up to the stage of the formulation, pursuant to the performance of such surveys and tests, of a specific drilling plan.
- 2) Investments in oil and gas wells that are in drilling stages in respect of reservoirs which are yet to be proven as oil or gas producing and which are yet to be found to be non-commercial, are defined as evaluation and exploration assets and presented in the statement of financial position according to the cost model.

Evaluation and exploration assets are not methodically amortized, but are subject to impairment examination where facts and circumstances indicate that their book value may exceed their recoverable amount.

- 3) Investments in oil and gas wells, in respect of reservoirs which have been proven dry and have been abandoned or which have been found to be non-commercial or for which no near-future development plans have been made, are fully amortized to profit or loss.

Investments in oil and natural gas wells in respect of reservoirs which have been found to provide the technical feasibility and commercial viability of gas or oil production (examined in a gamut of events and circumstances which primarily revolve around obtaining approval from the Petroleum Commissioner in the Ministry of Energy (the “**Commissioner**”) that the reservoir is a commercial discovery and receipt of a lease deed from the Commissioner in the license area) are defined as oil and gas assets and classified, subject to the conduct of an impairment examination, from being defined as “investments in evaluation and exploration assets” to being defined as “investments in oil and gas assets”, and are presented in the statement of financial position according to the cost model.

I. Investments in oil and gas assets

The item ‘investments in oil and gas assets’ in the statement of financial position includes costs accrued in respect of proven oil and gas assets of the Partnership. Such costs mainly consist of exploration and confirmation wells, engineering plans, reservoir development planning costs, development wells, the construction of production facilities and pipeline for the transmission of oil and gas to the onshore delivery point, an onshore terminal, a storage facility, condensate transmission pipelines and an estimate of the expected asset retirement costs. In addition, the “oil and gas assets” item includes the capitalization of borrowing costs during the construction period.

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

Note 3 - Significant Accounting Policies (Cont.):

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

J. Impairment of nonfinancial assets

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

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

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

K. Cash and cash equivalents

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

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

L. Classification of cash flows in respect of interest and dividends in the statement of cash flows

In the consolidated statements of cash flows, the Group presents interest paid, interest received and dividends received under cash flows from operating activities. The Group also presents dividends paid under cash flows from financing activities.

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

Note 3 - Significant Accounting Policies (Cont.):

M. Joint operation agreements

The Partnership enters into contractual arrangements whereby two or more parties undertake the economic operations of oil and gas exploration in a jointly-owned asset. Businesswise, these arrangements are referred to as “joint ventures”. Arrangements that do not include a requirement for unanimous agreement by the partnering parties do not satisfy the definition of “joint control” according to the provisions of IFRS 11.

The oil and gas exploration operations take place under joint operation agreements (“**JOA**”). The key features of a JOA are as follows:

- 1) The JOA is a contractual arrangement whereby two or more parties undertake oil and gas exploration operations in a jointly-owned asset.
- 2) Ownership of the petroleum asset and all the tangible and intangible assets pertaining thereto (the “**Petroleum Asset**”) remains in the hands of the parties to the JOA and is not transferred or assigned to any entity or joint venture.
The JOA determines the parties’ rights and obligations in relation to the activities within the bounds of the jointly-owned asset. The output of the Petroleum Asset – the share of each one in the crude oil or natural gas being produced – to the extent found, net of the State’s share, are fully owned by each of the parties to the JOA (each according to its respective share), and each one of them is entitled to market its share of and engage with customers in relation to such products.
- 3) Each of the parties to the JOA is obligated to bear its share of the joint operating costs of the Petroleum Asset (which includes the oil/gas exploration, drilling, development and production activities).

In view of the foregoing, the JOA is treated as an undivided interest in the Petroleum Asset.

Accordingly, in its Financial Statements, the Partnership recognizes its share in the Petroleum Asset (net of amortizations and impairments, if any) and its share in the output thereof. In addition, and since the Partnership is obligated to bear its proportionate share in the arising operating costs, the Partnership also recognizes its share in the costs when incurred (and consequently also recognizes its share in liabilities incurred due to such costs).

The balance of ‘joint venture payables’ in the consolidated statements of financial position represents a liability in respect of the Partnership’s share of the costs created in the context of JOAs, which have been recognized as an asset or an expense, as relevant.

N. Recognition of revenues

The Group generates its revenues from the sale of natural gas to a variety of customers, usually in the context of long-term contracts. The Group’s revenues from natural gas sale are measured according to the sum of the consideration to which the Group expects to be entitled on its own behalf only, net of discounts. Accordingly, the entitlement of the State and third parties to royalties at a certain rate of the gas discovery is presented as an expense which is directly deducted from the natural gas sale revenues.

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

Note 3 - Significant Accounting Policies (Cont.):

The accrued difference between actually paid State and third-party royalties and royalties recognized in profit or loss according to the effective royalty rate is included in the consolidated statement of financial position under the item of 'net other long-term assets' (also see Note 18).

Revenues from natural gas sale are recognized by the Group when the customer receives the natural gas (at the various points of delivery as specified in the sale agreements), which is also when control over such goods is handed over to the customer and a trade receivable is recognized.

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

O. Profit (loss) per participation unit

Basic profit (loss) per participation unit is calculated by dividing the profit (loss) attributable to the participation unit holders by the weighted average of the number of participation units in circulation during the period.

Diluted profit (loss) per participation unit is calculated by adjusting the weighted average of the number of participation units in circulation by including the potential participation units with the diluting effect. The potential participation units are taken into account as described only when they have a diluting effect (one that reduces the profit or increases the loss per participation unit).

P. Provisions

Provisions are recognized when the Group has an existing legal or implied liability resulting from past events, a negative resource flow is expected to be required to discharge the liability and a reliable estimate of the liability amount may be made. The amount recognized as a provision is the best estimate of the expenditure required in order to discharge the liability existing on the date of the statement of financial position. Provisions are measured according to the present value of the projected cash flows that will be required to settle the liability, calculated through the use of a cap rate before tax, that reflects current market estimations with regard to the time value of the money and the risks that are specific to the liability.

As concerns the provision for disposal and retirement of oil and gas assets upon expiration of their term of use – the Group recognizes such provision which is initially measured at its current value, and the expenses deriving from its increase due to the lapse of time are carried to profit or loss under the 'financial expenses' item. The provision is recognized as part of the cost of oil and gas assets. Changes in the timing and amount of the financial resources required for discharge of the obligation and cap rate changes are either added to or subtracted from the asset in the current period concurrently with the change in the liability (the cap rate as of 31 December 2023 and 2022 and 2021 is approx. 6.9% and approx. 6.7% per annum, respectively). The statement of financial position states the balance of the liability under the item 'provision for oil and gas asset retirement and disposal obligation' and the balance of the asset under the 'net investments in oil and gas assets' item.

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

Note 3 - Significant Accounting Policies (Cont.):

Q. Government levies

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

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

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

R. Current and deferred taxes

The financial statements for 2021 do not include current income tax expenses, since the tax liability for the Partnership’s profits is imposed on the partners in the Partnership. Income tax payments made by the Partnership are on account of the tax for which the holders of the Partnership’s participation units are liable, and are deducted from the retained earnings item of the Partnership’s equity. Following an amendment to the Income Tax Regulations that was published during 2021, starting from the year 2022, the tax regime applicable to the Partnership has changed such that it is taxed as a company. See Notes 14A and 15E below. Therefore, as of 31 December 2021, the Partnership recognized a deferred tax liability due to temporary differences in its financial statements. Tax expenses for 2022 and 2023 include current and deferred taxes.

The amount recorded as current taxes is calculated based on the tax laws enacted or legislation of which has been de facto completed as of the date of the statement of financial position. The GP’s management periodically reviews the tax aspects applicable to its taxable income, according to the relevant tax laws, and records provisions according to the amounts expected to be paid to the tax authorities. Current taxes also include required adjustments to current taxes for previous years.

The Group recognizes deferred taxes for temporary differences between the amounts of the assets and the liabilities included in the financial statements, and their amounts as taken into account for tax purposes. The amount of deferred taxes is determined according to the tax rates (and tax laws) enacted or legislation of which has been de facto completed as of the date of the statement of financial position, and which are expected to apply when the deferred tax assets are realized or when the deferred tax liabilities are settled.

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

The tax implications of the change in the Partnership’s tax status were included in the income statement, because such implications do not concern transactions or events that were directly attributed to equity or to other comprehensive income.

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

Note 3 - Significant Accounting Policies (Cont.):

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

- 1) Amendment to an existing standard that has taken effect and is applied by the Group for annual reporting periods beginning as of 1 January 2023:

Amendment to International Accounting Standard (IAS) 1 – Presentation of Financial Statements, on the disclosure of accounting policies (in this section: the “**Amendment to IAS 1**”)

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

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

According to the provisions of the Amendment to IAS 1, it has been applied by the Group in these consolidated statements, as of 1 January 2023, and has led to reduction and focus of the information provided about its accounting policies compared with previous statements.

- 2) Amendment of an existing standard that has not yet taken binding effect and which the Group has not chosen to apply early:

Amendment to IAS 1 – Presentation of Financial Statements, on the classification of liabilities as current liabilities or non-current liabilities and on non-current liabilities with financial covenants (in this section – the “**Amendments to IAS 1**”).

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

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

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

Note 3 - Significant Accounting Policies (Cont.):

- b) The right to postpone the settlement of a liability in respect of a loan agreement for at least 12 months after the end of the reporting period is at times subject to the entity's compliance with the terms and conditions stipulated in the loan agreement ("**Financial Covenants**"). The classification of a liability in respect of such loan agreement as a current liability or a non-current liability will be determined only on the basis of the Financial Covenants which the entity is required to meet on or before the end of the reporting period. Financial Covenants which the entity is required to meet after the end of the reporting period will not be taken into account in such determination.
- c) Where a liability in respect of a loan agreement for which the entity is required to meet Financial Covenants during the 12 months after the end of the reporting period, is classified as a non-current liability, a disclosure will be made in the notes that enables users of the financial statements to understand the risk that the liability may be payable during the 12 months after the end of the reporting period. In this context, a disclosure will be made regarding the nature of the conditions that the entity is required to meet, the date of examination thereof, the book value of the related liabilities, and the facts and circumstances that indicate that the entity may have difficulty meeting these conditions. Such disclosure may refer to certain actions taken by the entity in order to prevent a potential breach of the conditions as well as the fact that the entity is not complying with the conditions based on the circumstances that exist at the end of the reporting period.
- d) The entity's intention regarding the exercise of an existing right to postpone the settlement of the liability for at least 12 months after the end of the reporting period is irrelevant for purposes of classification of the liability.
- e) Settlement of a liability may be done by way of transfer of cash, other economic resources or capital instruments of the entity. Classification of a liability as a current liability or as a non-current liability will not be affected by an existing right of the other party to demand the settlement of the liability by transferring capital instruments of the entity, if such right has been classified by the entity as part of the capital.

The Amendments to IAS 1 will be applied retrospectively with respect to annual periods beginning on or after 1 January 2024. The initial application of the Amendments to IAS 1 is not expected to have a material effect on the Group's consolidated statements.

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

Note 4 - Financial Instruments and Financial Risk Management

A. Financial risk management:

1) Financial risk factors

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

2) Market risks:

a) Exchange rate risks

The Partnership is exposed to exchange rate risks deriving from changes of the dollar/shekel exchange rate.

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

The gas prices in the agreements for the sale of gas from the Leviathan Reservoir are determined based on price formulas that include various linkage components, and, inter alia, linkage to the shekel-dollar exchange rate and linkage to the electricity production tariff which is partly affected by the shekel-dollar exchange rate.

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

If the shekel strengthened or weakened by 5% against the dollar, and if all other variables remained constant, the profit (loss) for the year and the Group's equity would change as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
	<u>\$ in thousands</u>			<u>\$ in thousands</u>		
	<u>5% Increase in ILS/\$ Exchange Rate</u>			<u>5% Decrease in ILS/\$ Exchange Rate</u>		
Increase (decrease) in equity	(399)	(2,089)	2,884	441	2,309	(3,188)
Increase (decrease) in profit per year	(399)	(2,089)	2,884	441	2,309	(3,188)

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

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

b) Price risk

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

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

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

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
	<u>\$ in thousands</u>			<u>\$ in thousands</u>		
	<u>5% Increase in Securities Indices</u>			<u>5% Decrease in Securities Indices</u>		
Increase (decrease) in equity	<u>831</u>	<u>1,456</u>	<u>825</u>	<u>(831)</u>	<u>(1,456)</u>	<u>(825)</u>
Increase (decrease) in profit per year	<u>831</u>	<u>1,456</u>	<u>825</u>	<u>(831)</u>	<u>(1,456)</u>	<u>(825)</u>

c) Natural gas and condensate price risk:

In natural gas supply agreements, the gas price is determined according to price formulas that include various linkage components, including linkage to the Brent barrel price, linkage to the electricity production tariff to which the gas agreements for private electricity customers are linked, and linkage to the shekel/dollar exchange rate.

In condensate supply agreements, the condensate price is determined according to price formulas that include a component of linkage to the price of a Brent barrel.

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

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

For details regarding the various linkage types in the natural gas and condensate price formulas, see Note 25C below. A considerable portion of the natural gas supply agreements into which the Partnership has entered also specify, along with the price formulas, floor prices that somewhat limit the exposure to fluctuations in linkage components. However, there is no certainty that the Partnership will be able to determine such floor prices also in new agreements signed in the future thereby.

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

A decrease in the Brent barrel price and/or in the electricity production tariff and/or an increase in the shekel/dollar exchange rate (a weakening of the shekel against the dollar) may have an adverse effect on the Partnership's revenues from the existing and future gas sale agreements. In addition, a significant change in the prices of other energy sources (including coal, LNG and other gas substitutes) and/or in the availability of existing energy sources (including the availability of renewable energy), increased competition in the supply of gas to the domestic, regional and global market, reforms and regulatory decisions relating, *inter alia*, to the electricity market, the export of gas, the taxation of oil and gas profits or environmental laws, may cause a change in the natural gas consumption model of large customers, which may reduce demand and lead to a decrease in the natural gas prices and have an adverse effect on the Partnership, its financial position and its results of operations. In addition, material events in the global economy, such as an economic slowdown, a recession, inflation, irregular fluctuations in currency exchange rates, trade wars, damage to the efficient functioning of the global production and supply chains in general, and to the segments of engineering, production and supply of components for the oil and gas industry in particular, as well as weather conditions, including global warming, the outbreak of pandemics such as Covid, and natural disasters, may also reduce the demand for natural gas sold by the Partnership and/or impact its price and/or have an adverse effect on the Partnership's revenues from the existing and future gas sale agreements, as well as on the making of decisions to invest in new natural gas projects and/or expansion of existing projects. The same is true for other global events, such as war. See Note 1F with respect to the Russia-Ukraine War that has a significant effect on the global demand for energy and energy prices.

Until 7 March 2024, condensate was sold to ORL free of charge. The Leviathan Partners entered into several agreements that allowed for an alternative to the piping and sale of the condensate produced from the Leviathan Reservoir. Also see Note 25C(6-8) below.

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

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

d) Indexation risk

The Group invests part of its cash balances in index-linked bonds and exchange traded/tracker funds, which are classified in the statement of financial position as financial assets at fair value through profit or loss, which expose the Partnership to changes in the index.

e) Cash flow and fair value interest rate risk

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

Loans/bonds that bear variable interest rates expose the Group to cash flow risk (as concerns the bonds in circulation as of the report date, in the event of early redemption, the calculation of the early redemption amount is affected, because one of the options for such calculation is capitalization of the cash flow balance (principal plus interest), it being capitalized, *inter alia*, according to the return on dollar government bonds), whereas loans/bonds that bear fixed interest rates expose the Group to fair value risk.

Changes in interest rates may also affect the cost of financing of the Partnership's future investments in oil and gas assets, including the development of Phase 1 – Second Stage of the Leviathan Project. Furthermore, the Partnership's readily available financial assets are invested as of the date of approval of the Financial Statements in dollar deposits. It is noted that changes in interest rates may affect the current yield of the deposits.

(1) Investments in bonds

The Group invests part of its cash balances in interest-bearing bonds that are classified in the statement of financial position as financial assets at fair value through profit or loss. This item is presented at fair value, based on quoted market prices. Accordingly, there is exposure to changes in the value of these investments as a result of changes in the market interest rate.

Because the Partnership ensures that it invests in bonds with a weighted average duration that is short-medium and whose ratings are no lower than (A-) in Israel and the corresponding ratings abroad, the GP's management estimates, as pertains to these investments, that it does not have material exposure to fair value interest rate risk. For the investment in Ratio Financing bonds, see Note 11B5A.

(2) Loans taken

The Partnership, through Leviathan Development, has taken a loan that bears a variable dollar interest rate and is therefore exposed to possible cash flow changes that may result from changes in the LIBOR/Term SOFR rates. As concerns the discontinuation of LIBOR on 30 June 2023, see Note 11A4 below.

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

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

As part of the Partnership's risk management, and in order to reduce its exposure in connection with increases in the LIBOR/Term SOFR rates in respect of the loan taken thereby, the Partnership entered into hedging transactions (see Note 11A5 below). (The IRS hedging transactions were made through Leviathan Development which grants the loan to the Partnership on back-to-back terms).

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

	2023	2022	2021	2023	2022	2021
	\$ in thousands			\$ in thousands		
	5% Increase in the LIBOR / Term SOFR Rate*			5% Decrease in the LIBOR / Term SOFR Rate*		
Increase (decrease) in equity	(963)	(343)	(43)	963	343	43
Increase (decrease) in annual profit	(963)	(343)	(43)	963	343	43

* LIBOR was discontinued on 30 June 2023, such that from the interest payment date following this date, the loan has been linked to the Term SOFR interest rate.

3) Credit risk

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

The trade receivables balance as of 31 December 2023 and 2022 is a current balance. The Partnership estimates that the credit risk vis-à-vis the local customers is low and that the credit risk in relation to gas produced vis-à-vis Blue Ocean Energy ("Blue Ocean") and the Jordanian National Electric Power Company ("NEPCO") is low in view of past experience and because the current balances outstanding against them are backed up in part by collateral provided thereby. However, in view of the security and economic situation in countries in the region, this risk has risen. In addition, until the date of approval of the Financial Statements, the Partnership received from its customers all of the income recorded in the trade receivables balance as of the date of the Financial Statements.

a) Unimpaired receivables balance and turnover:

	Revenues for the Year Ended 31 December 2023	Trade Receivables as of 31 December 2023		
		Total	Current Balance	Disputed Balance
	\$ in thousands			
NEPCO	98,030	15,151	15,151	-
Blue Ocean	208,265	42,560	42,560	-
Other customers – domestic market	55,999	6,749	6,749	-
Total	362,294	64,460	64,460	-

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

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

	Revenues for the Year Ended 31 December 2022	Trade Receivables as of 31 December 2022		
		Total	Current Balance	Disputed Balance
\$ in thousands				
NEPCO	107,443	18,073	18,073	-
Blue Ocean	176,803	43,160	43,160	-
Other customers – domestic market	95,698	4,096	4,096	-
Total	379,944	65,329	65,329	-

b) The Group deposits its cash and cash equivalents balances with banking corporations and other financial corporations whose rating is no lower than A1, and thus the Partnership estimates that the credit risk with respect to such balances is low.

4) Liquidity risk

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

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

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

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

	Less than 1 Year	Between 1 and 2 Years	Between 2 and 5 Years	More than 5 Years
\$ in thousands				
Balance as of 31 December 2023:				
Trade payables	200	-	-	-
Joint venture payables	23,370	-	-	-
Ratio Energy Management Ltd. – the GP	1,891	-	-	-
Other	116	-	-	-
Series D Bonds**	10,891	10,891	42,202	15,882
Loan from banking corporations*	18,062	57,913	449,025	-
Interest on Series D Bonds**	4,552	3,932	7,812	904
Interest on loan from banking corporations	45,127	40,484	50,206	-
Expenses payable	5,236	-	-	-
Current taxes payable	12,157	-	-	-
Total	121,602	113,220	549,245	16,786

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

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

* Sums relating to a loan from banking corporations are under the assumption of payment by installments of the loan principal balance and at final maturity, i.e., in 2027, plus additional sums on account of the loan principal, in variable amounts in accordance with certain debt coverage ratio estimates (DSCR Cash Sweep) as specified in the loan agreement (see Note 11A3). Furthermore, the calculation of the interest on a loan from banking corporations as of 31 December 2023 takes into account a fixed rate of Term SOFR interest as of 12 January 2024 and it is approx. 5.6% throughout the term of the loan. In addition, the cash flow calculation as of 31 December 2023 takes into account the hedges made with respect to the Term SOFR interest as specified in Note 11A5 below.

** Net sums, after deduction of the Partnership's share as specified in Note 11B5A.

	<u>Less than 1 Year</u>	<u>Between 1 and 2 Years</u>	<u>Between 2 and 5 Years</u>	<u>More than 5 Years</u>
	<u>\$ in thousands</u>			
Balance as of 31 December 2022:				
Trade payables	118	-	-	-
Joint venture payables	13,227	-	-	-
Ratio Energy Management Ltd. – the GP	1,056	-	-	-
Other	599	-	-	-
Series C Bonds	60,396	-	-	-
Series D Bonds	11,040	11,040	37,718	32,199
Loan from banking corporations*	-	-	520,000	-
Interest on Series C Bonds	6,040	-	-	-
Interest on Series D Bonds	5,244	4,615	10,068	2,753
Interest on loan from banking corporations*	40,189	42,035	101,726	-
Expenses payable	6,223	-	-	-
Current taxes payable	3,685	-	-	-
Total	<u>147,817</u>	<u>57,690</u>	<u>669,512</u>	<u>34,952</u>

* Sums relating to a loan from banking corporations are under assumption of payment by installments of the loan principal balance and at final maturity, i.e., in 2027, without additional sums on account of the loan principal, in variable amounts in accordance with certain debt coverage ratios (DSCR Cash Sweep) as specified in the loan agreement (see Note 11A3). Furthermore, the calculation of the interest on a loan from banking corporations as of 31 December 2022 takes into account a fixed rate of LIBOR interest as of 19 October 2022, and it is approx. 4.2% throughout the term of the loan. In addition, the cash flow calculation as of 31 December 2022 takes into account the hedges made with respect to the LIBOR interest as specified in Note 11A5 below.

6) Capital management

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

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

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

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

7) Fair value estimates

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

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

The table below presents the Group's financial assets which are measured at fair value as of 31 December 2023:

	Level 1	Level 2	Level 3	Total
	\$ in thousands			
Balance as of 31 December 2023:				
Assets:				
Financial assets at fair value through profit and loss:				
Financial assets at fair value through profit and loss	14,975	-	-	14,975
Financial assets at fair value through profit and loss – Investment in Ratio Petroleum	1,649	-	-	1,649
Derivative financial assets	-	6,100	-	6,100
Total assets	16,624	6,100	-	22,724

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

	Level 1	Level 2	Level 3	Total
	\$ in thousands			
Balance as of 31 December 2022:				
Assets:				
Financial assets at fair value through profit and loss:				
Financial assets at fair value through profit and loss	24,966	-	-	24,966
Financial assets at fair value through profit and loss – Investment in Ratio Petroleum	4,153	-	-	4,153
Derivative financial assets	-	7,884	-	7,884
Total assets	29,119	7,884	-	37,003

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

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

a) Financial instruments at level 1

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

b) Financial instruments at level 2

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

There were no reclassifications between the fair value levels during the reported years.

B. Financial Instruments:

1) Financial instruments by categories

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

31 December 2023:

	Financial assets at amortized cost	Assets at fair value through profit or loss		Total
		Assets held for trading	Equity instruments not designated at fair value through other comprehensive income	
\$ in thousands				
Current assets:				
Cash and cash equivalents	87,524	-	-	87,524
Financial assets at fair value through profit or loss	-	14,975	-	14,975
Short-term deposits	50,661	-	-	50,661
Derivative financial instruments	-	4,534	-	4,534
Trade receivables	64,460	-	-	64,460
Joint venture operator Ratio Trusts Ltd. the Trustee - current account	7,267	-	-	7,267
	257	-	-	257
Other receivables	393	-	-	393
Total current assets	<u>210,562</u>	<u>19,509</u>	<u>-</u>	<u>230,071</u>

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

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

	Assets at fair value through profit or loss			Total
	Financial assets at amortized cost	Assets held for trading	Equity instruments not designated at fair value through other comprehensive income	
	\$ in thousands			
Non-current assets:				
Financial assets at fair value through profit or loss – Investment In Ratio Petroleum	-	-	1,649	1,649
Derivative financial instruments	-	1,566	-	1,566
Net other long-term assets*	7,496	-	-	7,496
Restricted deposits	30,733	-	-	30,733
Total non-current assets	38,229	1,566	1,649	41,444

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

	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
	\$ in thousands		
Current liabilities:			
Trade payables	-	200	200
Joint venture payables	-	23,370	23,370
Ratio Energies Management Ltd. – the GP	-	1,891	1,891
Other	-	116	116
Current maturities of bonds	-	10,704	10,704
Current maturities of long-term loans from banking corporations	-	18,062	18,062
Interest payable	-	11,070	11,070
Expenses payable	-	5,236	5,236
Current taxes payable	-	12,157	12,157
Total current liabilities	-	82,806	82,806

	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
	\$ in thousands		
Non-current liabilities:			
Bonds	-	68,378	68,378
Net loans from banking corporations	-	501,080	501,080
Total non-current liabilities	-	569,458	569,458

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

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

31 December 2022:

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

	Assets at fair value through profit or loss			Total
	Financial assets at amortized cost	Assets held for trading	Equity instruments not designated at fair value through other comprehensive income	
\$ in thousands				
Non-current assets:				
Financial assets at fair value through profit or loss – Investment in Ratio Petroleum	-	-	4,153	4,153
Derivative financial instruments	-	2,849	-	2,849
Net other long-term assets*	5,365	-	-	5,365
Restricted deposits	6,507	-	-	6,507
Total non-current assets	<u>11,872</u>	<u>2,849</u>	<u>4,153</u>	<u>18,874</u>

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

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

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

	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
	\$ in thousands		
Current liabilities:			
Trade payables	-	118	118
Joint venture payables	-	13,277	13,277
Ratio Energies Management Ltd. – the GP	-	1,056	1,056
Other	-	599	599
Current maturities of bonds	-	72,456	72,456
Interest payable	-	11,278	11,278
Expenses payable	-	6,223	6,223
Current taxes payable	-	3,685	3,685
Total current liabilities:	-	108,692	108,692

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

- 2) Changes in financial liabilities the cash flows in respect of which are classified as cash flows from financing activities:

	Bonds	Net loans from banking corporations	Provision for tax and balancing payments	Total
	\$ in thousands			
Balance as of 31 December 2021	340,332	487,112	13,920	841,364
Changes in 2022:				
Cash flows received	-	50,000	-	50,000
Cash flow paid	(164,707)	(30,000)	(13,920)	(208,627)
Amounts carried to profit and loss	(23,030)	3,515	-	(19,515)
Balance as of 31 December 2022	152,595	510,627	-	663,222
Changes in 2023:				
Cash flows received	-	50,000	-	50,000
Cash flow paid	(72,486)	(45,000)	-	(117,486)
Amounts carried to profit and loss	(1,027)	3,515	-	2,488
Balance as of 31 December 2023	79,082	519,142	-	598,224

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

Note 5 - Cash and Cash Equivalents

	31 December	
	2023	2022
	\$ in thousands	
Cash in the bank	35,229	12,114
Short-term bank deposits	52,295	79,139
	87,524	91,253

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

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

	31 December	
	2023	2022
	\$ in thousands	
Shares, bonds and mutual funds held for trading:		
Investment in government bonds	1,205	19,296
Investment in corporate bonds	9,525	2,092
Investment via mutual funds	1,045	951
Investment in shares outside Israel	2,387	1,963
Investment in shares in Israel	813	664
Investment in Ratio Petroleum	1,649	4,153
Derivative financial instruments	6,100	7,884
	22,724	37,003

Changes in the fair value of financial assets at fair value through profit or loss are recorded under the 'net financial income (expenses)' item in the statement of comprehensive income (see Note 22).

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

	For the year ended 31 December		
	2023	2022	2021
	\$ in thousands		
Financial assets the measurement of which at fair value through profit or loss is required	4,015	5,904	737
Investment in Ratio Petroleum	(2,504)	(1,356)	(15,150)
	1,511	4,548	(14,413)

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

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

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

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

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

On 31 December 2020, a special general meeting was held of the unitholders, which, *inter alia*, approved the amendment to the Partnership's investment policy in a manner which will allow the GP to invest available money of the Partnership for the purpose of exercising warrants, up to the sum of ILS 60 million, provided that the Partnership's holding rate in Ratio Petroleum's equity shall not exceed 20%, and also to approve the GP to invest available money of the Partnership for the purchase of securities of Ratio Petroleum, up to the total accumulated sum of ILS 60 million.

In January 2021, the Partnership exercised Series 2 Warrants of Ratio Petroleum in consideration for approx. ILS 15.8 million, and in proximity to the last exercise date of such warrants, the Partnership sold 908,064 warrants in order to meet the holding rate limit of 20%. After such exercise and sale, the Partnership holds 44,964,832 participation units of Ratio Petroleum and a holding rate of 20% as noted.

As of 31 December 2023, 31 December 2022 and as of the date of approval of the Financial Statements, the Partnership holds 20% of the total participation units of Ratio Petroleum.

Note 7 - Other Receivables

	31 December	
	2023	2022
	\$ in thousands	
Institutions	363	757
Prepaid expenses	685	256
Other	30	291
	1,078	1,304

The book value of other receivables is a reasonable approximation of their fair value because the effect of capitalization is immaterial.

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

Note 8 – Net Investments in Oil and Gas Assets

A. Movement in investments in oil and gas assets:

	31 December	
	2023	2022
	\$ in thousands	
Cost:		
Balance at beginning of year	873,508	855,973
Additions	43,569	26,256
Write-offs	(404)	(85)
Update due to change in disposal and retirement obligation	1,088	(8,636)
	917,761	873,508
Accumulated depreciation:		
Balance at beginning of year	69,705	44,141
Changes during the year – depreciation and amortizations	22,021	25,564
Accumulated depreciation at end of year	91,726	69,705
Depreciated cost at end of year *	826,035	803,803

* The net investment balance includes a sum of approx. \$10.7 million and approx. \$9.8 million in respect of disposal and retirement costs as of 31 December 2023 and 2022, respectively.

B. Details with respect to the Partnership's interests in oil and gas assets

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

* The interest was granted for 30 years and may be extended by 20 additional years in accordance with the provisions of the Petroleum Law.

For details with respect to the Eran/353 license (the “**Eran License**”), see Section C11 below.

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

C. Ratio Yam joint venture:

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

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

Note 8 – Net Investments in Oil and Gas Assets (Cont.):

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

The Partnership	15.00%
Chevron	39.66%
NewMed Energy – Limited Partnership	45.34%

The Partnership together with Chevron and NewMed shall be hereinafter jointly referred to as the “**Leviathan Partners**” or the “**Partners**”.

- 3) Development and operation of the Leviathan Project

On 2 June 2016, the Commissioner approved the development plan as submitted by Chevron. This plan, which comprises two phases (Phase 1 – First Stage and Second Stage), consists of the supply of natural gas to the domestic market and for export in an aggregate volume of up to approx. 21 BCM per annum, as well as the supply of condensate to the domestic market (in this section: the “**Development Plan**” or the “**Plan**”). According to the Development Plan, a production system will be built that includes up to 8 initial wells to be connected by a subsea pipeline to a permanent platform (the “**Platform**”) located offshore within the territorial waters of Israel in accordance with the provisions of NOP 37/H, on which gas and condensate processing systems will be installed. The gas will be piped from the Platform to the northern entry point of the INGL's national transmission system, as defined in NOP 37/H (the “**INGL Connection Point**”). The condensate will also be piped to the shore via a separate pipeline parallel to the gas pipeline, and will be connected to an existing fuel pipeline of Europe Asia Pipeline Co. (“**EAPC**”) that leads to the tank farm of PEI and from there to Oil Refineries Ltd. (“**ORL**”). In addition, a condensate storage and offloading site will be set up to provide backup in the event that condensate cannot be piped to ORL.

The Development Plan is implemented in two principal phases, according to the maturity of the relevant markets, as follows:

- a) Phase 1 – First Stage – On 23 February 2017, the Leviathan Partners adopted a final investment decision (FID) for the development of Phase 1 – First Stage with a budget of approx. \$3.75 billion (100%). The aggregate cost invested in the development of Phase 1 – First Stage as of 31 December 2023 totals approx. \$4.1 billion (100%). 31 December 2019 saw the commencement of piping of natural gas from the Leviathan Reservoir to the domestic market. 1 January 2020 saw the commencement of sale of natural gas to Jordan, and 15 January 2020 saw the commencement of piping of natural gas to Egypt. See Note 25C below for engagements for the sale of natural gas and condensate.

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

Note 8 – Net Investments in Oil and Gas Assets (Cont.):

The current stage, at which 4 initial subsea production wells have been drilled, a subsea production system that connects the production wells and the Platform has been set up, and a system for transmission to the shore and related onshore facilities have been built. Gas production capacity at this stage is approx. 12 BCM per annum.

Considering the volume of gas production from the Leviathan Reservoir and the demand, and in order to enable the redundancy of the production system, the Operator recommended that the drilling of another development and production well, which had been planned to be drilled in later years, be brought forward to 2022. Accordingly, on 12 July 2021, the Leviathan Partners announced their decision to drill “Leviathan-8”, an additional development and production well in the area of the I/14 Leviathan South lease (the “**Well**”), with a budget of approx. \$226 million (100%; the Partnership’s share – approx. \$37 million) (including completion and connection to the production system of the Leviathan Reservoir). In Q2/2023, the work of completion and connection of the Well to the existing subsea production system of the Leviathan Project was finalized, and in June 2023 regular production from the Well commenced according to the timetables and within the budget.

In addition, in order to increase gas production capacity to approx. 14 BCM per annum as of mid-2025, the Leviathan Partners adopted a final investment decision (FID) on 29 June 2023 to execute a project in which a third subsea transmission pipeline would be laid down between the field and the Platform and systems on the Platform would be upgraded (the “**Third Pipeline**”), with a total budget of approx. \$568 million (100%; the Partnership’s share – approx. \$85 million). As of 31 December 2023, the aggregate cost invested in the said project totals approx. \$144.7 million (100%; the Partnership’s share – approx. \$21.7 million).

- b) Phase I – Second Stage – according to the information provided by the Operator, is expected to include, *inter alia*, 3 additional production wells, according to the production needs, related subsea systems and expansion of the Platform’s processing facilities so as to increase the total gas production capacity of the system to a total of up to ~21 BCM per annum. As of the date of approval of the Financial Statements, the Leviathan Partners are promoting the development of Phase 1 – Second Stage as described above, aiming to adopt a final investment decision (FID). This plan includes a modular expansion of infrastructures for the piping of natural gas and condensate from the Leviathan Reservoir, as noted above, and may also include the laying of a fourth subsea transmission pipeline from the field to the Platform, to allow for a maximum daily production capacity of approx. 2,100 MMCF (which quantity may increase by an additional 10%) (~21 BCM per annum) and supply to consumers in the domestic market and in the regional market, headed by the Egyptian market, including the export infrastructures in the country.

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

Note 8 – Net Investments in Oil and Gas Assets (Cont.):

During the years of operation of the project, additional production wells will be required, as per standard practice in the sector, to allow for production of the required volume and according to the redundancy level of the wells and production system defined from time to time by the Leviathan Partners.

- 4) On 21 December 2023, the partners in the Leviathan Project submitted to the Commissioner an in-principle application to approve an increase in the volume of export of natural gas produced from the Leviathan Project via an existing and future regional pipeline, along with an increase in the natural gas volumes to be piped from the Leviathan Project to the domestic market. As of the date of approval of the Financial Statements, a response to the Leviathan Partners' application has yet to be received, and there is no uncertainty that it will be granted, and if so – on what terms.
- 5) Under the joint operating agreement (JOA), as amended from time to time, it was agreed that Chevron would serve as the Operator and be exclusively responsible for the management of the joint operations. According to the rules of settlement of accounts specified in the agreement, Chevron is entitled as the Operator, in addition to reimbursement of direct expenses, also to reimbursement of indirect expenses, which are calculated every year according to the amount of the costs of exploration activities and verification according to the following formula: up to \$4 million – 4%; between \$4 million and \$7 million – 3%; between \$7 million and \$12 million – 2%; over \$12 million – 1%. In addition, Chevron is also entitled to indirect expenses at the rate of 1% out of all of the direct development and production expenses, as defined in the agreement, subject to certain exceptions. Payments to Chevron for indirect expenses in respect of 2023 and 2022 were included in the consolidated income statement in the sums of approx. \$195 thousand and approx. \$199 thousand, respectively, and payments included under 'net investments in oil and gas assets' and 'net other long-term assets' item in the statement of financial position, net totaled approx. \$494 thousand in 2023 and approx. \$333 thousand in 2022.
- 6) As part of the development of Phase 1 – Second Stage, in accordance with the Joint Operating Agreement, the Leviathan Partners approved in 2023 and 2024 budgets in the aggregate sum of approx. \$44.9 (100%; the Partnership's share – approx. \$6.7 million), for preparation and completion of a pre-FEED of the alternatives for expansion of the Leviathan Reservoir's production system, including the construction of subsea infrastructures, the connection of additional production wells, and the execution of the required changes on the Platform. As of the date of approval of the Financial Statements, the pre-FEED stage has been completed and in the Operator's estimation, the FEED is expected to commence in Q3/2024.

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

Note 8 – Net Investments in Oil and Gas Assets (Cont.):

In addition, in the said years the Leviathan Partners approved budgets in the aggregate sum of approx. \$51.5 million (100%; the Partnership’s share – approx. \$7.7 million), for the preparation of a pre-FEED to examine the various alternatives for the export of natural gas, *inter alia*, by means of construction of an FLNG facility. It is noted in this context that as part of the consideration of the option of constructing an FLNG facility, indications have been received that point to a substantial change in the estimated costs of constructing an FLNG facility, and the Leviathan Partners therefore intend to review in 2024 additional options for constructing an FLNG facility.

In the estimation of the Operator in the Leviathan Project prior to the preparation of the FEED, at this stage the estimated cost of Phase 1 – Second Stage (excluding the costs of a fourth pipeline) is approx. \$2.4 billion (100%; the Partnership’s share – approx. \$360 million). Insofar as a final investment decision (FID) is adopted for the development of Phase 1 – Second Stage during H1/2025, the estimated timetable for the production of first gas is expected to be in the period between mid-2028 and mid-2029.

7) Update of evaluation of resources in the Leviathan Reservoir

In March 2024 a report was received from Netherland, Sewell & Associates, Inc. (“NSAI”) evaluating reserves and contingent resources in the leases, updated as of 31 December 2023 (the “**Reserves and Resources Report**”).

According to the Reserves and Resources Report, which was prepared according to the rule of the Petroleum Resource Management System (SPE-PRMS), some of the resources in the Leviathan Reservoir are classified as reserves and some are classified as contingent resources. The stage of maturity of the project to which the natural gas and condensate reserves belong includes on production reserves to be produced from the Leviathan Project facilities and from the Third Pipeline project. The Leviathan Reservoir also has contingent resources of natural gas and condensate, which are classified as a project at the ‘development pending’ maturity stage.

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 2P reserves (Proved + Probable):	429.6	33.4
Estimated 2C resources (Contingent Resources):		
Phase I – First Stage	89.0	6.9
Future development	89.5	7.0
Total Proved + Probable Reserves and Best Estimate Contingent Resources – 2P+2C	608.1	47.3

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

Note 8 – Net Investments in Oil and Gas Assets (Cont.):

In the Reserves and Resources Report, the contingent resources are classified into two categories relating to each one of the phases of development of the reservoir, as follows:

Phase I – First Stage: Resources attributed to Phase I – First Stage of the development of the Leviathan Reservoir, plus the Third Pipeline project.

Future Development: Resources contingent on the adoption of additional investment decisions according to additional development phases of the Leviathan Reservoir (beyond the aforesaid Phase I – First Stage).

See Section 9 below with respect to uncertainty in the evaluation of contingent resources and reserves of natural gas and condensate.

8) Deep target drilling

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

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

As of 31 December 2023, no change has occurred in the details specified in the aforesaid report. See Section 9 below with respect to uncertainty in the evaluation of reserves.

The Partnership intends to examine the possibility of specification, drilling and development of the deep exploration targets in the area of the lease.

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

NSAI’s evaluations regarding the quantities of the reserves of natural gas and condensate in the Leviathan Reservoir are evaluations based, *inter alia*, on 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 they constitute mere estimates and assumptions of NSAI, in respect of which there is no certainty. The natural gas and/or condensate quantities that will actually be produced, may be different from the said estimates and assumptions, *inter alia* as a result of operating and technical conditions and/or regulatory changes and/or supply and demand conditions in the natural gas and/or condensate market and/or commercial conditions and/or as a result of the reservoirs’ actual performance. The said estimates and assumptions may be updated insofar as additional information accumulates and/or as a result of a gamut of factors related to oil and natural gas production projects, including as a result of additional analyses and modeling of existing and new information and of the actual production data from the reservoir.

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

Note 8 – Net Investments in Oil and Gas Assets (Cont.):

10) Leviathan 2 appraisal well

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

11) The Eran License

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

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

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

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

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

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

On 20 July 2022, all the Partners in the Licenses decided unanimously to submit a notice to the Petroleum Commissioner whereby the Partners in the Licenses waived all their interests therein. On 26 July 2022, such notice was delivered to the Petroleum Commissioner, and the Licenses expired accordingly on 27 October 2022. On 1 October 2022, the bank guarantee of approx. \$2.67 million, which the Partnership had provided for its share in the aforesaid Licenses, was cancelled.

E. Zone G licenses for offshore natural gas exploration in Israel

On 16 July 2023, the Partnership, together with the companies of ENI East Med, which was defined as the operator, and Dana Petroleum (East Med) Limited, submitted a bid in the fourth bid round for the receipt of licenses for offshore natural gas exploration in the waters of Israel, which had been issued in December 2022 by the Ministry of Energy (the “**Bid Round**”). On 29 October 2023, the Partnership received notice from the Petroleum Commissioner, whereby, in the Bid Round, the Partnership and its partners six offshore exploration licenses in a single zone, Zone G, which includes Licenses 27, 28, 36, 37, 70, 74 (collectively: the “**Licenses**”).

The Partnership, together with its partners, have paid the signature bonus they agreed to pay in the context of the Bid Round and have also provided the guarantees required for the grant (also see Note 25E4 below). The Partnership is presently working with its partners to complete several additional actions, after which the Licenses will be granted in accordance with the terms and conditions of the Bid Round.

On 12 December 2023, the general meeting of the participation unit holders approved, *inter alia*, the amendment of Section 5.1 of the limited partnership agreement and addition of the Licenses to the list of projects in which the Partnership may participate. Further details with respect to the Licenses, including the holding rates of the partners in the Licenses, are specified in the notice of meeting report released by the Partnership on 20 November 2023.

In 2020, The Partnership and Israel Opportunity reached understandings in 2020 in connection with the area of the Royee license, in which the Partnership previously held interests, whereby, *inter alia*, within a period determined between the parties, insofar as the area of the Royee license (in whole or in part) is re-offered by way of tender (or otherwise) and either party is interested in applying for the license (whether in the context of a tender or otherwise), such party will be obligated to offer the other party to join any such application. The Partnership contacted Israel Opportunity in connection with certain licenses in Zone G, but the parties have not yet reached an agreement as to whether Israel Opportunity will or will not join such licenses and for what share.

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

Note 9 - Net Other Long-Term Assets

	31 December	
	2023	2022
	\$ in thousands	
Pipeline for transmission of natural gas to Jordan (see Note 25C3)*	11,705	12,792
Usage fee for the EMG pipeline (see Note 25C4)*	32,181	35,490
Investment in the Combined Section (see Note 25C5)**	14,517	14,177
Investment in FAJR infrastructure (see Note 25C5B)*	642	385
Investment in FAJR+ Project (see Note 25C5B)**	2,879	-
Condensate transmission pipeline (see Notes 25C7 and 25C8)**	1,719	-
Investment in Nitzana Pipeline (see Note 25C5)**	1,048	-
State royalties receivable from the Ministry of Energy (see Note 18)	5,065	3,625
Overriding royalties receivable from interested parties (see Note 18)	2,431	1,740
	<u>72,187</u>	<u>68,209</u>

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

**Investment in the Combined Section, a condensate transmission pipeline, the FAJR+ Project and investment in the Nitzana Pipeline are pipelines under construction and the Partnership is therefore yet to begin depreciating the same. 7 March 2024 saw the commencement of condensate piping from the Leviathan Project to ARF.

Note 10 - Restricted Deposits

	31 December	
	2023	2022
	\$ in thousands	
Restricted deposits under current assets -		
Interest cushion for Series C Bonds (see Note 11B5D2)	-	3,657
Restricted deposits under non-current assets:		
Reserve deposit for debt service in respect of loan from banking corporations (see Note 11A3E)	24,063	-
Interest cushions for Series D Bonds (see Note 11B5D2)	2,730	2,567
Deposit due to guarantees (see Note 25E2 and 25E3)	3,940	3,940
	<u>30,733</u>	<u>10,164</u>

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

Note 11 - Financing of the Leviathan Project

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

A. Loans from banking corporations

- 1) In order to finance the Partnership's share in the Leviathan Project, on 9 August 2020, Leviathan Development entered into a refinancing agreement with a consortium of local and foreign financing banks, whereby a loan facility of \$650 million was provided to the Partnership (through Leviathan Development, which provides the loan to the Partnership Back-To-Back) (the "**Loan**" or the "**Refinancing Agreement**").
On 24 August 2020, all the closing conditions stipulated for the closing of the Loan agreement were satisfied and the Partnership repaid the Previous Loan.

As of 31 December 2023, the total loan facility available for withdrawal amounts to the full facility of \$650 million. From January 2024, the total facility available for withdrawal is reduced in quarterly installments, in accordance with the terms and conditions of the Loan specified in Section (3) below.

- 2) As of 31 December 2023 and 2022, and as of the date of approval of the Financial Statements, the Loan amounts that have been drawn down from the Loan facility total \$525 million and \$520 million, respectively. As part of the Partnership's debt and risk management, and subject to the terms and conditions of the financing agreement, the Partnership is given the option of reducing the undrawn Loan facility and/or prepaying (in whole or in part) the Loan, throughout the term of the Loan, without penalties. The fair value of the Loan as of 31 December 2023 and 2022 is approx. \$563 million and \$554 million, respectively.

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

During 2023 and 2022, the Group had financial expenses recognized in profit or loss in respect of the Loan (including attributed transaction costs) in the sum of approx. \$52.8 million and approx. \$34.3 million, respectively (approx. \$49.2 million and approx. \$30.2 million of which, respectively, were interest expenses).

As of 31 December 2023 and 2022, the Partnership complies with all of the covenants undertaken thereby under the Loan agreement, as specified in Section (3) below.

According to the cash sweep mechanism described in Sections (3)(b) and (3)(c) below, as of 31 December 2023, the management of the GP estimated that during the 12 months as of the date of the balance sheet (i.e., until 31 December 2024), it is expected that out of the balance of loans from banking corporations, repayment will be made of the principal of approx. \$18.1 million, which are classified in the condensed consolidated statement of financial position under current liabilities, under the 'current maturities of long-term loans from banking corporations' item.

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

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

3) Below are the key terms and conditions of the Loan

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

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

The use of LIBOR was discontinued on 30 June 2023, such that from the interest payment date following this date, the loan has been linked to the Term SOFR interest rate published by a competent body, the CME Group (Chicago Mercantile Exchange), plus a credit margin. This is a forward-looking periodic interest rate that is based on the SOFR interest. The amendment to the Loan agreement, as specified in Section (4) below, is in the application of the practical exemption granted as part of Stage 2 of the IASB project, which provides relaxations in the context of the reform for replacement of the benchmark interest rates for financial assets and liabilities measured at amortized cost, allowing for treatment of the change in the contractual cash flow calculation basis by way of update of the effective interest rate, such that entities are not required to apply write-off accounting.

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

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

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

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

- (a) A limit on the taking of additional credit, apart from the exceptions specified in the agreement, including, *inter alia*: (a) debt with limited recourse to an asset other than Leviathan; (b) the bonds, refinancing thereof, and additional bonds that shall be issued in the Partnership or in a company controlled thereby (subject to the terms and conditions specified in the agreement); (c) an additional unsecured debt and unsecured hedging transactions up to the sum of \$25 million each (also see the amendment to the Loan agreement with respect to secure hedging transactions in Section (4) below); and (d) an additional debt to secure financing for the construction of a pipeline or facilities for a future export project (which is not included in the development plan for the Leviathan Project), if any.
- (b) Compliance with a liquidity coverage ratio (hereinabove and hereinafter: “**LCR**”) calculated as a ratio between the Cash Flow from 2P Reserves (as hereinafter defined) and the balance of the Loan that was drawn down (net of the debt service reserve amount, as specified below), as of the date of the test. The Partnership undertook that in any event, the LCR at the end of each quarter shall be no less than 1.2. Insofar as the LCR shall be between 1.2 and 1.4, part of the Loan principal shall be repaid by part of the cash balance remaining in the Partnership’s income account (the “**Cash Balance**”) at such rates out of the Cash Balance as determined in the agreement (“**LCR Cash Sweep**”). Leviathan Development will be entitled to redraw the amount that was repaid as aforesaid as a loan, subject to compliance with an LCR that shall be no less than 1.4. It is noted that the Cash Flow from 2P Reserves until December 31, 2034 is calculated according to a bank scenario that is based on stricter and more conservative assumptions than those used in the discounted cash flow released by the Partnership in resource reports pursuant to the provisions of the Securities Law, including in relation to the amount and timing of the capital expenditures, the sale prices of natural gas (according to a price deck of the technical banks which, on the date of taking the Loan, reflects minimum prices in the agreements). The cash flow as aforesaid is before debt service costs and is discounted at 7% (hereinabove and hereinafter: “**Cash Flow from 2P Reserves**”).

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

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

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

- (c) From 2024, the quarterly principal payments will be supplemented by repayment of additional amounts on account of the principal at variable rates out of the Cash Balance (DSCR cash sweep) in accordance with specific debt service coverage ratios (“**DSCR**”), calculated as a ratio between the actual cash flow before the debt service cost and the debt service costs (principal, interest and fees) for the last 12 months. The Partnership undertook that in any event, the DSCR on the date of the test (quarterly) will be no less than 1.05.
- (d) Once every six months, the Partnership will be required to meet a liquidity test according to which it holds sufficient financing sources to meet its expected liabilities until the later of the date of payment of the bonds (August 2023) and 12 months after the test (the “**Liquidity Test**”). In addition, the Partnership undertook that at all times it shall maintain a cash balance of at least \$20 million.
- (e) The Partnership has undertaken to provide, no later than 3 months before 15 January 2024, a debt service reserve fund for principal payments (with no cash sweep repayments), interest and non-use for the succeeding 6 months. On 17 October 2023, the Partnership deposited \$24 million in a deposit presented under the ‘restricted deposits’ item under non-current assets in the consolidated statement of financial position as of 31 December 2023.

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

- (f) To preserve the rights of the Partnership in the joint operating agreement, in the Leviathan Leases and in the pledged assets (collectively in this note: the “**Project**”).
- (g) Not to create nor agree to the creation of additional pledges on the pledged assets, other than as permitted in the financing documents, and to ensure that all of the undertakings given by the Partnership or Leviathan Development in the context of the pledge documents are binding and lawful.
- (h) Not to change the Partnership’s operating sector in a material manner.
- (i) Not to purchase a material asset, with the exception of an investment in the Partnership’s operating sector, and additional investments up to the sum of \$35 million in Ratio Petroleum Energy – Limited Partnership.
- (j) Unless otherwise permitted in the financing documents, not to perform any restructuring that shall have or may reasonably have a material adverse effect (as defined in the agreement) (“**Material Adverse Effect**”).
- (k) To inform the trustee for the collateral of any new asset (as defined in the agreement) in connection with the Project.
- (l) Not to sell or transfer the Partnership’s shares in Leviathan Development.
- (m) To take the necessary measures in order to fulfill the Partnership’s undertakings in the context of the Project agreements.

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

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

- (n) Not to amend the Project agreements in a manner that shall constitute a material adverse change, without obtaining the approval of the majority of the lenders (which shall not be unreasonably withheld).
- (o) To pay all of the royalties that apply to the Partnership and not to act for the correction or increase of the royalties or for correction of the pledges that apply to the royalty, other than with the approval of the majority of the lenders.
- (p) Not to waive, settle or compromise on any claim in any legal proceeding, arbitration proceeding or administrative proceeding where such actions have or may reasonably have a Material Adverse Effect.
- (q) Not to sell or transfer the Partnership's rights in the joint operating agreement or in the Leviathan Leases, except in cases that are permitted according to the financing documents, including the option that was granted to the Partnership to sell rights in the Project in the context of the partial prepayment option, provided that after the sale the Partnership shall hold at least 5% of the rights in the Project (a sale at the end of which the Partnership shall hold less than 5% of the rights shall result in full repayment of the Loan).
- (r) To conduct its business in accordance with anti-corruption and anti-money laundering laws, to maintain a policy and procedures in order to promote and achieve compliance with anti-corruption laws, and not to allow any use of the Loan proceeds for any purpose prohibited by such laws.
- (s) Not to withdraw the balance from the Partnership's income account other than subject to compliance with the Payment Waterfall Withdrawal Conditions.
- (t) To comply with various representations which are deemed to have been given on the date of the signing of the agreement and on various dates set forth in the agreement, including, *inter alia*: the Partnership's obligations according to the pledge deed do not contradict or breach other obligations of the Partnership according to law or other agreements (as specified in the financing documents); the Partnership is duly incorporated under the law of the State of Israel, and it has the power and the authority to hold assets and to operate its business as it is currently being managed; the validity and enforceability of the Partnership's undertakings in the transaction documents (the financing documents and the Project agreements); the validity of the pledges according to the pledge agreement; the Partnership has not taken and has not had taken against it actions for its dissolution or insolvency (as specified in the financing documents); the Partnership is not exposed to legal proceedings (as defined in the agreement, including arbitration proceedings and administrative proceedings) which, if decided against the Partnership, may have a Material Adverse Effect; the validity of the undertaking with respect to money laundering and corruption (as defined above); the validity of the insurance policies (as defined in the agreement); the reasonableness of the assumptions underlying the Liquidity Test; compliance with environmental protection laws; and the Project agreements are in effect and no event has occurred which constitutes a breach thereof (which has or may reasonably have a Material Adverse Effect).

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

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

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

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

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

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

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

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

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

As noted above, the loan amounts that shall be provided to Leviathan Development under the Loan facility will be provided as a loan to the Partnership on Back-To-Back conditions. For details regarding the agreement for the loan from Leviathan Development to the Partnership, see Note 24C8.

4) Amendment to the Loan agreement

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

- (1) Change of the base interest from LIBOR to TERM SOFR (Secured Overnight Financing Rate)

The Financing Agreement stipulates a mechanism to determine an alternative base interest rate instead of the LIBOR interest, after use thereof was discontinued on 30 June 2023 (the “**Official Transition Day**”), as specified in Section (3) above. The amendment to the financing agreement specifies provisions in connection with the transition.

- (2) Specification of appropriate provisions in connection with hedging transactions to protect the Loan interest rate

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

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

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

- 5) As part of the Partnership's risk management, and in order to reduce the exposure related to a possible increase in the LIBOR interest rate on the Loan taken thereby, the Partnership has made several hedging transactions (the IRS hedging transaction below was made through Leviathan Development which, as noted, provides the Loan to the Partnership on back-to-back terms):
- (1) In Q1/2022, the Partnership bought CAP options to hedge \$150 million, which expired in July 2023. The options' exercise price ranges between 1.25% and 1.7352% against LIBOR interest for a period of 3 months. The fair value of the options as of 31 December 2022, in the sum of approx. \$3.6 million, is presented under the 'derivative financial instruments' item under 'current assets' in the condensed consolidated statement of financial position. Revenues from revaluation of the options' fair value as of 2023 and 2022 amounted to approx. \$0.1 million and \$3.7 million, respectively, and are presented under 'financial income' item in the condensed consolidated statement of comprehensive income.
 - (2) In Q3/2022, Leviathan Development entered into an IRS hedging transaction in the sum of \$100 million until the last interest payment date of the Loan. The average interest rate is fixed at approx. 2.82% in lieu of variable interest (LIBOR until July 2023 and Term SOFR from July 2023 until the maturity date). The fair value of the hedging transaction as of 31 December 2023 and 2022 is approx. \$3.8 million and approx. \$4.2 million, respectively, with approx. \$1.1 million and approx. \$3.5 million, respectively, presented under the 'derivative financial instruments' item under 'non-current assets' in the condensed consolidated statement of financial position, and approx. \$2.7 million and approx. \$0.7 million, respectively, presented under the 'derivative financial instruments' item under 'current assets' in the condensed consolidated statement of financial position. Revenues from revaluation of the hedging transactions' fair value as of 2023 and 2022 totaled approx. \$1.0 million and approx. \$4.2 million, respectively, and are presented under the 'financial income' item in the consolidated statement of comprehensive income.
 - (3) In Q2/2023, Leviathan development entered into an IRS hedging transaction in the sum of \$100 million from 16 January 2024 until the last interest payment date of the Loan. The interest rate is fixed at 2.917% in lieu of variable interest (Term SOFR). The fair value of the hedging transaction as of 31 December 2023 is approx. \$2.3 million, with approx. \$0.5 million presented under the 'derivative financial instruments' item under 'non-current assets' in the consolidated statement of financial position, and approx. \$1.8 million presented under the 'derivative financial instruments' item under 'current assets' in the consolidated statement of financial position. Revenues from revaluation of the hedging transactions' fair value as of 2023 totaled approx. \$2.3 million, and are presented under the 'financial income' item in the consolidated statement of comprehensive income.

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

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

B. Public capital and debt raising:

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

a) Series B Bonds

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

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

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

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

b) Series C Bonds

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

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

On 31 August 2023, the final third of the nominal value of the said bonds was repaid in accordance with their terms and conditions.

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

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

To execute the full redemption of the Series C Bonds on 31 August 2023 as noted, and in accordance with the approval of the trustee for the Series C Bonds, Ratio Financing used funds that had been deposited in the interest cushion account as defined in Section 7.5 of the Series C Bonds indenture, which had been deposited in accordance with the provisions of the indenture.

Upon execution of the full redemption of the Series C Bonds, Ratio Financing discharged all of its liabilities to the Series C bondholders and such bonds were delisted from TASE.

c) Series D Bonds

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

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

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

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

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

Among other things, the Indentures include provisions and restrictions regarding an expansion of the bond series and provisions with respect to the issue of new bond series.

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

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

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

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

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

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

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

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

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

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

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

In accordance with Section 9.2 of the Series B Bonds indenture, the amount paid to the holders of Series B Bonds is the market value of the balance of the Series B Bonds in circulation (net of the bonds purchased by the Partnership), which is determined based on the average closing price of the Series B Bonds in the thirty (30) trading days preceding the date of the board's decision on the early redemption and in total approx. ILS 235.6 million (the early redemption rate according to this alternative is ILS 1.1440167 per ILS 1 par value redeemed (the "**Early Redemption Rate**"). This amount constitutes the highest amount among the three alternatives specified in the Series B Bonds indenture for early redemption. Of this amount, the outstanding Series B Bond principal in circulation amounted to approx. ILS 205.9 million plus an amount for the early redemption of approx. ILS 22.7 million, plus interest of approx. ILS 7 million (figures in 100% terms).

To execute the full early redemption of the Series B Bonds, and in accordance with the trustee's approval, Ratio Financing made use of the funds deposited in the interest cushion account as defined in Section 7.5 of the Series B Bonds indenture, which had been deposited in accordance with the provisions of the indenture. See Note 15F below with respect to depositing by the Partnership of the deposit in the Series B Bond interest cushion account in connection with an interim profit distribution carried out by the Partnership in September 2022.

Upon execution of the full early redemption of the Series B Bonds, Ratio Financing discharged all of its liabilities to the holders of the Series B Bonds of Ratio Financing and the Series B Bonds were delisted from the TASE. Furthermore, the pledges registered in favor of the Series B bondholders pursuant to the indenture were removed.

The difference between the amount paid to the Series B bondholders according to the Early Redemption Rate and the liability value according to which the Series B Bonds were presented in the books on the Early Redemption Date, was carried to the Partnership's consolidated statement of comprehensive income in Q4/2022 as loss from early redemption (after deduction of the Partnership's share) in the amount of approx. \$1.3 million (approx. ILS 4.8 million).

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

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

5) Terms and conditions of the bonds:

	Series B Bonds		Series C Bonds		Series D Bonds	
	December 31					
	2023	2022 ^{(1), (4)}	2023 ^{(1), (4)}	2022	2023 ⁽⁴⁾	2022
Par value (ILS in thousands) (a)	-	-	-	211,325	260,443	300,000
Book balance (\$ in thousands) ⁽²⁾ (a)	-	-	-	61,616	79,082	90,979
Fair value (\$ in thousands) (a)	-	-	-	63,572	77,041	86,309
Principal payment date (c)	33.33% - 31 August 2021 33.33% - 31 August 2022 33.34% - 31 August 2023		33.33% - 31 August 2021 33.33% - 31 August 2022 33.34% - 31 August 2023		12% - 31 October 2023 12% - 31 October 2024 12% - 31 October 2025 12% - 31 October 2026 17% - 31 October 2027 17.5% - 31 October 2028 17.5% - 31 October 2029	
Interest payment date (c)	31 August of each of the years 2017 through 2023		31 August of each of the years 2018 through 2023		30 April and 31 October of each of the years 2021 through 2029 starting from 31 October 2021.	
Effective date for interest and principal payment	25 August of each of the years 2017 through 2023.		25 August of each of the years 2018 through 2023.		24 April for payments paid on 30 April and 25 October due to payments paid on 31 October of each of the years 2021 through 2029.	
Nominal interest on the balance of the outstanding principal (b) (see also Section 2 above) with respect to the Additional Interest as defined below	2% - 31 August of each of the years 2017 to 2020. 18.5% - 31 August of each of the years 2021 to 2023.		2% - 31 August of each of the years 2018 to 2019. 10% - 31 August of each of the years 2020 to 2023.		Annual interest rate of 5.7% to be paid in semi-annual installments.	
Annual effective interest rate	7.58% (ILS)		6.68% (\$)		6.1% (\$)	
Interest paid over the year's course (\$ in thousands)	-	21,025	5,894	11,859	5,234	5,244
Linkage basis	-		The principal and the interest of the Series C Bonds will be linked to the rate of the dollar on 30 November 2017 (i.e., \$1=ILS 3.499) (the "C Base Rate")		The principal and the interest of the Series D Bonds will be linked to the rate of the dollar on 1 July 2021 (i.e., \$1=ILS 3.261) (the "D Base Rate")	
Rating	Unrated		Unrated		Unrated	
Collateral for the Series D Bonds ⁽³⁾	Royalty from the Partnership and the interest cushion account, as defined below, pledged.					

- (1) The Series B Bonds were fully redeemed on 6 November 2022. For further details, see Section 4 above. The Series C Bonds were fully redeemed on 31 August 2023, in accordance with their terms and conditions. For further details, see Section 1B above.
- (2) Excluding accrued interest and including current maturities.
- (3) The pledges on the said collateral were removed following the redemption of Series B Bonds and Series C Bonds.
- (4) After deduction of bonds purchased by the Partnership. See Section (a) below.

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

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

- a) During the year ended 31 December 2020, the Partnership purchased 88,803,562 par value Series B Bonds of Ratio Financing in consideration for approx. ILS 108.6 million (approx. \$31.8 million). Accordingly, the Partnership recorded in 2020 a loss of approx. \$781 thousand from the purchase of Series B bonds. As of 31 December 2020, the Partnership held approx. 14.38% of all of Ratio Financing's Series B Bonds. During the year ended 31 December 2021 the Partnership purchased another par value 7,847,265 Series B Bonds of Ratio Financing in consideration for approx. ILS 10.5 million (approx. \$3.2 million). Accordingly, in 2021 the Partnership recorded a loss from the purchase of Series B Bonds in the sum of approx. \$140 thousand. In view of the aforesaid, as of the date of early redemption of the Series B Bonds as stated in Section 4 above, the Partnership held approx. 15.65% of all Series B Bonds of Ratio Financing.

As part of a process for reduction of the Partnership's debts, and in accordance with the GP's board resolution of 28 March 2023, permitting the purchase of Series C and Series D Bonds of Ratio Financing, insofar as constituting a good business opportunity at such time, up to a total par value of ILS 300 million (over and above the quantity of Series C Bonds held by the Partnership as of the date of the board resolution), in Q1/2023 the Partnership made purchases of Ratio Financing's Series C Bonds in the par value of ILS 4,659,575 (representing, until the date of redemption of the Series C Bonds, approx. 2.2% of the total issued par value of Ratio Financing's Series C Bonds) in consideration for approx. ILS 4.8 million (approx. \$1.4 million).

On 19 October 2023, the aforesaid resolution was updated, and the GP's board authorized the purchase of Series D Bonds of Ratio Financing, insofar as constituting a good business opportunity at such time, up to a total par value of ILS 150 million. The Series D Bonds purchased and to be purchased by the Partnership (if any), pursuant to the said board resolution, shall not be offered for sale on or off TASE. In October and November 2023, the Partnership made purchases of Ratio Financing's Series D Bonds in the par value of ILS 3,924,400 (representing approx. 1.35% of the total issued par value of Ratio Financing's Series D Bonds) in consideration for approx. ILS 4.6 million (approx. \$1.1 million).

The 'short-term deposits' item presented in the consolidated statement of financial position is partly intended to serve such bond purchases.

The items 'liability in respect of long-term bonds', 'current maturities of bonds' and 'interest payable on bonds', which are included in the statement of financial position, are presented after deduction of the bonds purchased as noted above.

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

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

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

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

On 8 December 2016, 6 February 2018 and 5 August 2021, the Commissioner's Approval was received for registration of the pledge over the royalty in the Petroleum Register, in connection with Series B Bonds, Series C Bonds and Series D bonds, respectively. Further to Section 4 above regarding the full early redemption of the outstanding Series B Bonds, the royalty and the pledge on the royalty registered in the Petroleum Register in connection with the Series B Bonds have been removed. Moreover, further to Section 1(b) above regarding the full redemption of Series C Bonds, the royalty and the pledge on the royalty registered in the Petroleum Register of in connection with the Series C Bonds have been removed.

- c) On 31 August 2022, in accordance with the terms of the Series B and Series C Bonds, one third of the nominal value of the Series B and Series C Bonds was redeemed in the sum of approx. \$52.3 million (which is the net amount after offsetting the Partnership's share) and a sum of approx. \$59.3 million, respectively, and interest was paid in the sum of approx. \$19.4 million (which is the net amount, net of the Partnership's share) for the Series B Bonds, and a sum of approx. \$11.9 million for the Series C Bonds. Accordingly, the Partnership then paid Ratio Financing the Partnership's liabilities for payment of the principal and interest for the Series B Bonds (net of the Partnership's share) and the Series C bonds.

According to the terms and conditions of the Series D Bonds, on 30 April 2022 and on 31 October 2022, payments were made of approx. \$2.6 million (approx. ILS 8.7 million) and approx. \$2.6 million (approx. ILS 9.2 million), constituting the interest payments on the Series D Bonds, respectively.

On 31 August 2023, in accordance with the terms and conditions of Ratio Financing's Series C Bonds, the final third of the nominal value of these bonds, in the amount of approx. \$58.9 million (which is the net sum, after deduction of the Partnership's share – see Section (a) above), was repaid, as was interest in the amount of approx. \$5.9 million (which is the net amount, after deduction of the Partnership's share – see Section (a) above) in respect of the Series C Bonds. Accordingly, on that date the Partnership paid Ratio Financing the Partnership's liabilities for payment of the principal and interest in respect of the loan provided to the Partnership by Ratio Financing on terms identical to the terms of the Series C Bonds.

In accordance with the terms and conditions of the Series D Bonds, on 30 April 2023 and on 31 October 2024, approx. \$2.6 million (approx. ILS 9.5 million) and approx. \$2.6 million (approx. ILS 10.7 million) (which is the net amount after deduction of the Partnership's share), respectively, were paid, constituting the interest payments in respect of the Series D bonds.

- d) Collateral:

(1) Royalty from the Partnership

For details with respect to each of the royalties granted by the Partnership to Ratio Financing, see Note 24C6F below.

As noted, the pledges over the royalty in respect of the Series B Bonds and the Series C Bonds were removed in December 2022 and January 2024, respectively, following redemption of Series B Bonds and Series C Bonds, respectively.

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

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

(2) Interest cushion accounts

In accordance with the indenture for the Series B Bonds and the indenture for the Series C Bonds, the Partnership has accounts for 'interest cushions' in its name (a separate account for each of the bond series) that were pledged in favor of the trustee for the holders of Series B Bonds and Series C Bonds (the "**Trustee**"). Following the full early redemption of the Series B Bonds as noted, the pledge on the interest cushion account in connection with the Series B Bonds was removed in November 2022. It is further noted that following the execution of the full redemption of the Series C Bonds as noted, the pledge on the interest cushion account in connection with the Series C Bonds was removed in September 2023.

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

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

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

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

An amount equal to the subsequent interest payment in respect of the Series D Bonds is deposited in the interest cushion account in connection with the Series D Bonds (as of 31 December 2023 – approx. \$2.7 million).

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

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

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

Such interest cushions are presented under restricted deposits item in the consolidated statement of financial position.

Note 12 - Interest Payable

	31 December	
	2023	2022
	\$ in thousands	
Interest payable in respect of bonds	763	2,901
Interest payable in respect of loans from banking corporations	10,307	8,377
	11,070	11,278

The book value of interest payable is a reasonable approximation of its fair value because the effect of capitalization is immaterial.

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

	31 December	
	2023	2022
	\$ in thousands	
Opening balance	12,488	20,782
Movement during the year:		
Provisions update	1,088	(8,636)
Increase deriving from the lapse of time	580	342
Closing balance	14,156	12,488

Note 14 - Taxation

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

- 1) Until 31 December 2021 the Partnership was not assessed for tax purposes, and the taxes on its taxable income were attributed to the participation unit holders. Therefore, no revenues and expenses for taxes on income were recorded in the Partnership's books. For details on the tax regime that applied to the Partnership until 31 December 2021, see Note 15E.

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

Note 14 - Taxation (Cont.):

- 2) On 3 August 2021 a draft was approved for the Income Tax Regulations (Rules for Calculation of the Tax on the Holding and Sale of Participation Units in a Petroleum Exploration Partnership) (Amendment), 5782-2021 (the "**Regulations**"). According to the language of the Regulations, inter alia, from the 2022 tax year, the Partnership will be considered a "closed partnership" which is deemed as a company under the Income Tax Order (Types of Partnerships which are Deemed as a Company), 5777-2017. The Regulations were published in the Official Gazette on 14 September 2021. Accordingly, from 2022 the Partnership is taxed as a company (i.e., in the two-stage method). The tax rate applicable to the Partnership from 2022 is the corporate tax rate of 23%. The Partnership's taxable income is measured in Israeli shekels for tax purposes.

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

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

- 3) Deferred income taxes:

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

	Net		
	investments in oil and gas assets	Other	Total
	\$ in thousands		
Balance of deferred tax asset (liability) as of 31 December 2021	(29,024)	4,301	(24,723)
Movement in 2022 –			
Changes recorded in profit and loss	<u>(25,226)</u>	<u>(6,218)</u>	<u>(31,444)</u>
Balance of deferred tax liability as of 31 December 2022	(54,250)	(1,917)	(56,167)
Movement in 2023 –			
Changes recorded in profit and loss	(16,324)	(497)	(16,821)
Changes recorded against a liability	<u>-</u>	<u>12</u>	<u>12</u>
Balance of deferred tax liability as of 31 December 2023	<u>(70,574)</u>	<u>(2,402)</u>	<u>(72,976)</u>

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

Note 14 - Taxation (Cont.):

4) Taxes on income included in the consolidated statement of comprehensive income:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
	<u>\$ in thousands</u>		
Current taxes –			
Current taxes on the profit of the reported year	22,740	15,706	-
Deferred taxes –			
Deferred tax expenses	16,821	31,444	24,723
Income tax expenses	<u>39,561</u>	<u>47,150</u>	<u>24,723</u>

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

	For the year ended 31 December	
	<u>2023</u>	<u>2022</u>
	<u>\$ in thousands</u>	
Profit before income taxes, as reported in the consolidated statement of comprehensive income	166,378	196,696
The tax rate applicable to the Partnership	23%	23%
Tax calculated according to the tax rate applicable to the Partnership	38,267	45,240
Measurement differences between the reported income for tax purposes (ILS) and the books (\$)*	1,577	4,574
Differences in respect of which no deferred taxes were created in previous years	-	(2,088)
Exempt income net of non-deductible expenses, net	(260)	(240)
Other	(23)	(336)
Income tax expenses	<u>39,561</u>	<u>47,150</u>

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

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

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

Note 14 - Taxation (Cont.):

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

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

- 8) Tax ruling regarding a natural gas export agreement between the holders of interests in the Leviathan Project and NEPCO (the "**Export Agreement**").

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

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

Note 14 - Taxation (Cont.):

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

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

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

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

The Levy rate will be calculated according to an R factor type mechanism (the “**Coefficient**”), according to the ratio between the net aggregate income from the project and the aggregate investments, as defined in the Law. A minimal Levy rate of 20% will be collected from the stage at which the Coefficient ratio reaches 1.5, and as the ratio increases the Levy will progressively rise up to the maximum rate, upon the ratio’s reaching 2.3. The maximum rate of the Levy which is: 50% minus the product of 0.64 multiplied by the difference between the corporate tax rate set forth in Section 126 of the Income Tax Ordinance (with respect to each tax year) and 18% (according to the corporate tax rate in 2021, the maximum rate of the Levy is 46.8%).

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

Note 14 – Taxation (Cont.):

Moreover, additional provisions were determined with respect to the Levy, *inter alia* the Levy shall be recognized as an expense for the purpose of calculation of income tax; the Levy limits shall not include transmission facilities that are used for export; the Levy shall be calculated and imposed with respect to each petroleum right separately (ring fencing); in the case of payment by a holder of a petroleum right that is calculated, *inter alia*, as a percentage of the produced oil (“**Derivative Payment**”), the payment recipient will be obligated to pay a Levy according to the amount of the Derivative Payment that it received, while the amount of the Levy attributed to the recipient of the Derivative Payment shall concurrently be deducted from the Levy amount for which the holder of the petroleum right is liable. It is noted that as of the date of approval of the Financial Statements, in all of the petroleum rights in which the Partnership holds a share, the Partnership is not yet liable for the Levy. With respect to the method of the accounting treatment of the Levy in the Partnership’s Financial Statements, see Note 3Q.

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

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

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

On 6 January 2022, the Leviathan Leases levy report for 2020 was submitted to the Tax Authority, and on 31 December 2023, an assessment to the best judgment according to Section 14(b)(2) of the Law was received from the Tax Authority. On 12 December 2023 Leviathan Leases levy reports for the years 2021 and 2022 were submitted.

The levy coefficient rate in the Leviathan Leases as of the date of the financial statements is lower than 1.5 and the impact of the aforesaid assessments and disputes may be expressed in the calculation of the Coefficient. In addition, the interest holders in the Leviathan venture have reached agreements with the Tax Authority regarding the consolidation of the Leviathan Leases (North and South) as a single petroleum venture for purposes of the Law and the reports according thereto, in accordance with the provisions of Section 8(a) of the Law.

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

Note 14 - Taxation (Cont.):

On 2 December 2020, the Taxation of Profits from Natural Resources Regulations (Advances due to the Petroleum Profit Levy), 5781-2020 were published, regulating the payment of the advances to be paid by holders of petroleum interests in a petroleum project, including the method of calculation of the advances, the dates of payment thereof, and the reporting thereon (the “**Advances Regulations**”). The Partnership is examining the impact of the Advances Regulations and consulting with the Partnership’s tax advisors. However, at this stage, the Partnership does not expect the Advances Regulations to have any impact in the years in which the Partnership is in any event not expected to be liable for a Levy.

- 2) On 7 January 2021 the Taxation of Profits from Natural Resources Legislative Memorandum (Amendment), 5781-2021 (the “**Proposed Amendment**”) was released for public comment. It includes several proposed amendments to the Law, including the following: (1) Amending Section 11 of the Law to allow the Tax Authority to collect a disputed levy already after the Tax Authority’s decision in the administrative objection to the levy assessment, and before the dispute is resolved in court; (2) Amending Section 13 of the Law to require approval of the levy reports by a CPA as defined in the Certified Public Accountants Law, 5715-1955; (3) Amending Sections 14-15 of the Law to enable extension of the period of assessment of the levy reports from one year from the date of filing of the levy reports to four years from the end of the year in which the levy report was filed; (4) Adding Section 16A of the Law, which concerns the application of the provisions of Section 86 of the Ordinance regarding the authority of the Assessing Officer to ignore certain transactions; and (5) Adding Section 41A of the Law which concerns authorizing the assessing officer to impose a fine on the deficit arising from the difference between the actual levy charge and the levy payment according to a self-assessment.

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

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

Note 14 - Taxation (Cont.):

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

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

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

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

Note 14 - Taxation (Cont.):

- 5) For purposes of a substitution of assets, it was determined that the provisions of Section 96 of the Ordinance may be applied with respect to the substitution of a physical asset in a specific venture (such as a rig, pipelines, wells and machinery) with a physical asset in another venture, all subject to compliance with the terms and conditions of the section.
- 6) Compensation for direct damage due to acts of war and hostility – it was clarified that the Property Tax and Compensation Fund Law, 5721-1961 will apply to the production facilities, including the processing and the pipelines of the petroleum ventures, insofar as they are located within the area of the State of Israel, including in the EEZ of the State of Israel. This clarification shall be expressed in the Marine Zones Law that shall be enacted.
- 7) Interest due to loans from foreign residents which meet the criteria set forth in Section 16(4) of the Income Tax Ordinance and in the Income Tax Order (Exemption from Tax for Interest Paid by an Israeli Resident due to a Loan from a Foreign Resident), 5748-1988 shall be taxed at a rate of 5%.

Note 15 – The Partners’ Equity

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

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

As of 31 December 2023, 2022 and 2021, the number of Participation Units in circulation is 1,123,871,146.

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

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

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

The composition of the investment in the limited partnership:

	<u>LP – Ratio Trusts Ltd.</u>	<u>GP – Ratio Energies Ltd.</u>	<u>Total Equity</u>
	<u>Participation Units</u>		
	<u>\$ in thousands</u>		
Balance as of 31 December 2020	175,550	10	175,560
Movement during 2021:			
Exercise of Series 19 Warrants	18	*	18
Advance tax payments for participation unit holders	(13,230)	(1)	(13,231)
Balancing payments for corporations and tax payments for individuals	(13,919)	(1)	(13,920)
Net profit for the year	<u>77,433</u>	<u>8</u>	<u>77,441</u>
Balance as of 31 December 2021	225,852	16	225,868
Movement during 2022:			
Profit distributed	(24,995)	(2)	(24,997)
Net profit for the year	<u>149,531</u>	<u>15</u>	<u>149,546</u>
Balance as of 31 December 2022	350,388	29	350,417
Movement during 2023:			
Profit distributed	(64,993)	(7)	(65,000)
Advance tax payments received for previous years	11,477	1	11,478
Net profit for the year	<u>126,804</u>	<u>13</u>	<u>126,817</u>
Balance as of 31 December 2023	<u>423,676</u>	<u>36</u>	<u>423,712</u>

* Represents an amount lower than \$1 thousand.

- B. The Partnership’s revenues, expenses and losses are divided between the LP and the GP, such that the LP’s share amounts to 99.99% and the GP’s share amounts to 0.01%.
- C. Following are investments made in the Partnership’s equity from 1 January 2020 to the date of approval of the Financial Statements:

<u>Date</u>	<u>Type of transaction</u>	<u>Number of Participation Units issued</u>	<u>Number of warrants issued</u>	<u>Net investment in equity (\$ in millions)</u>
July 2021	Exercise of Series 19 Warrants*	27,771	-	0.018

*109,153,387 Series 19 Warrants expired on 20 July 2021.

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

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

D. Warrants issue

Series 19 Warrants

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

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

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

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

To the best of the Partnership's knowledge, the issue of the method of implementation of Section 19 of the Law, on the level of the relations between the oil partnership and the Tax Authority, was at the center of legal proceedings that were conducted in recent years with respect to the limited partnerships NewMed and Isramco Negev 2, Limited Partnership. On 1 November 2017, the District Court's judgment was received, in which it was ruled *inter alia* that: (a) the tax payment that derives from the provisions of Section 19 should not be deemed as an equal distribution, in a uniform amount per unit, but rather as a differential payment according to the various tax rates which apply to individuals and corporations; (b) payment of the tax under Section 19 creates a difference in the expense incurred by the Partnership between individuals and corporations, but Section 19 concerns the collection of tax and not regulation of the relations between the holders of the participation units; and (c) as long as the collection arrangement prescribed in Section 19 is in effect, the Partnership and/or the GP are required to find the appropriate method to balance between the additional expense entailed by the tax rate applicable to individual holders and the expense entailed by the tax rate applicable to corporate holders. After filing appeals from such judgment, on 28 July 2019, the Supreme Court's judgment (C.A. 917/18) was received, rejecting the position of the said partnerships, and ruling, *inter alia*, that the tax payments under Section 19 of the Law constitute a type of differential tax withholding, according to the maximum tax rate applicable to an individual or to a company, according to the holder.

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

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

According to this decision, tax payments under Section 19 of the Law do not constitute a profit distribution by the Partnership. With respect to the ostensible inequality created between the holders as a result of the differential tax payments, the decision determined that an arrangement in which the Partnership shall bear the full tax rate of the partners, individuals and companies alike, as mandated by the section, and in addition or further thereto, shall make balancing payments to corporate partners, is not a "distribution" as defined in the law, but rather an outcome mandated by the fact that payments were made out of the profits "on account of the tax". The decision stated that the court does not purport to make recommendations or to set hard and fast rules regarding the balancing payment technique.

According to their public reports, pursuant to the aforesaid judgment, the partnerships NewMed and Isramco Negev 2 – Limited Partnership intended to apply to the court with a motion for instructions regarding the proper balancing arrangement according to which they are required to act in connection with tax payments under Section 19. On 15 March 2020, Isramco Negev 2 – Limited Partnership publicly reported about such an application to the court, whereas NewMed publicly reported a similar application on 13 July 2020.

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

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

On 8 November 2023, the Partnership publicized temporary tax certificates for eligible holders for the holding of participation units of the Partnership in the aforesaid years. According to the tax reports filed by the Partnership for the tax years 2020 and 2021, which are subject to audit by the Tax Authority, in the tax years 2020 and 2021, the Partnership had no taxable income. It is clarified that these certificates are merely temporary and the final tax certificates for the tax years 2020 and 2021 will be issued only upon completion of the Tax Authority's audit of each of the aforesaid years. As of the date of approval of the Financial Statements, the Tax Authority has begun the audit of the Partnership's tax reports for the tax years 2020 and 2021.

As specified in the temporary tax certificates, in the event that an additional tax charge applies according to the final tax assessment, the Partnership will bear the additional tax liability according to the weighted tax rate of all the participation unit holders according to their holding at the close of the day of 31 December of the tax year according to the maximum tax rate (47% for individuals and 23% for companies). The final reconciliation for each of the unit holders shall be made pursuant to the Partnership's final tax assessment for each of the said tax years and the final tax certificate to be issued accordingly. Unit holders who will file tax reports pursuant to the temporary tax certificates will be required to complete the report according to the final tax certificates as noted.

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

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

From the tax year 2022, as noted, there is no need to make balancing payments in view of the taxation of oil and gas partnerships as companies. See Note 14A.

F. Distribution of profit

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

The distribution of Profits to holders of the Partnership's participation units is recognized as a liability in the Partnership's statement of financial position in the period in which the distribution was approved by the GP's board.

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

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

For the avoidance of doubt, it is hereby clarified that the GP may not – without approval by the general meeting of the unit holders by special resolution or upon approval by the Commissioner with the consent of the court – refrain from the distribution of Profits or delay the distribution of Profits other than for the purpose of performing work on development, production, liquefaction, flow pipelines, marketing, etc. in connection with the Leviathan Leases, as approved from time to time by the GP in accordance with the JOA that applies to the Leviathan Leases or any other agreement that shall apply between the partners in the Leviathan Leases in connection with the oil from the Leviathan Leases and activities, plans for which were included in a prospectus or which were reported in the Partnership's reports.

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

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

On 12 December 2023, a general meeting of the holders of the Partnership’s participation units was held which, *inter alia*, authorized the GP, in accordance with the provisions of Section 12 of the partnership agreement, to refrain from distributing profits or to postpone distributing profits for the purpose of performance of exploration, development, production, liquefaction, flow pipeline, marketing work, etc. in connection with the Zone G licenses in accordance with a work plan and budgets that shall be approved by the partners in the Licenses in accordance with the terms and conditions of the Licenses.

The opinion of the accountant of the limited partnership (appointed as the accountant of the limited partnership concurrently with the signing of such agreement or an accountant who shall take his place) with respect to the determination of the amount of the Profits available for distribution as Profits and the calculation of the share of the Partners according to the limited partnership agreement in the Partnership’s revenues, expenses and losses – shall be final and conclusive. If the office of the said accountant becomes vacant for whatever reason, another accountant shall be appointed in his place by the GP, provided that the Supervisor gives his written consent to the appointment.

Profit distribution amounts:

- 1) On 30 August 2022, the GP’s board of directors approved an (interim) profit distribution in the sum of \$25 million, with the record date for the distribution being 8 September 2022. The said profit distribution was carried out on 21 September 2022. In accordance with the terms and conditions of the Series B bonds issued by Ratio Financing, prior to the performance of the said profit distribution, the Partnership deposited a deposit in the sum of the outstanding loan amount (principal and interest) in respect of the Series B Bonds in the interest cushion account for the Series B Bonds. On 6 November 2022, the Series B Bonds were repaid and the said deposit was released.
- 2) On 28 March 2023, the GP’s board of directors approved a profit distribution in the sum of \$35 million, with the record date for the distribution being 10 April 2023. The said profit distribution was carried out on 24 April 2023.
- 3) On 23 August 2023, the GP’s board of directors approved an (interim) profit distribution in the sum of \$30 million, with the record date for the distribution being 31 August 2023. The said profit distribution was carried out on 14 September 2023.
- 4) On 27 March 2024, the New GP’s board of directors approved a profit distribution in the sum of \$30 million, with the record date for the distribution being 4 April 2024. The said profit distribution will be carried out on 16 April 2024.

G. Tax advance payments, tax payments and balancing payments

The Partnership has made the following payments in respect of the tax year 2021:

- 1) In December 2021, the Partnership made payments in the sum of approx. \$13.2 million (approx. ILS 41.5 million) for income tax advances at the corporate tax rate (23%) for the tax year 2021, based on an initial assessment of the taxable income (the “**Tax Advances**”).

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

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

- 2) Since the tax rates applicable to a holder who is an individual are higher than the tax rates applicable to a body corporate, and since, according to the decision of the Supreme Court in the matter of Section 19 as specified in Section e. above, the tax payments in respect of the Partnership's taxable income as well as balancing payments paid to holders who are bodies corporate do not constitute a "distribution" as defined by law, in January 2022 the Partnership made additional tax payments based on the initial assessment of the taxable incomes, such that for each Participation Unit a fixed and uniform amount was paid as a tax payment for a holder who is an individual and as a balancing payment for a holder who is a body corporate (jointly: the "**Payments**") in the amount of approx. \$13.9 million (approx. ILS 43.3 million). The Payments were calculated as a product of the estimated taxable income, multiplied by the difference between the maximum tax rate applicable to an individual holder and the tax rate applicable to a corporate holder. From the aforesaid payments, no tax deduction was made for a holder who is a body corporate, and a tax deduction at a rate of approx. 100% was made for a holder who is an individual. See also Section 1 above.
- 3) On 8 May 2023, a refund was received for the advance corporate tax payments that had been paid for 2021 following the submission of the tax report for 2021 by the Partnership, in respect of which the Partnership had no taxable income, as specified in Section E above.

The Tax Advances, the Payments and the said refund of the Tax Advances are presented in the statements on changes in partners' equity under the items 'advance tax payments for participation unit holders' and 'balancing payments for corporations and tax payments for individuals' and 'advance tax payments received for previous years'.

As concerns the change in the Partnership's governing tax regime, such that it is taxed as a company in respect of its taxable income as of 2022, see Note 14A above.

H. Cash-settled consultant option plan

In September 2016, the Board of the Partnership's GP, approved a "Phantom Plan – Officers and Consultants 2016" (the "**Options**" and the "**Plan**", respectively), that are exercisable for a financial bonus and not securities of the Partnership. According to the Plan, up to 80,000,000 Options shall be granted for no consideration, each one exercisable for a financial bonus in an amount equal to the difference between the price of the Partnership's participation unit on the exercise date and the exercise price of the option (the "**Exercise Price**"). The Exercise Price is determined according to the higher of: (a) the average price of the participation unit on TASE during the 30 trading days preceding the grant date; (b) 5% above the price of the participation unit on TASE at the end of the trading day preceding the date of approval of the allotment by the Board. Subject to the terms and conditions of the Plan, unless the Options are exercised before, the Options will expire upon the earlier of (1) the expiration of five years as of the grant date; (2) up to 120 days after the termination of work relations between the Partnership and the grantees. Accordingly, and consequently to the consolidation of the Partnership's units on 6 January 2017 (at a ratio of 8 to 1, see also Section A above), the quantities of the Options that were granted were adjusted. The options that had been granted on 12 September 2016 expired on 12 September 2021. On 2 June 2022, 472,244 Options were exercised according to the terms and conditions of the Plan and the option agreement. After the exercise date, there have remained no Options under the Plan.

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

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

I. Shelf Prospectus

On 23 May 2023, the Partnership released a shelf prospectus under which securities may be offered to the public. The issue of securities of the Partnership under the shelf prospectus and listing thereof are subject to receipt of the approvals required by law and shall be in accordance with shelf offering reports, insofar as released.

Note 16 – Linkage Terms of Financial Assets and Financial Liabilities

	31 December 2023			Total
	In \$	In non- linked ILS	In CPI- linked ILS	
\$ in thousands				
Current assets:				
Cash and cash equivalents	73,446	14,078	-	87,524
Financial assets at fair value through profit or loss	9,929	3,543	1,503	14,975
Short-term deposits	50,661	-	-	50,661
Short-term derivative financial instruments	4,534	-	-	4,534
Trade receivables	64,460	-	-	64,460
Operator of the joint venture	7,267	-	-	7,267
Ratio Trusts Ltd. – the Trustee – current account	-	257	-	257
Other receivables	22	371	-	393
Total current assets	210,319	18,249	1,503	230,071
Non-current assets:				
Financial assets at fair value through profit or loss – investment in Ratio Petroleum	-	1,649	-	1,649
Long-term derivative financial instruments	1,566	-	-	1,566
Net other long-term assets	7,496	-	-	7,496
Restricted deposits	30,733	-	-	30,733
Total non-current assets	39,795	1,649	-	41,444
Current liabilities:				
Trade payables	74	126	-	200
Joint venture payables	23,370	-	-	23,370
Ratio Energies Management Ltd. – the GP – current account	1,891	-	-	1,891
Other	-	116	-	116
Current maturities of bonds*	10,704	-	-	10,704
Current maturities of long-term loans from banking corporations	18,062	-	-	18,062
Interest payable	11,070	-	-	11,070
Expenses payable	4,616	620	-	5,236
Current taxes payable	-	12,157	-	12,157
Total current liabilities	69,787	13,019	-	82,806
Non-current liabilities:				
Bonds*	68,378	-	-	68,378
Net loans from banking corporations	501,080	-	-	501,080
Total non-current liabilities	569,458	-	-	569,458

* Linked to the Dollar.

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

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

	31 December 2022			
	In \$	In non- linked ILS	In CPI- linked ILS	Total
	\$ in thousands			
Current assets:				
Cash and cash equivalents	71,530	19,723	-	91,253
Financial assets at fair value through profit or loss	9,242	14,176	1,548	24,966
Short-term deposits	30,355	-	-	30,355
Restricted deposit	-	3,657	-	3,657
Short-term derivative financial instruments	5,035	-	-	5,035
Trade receivables	65,329	-	-	65,329
Operator of the joint venture	10,737	-	-	10,737
Ratio Trusts Ltd. – the Trustee – current account	-	269	-	269
Other receivables	264	784	-	1,048
Total current assets	192,492	38,609	1,548	232,649
Non-current assets:				
Financial assets at fair value through profit or loss – investment in Ratio Petroleum	-	4,153	-	4,153
Long-term derivative financial instruments	2,849	-	-	2,849
Net other long-term assets	5,365	-	-	5,365
Restricted deposits	6,507	-	-	6,507
Total non-current assets	14,721	4,153	-	18,874
Current liabilities:				
Trade payables	19	99	-	118
Joint venture payables	13,277	-	-	13,277
Ratio Energies Management Ltd. – the GP – current account	1,056	-	-	1,056
Other	599	-	-	599
Current maturities of bonds*	72,456	-	-	72,456
Interest payable	11,278	-	-	11,278
Expenses payable	5,625	598	-	6,223
Current taxes payable	-	3,685	-	3,685
Total current liabilities	104,310	4,382	-	108,692
Non-current liabilities:				
Bonds*	80,139	-	-	80,139
Net loans from banking corporations	510,627	-	-	510,627
Total non-current liabilities	590,766	-	-	590,766

* Linked to the Dollar.

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

Note 17 – Revenues from the Sale of Natural Gas

- A. The Partnership’s revenues originate from natural gas sales to its various customers, all in accordance with engagement agreements signed therewith, as specified in Note 25C below.
- B. The Partnership’s main customers in 2023 were Blue Ocean with approx. 57% of the sales and NEPCO with approx. 27% of the sales. The Partnership’s main customers in 2022 were Blue Ocean with approx. 46% of the sales and NEPCO with approx. 28% of the sales.
- C. The total quantity of natural gas sold in 2023 and 2022 in the Leviathan Project (for all the Leviathan Partners) totaled approx. 10.97 BCM and approx. 11.38 BCM, respectively.
- D. For details with respect to agreements for the sale of natural gas and condensate by the Leviathan Partners, see Note 25C.

Note 18 – Royalties

Composition:

	For the year ended 31 December	
	2023	2022
	\$ in thousands	
Royalties to the State	38,633	39,156
Royalties to interested parties (also see Note 24C1D)	18,543	18,795
	57,176	57,951

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

In accordance with a demand letter received from the Ministry of Energy in October 2023, the Leviathan Partners are required to pay the State advances on account of the State royalties in respect of the revenues from the Leviathan Project in 2023 at a rate of 11.06%, in lieu of a rate of 11.26%, as the Leviathan Partners paid from the date of commencement of the gas supply from the Leviathan Reservoir in accordance with a demand letter received from the Ministry of Energy in January 2020. The said demand determined that the final royalty liability in relation to the entire payment period will be determined in accordance with instructions to be finalized and the annual audit reports. According to a letter from the Ministry of Energy that was received in January 2024, the rate of 11.06% will continue also in 2024.

The method of payment of the royalty advances to the State is used also for payment of overriding royalty advances to the interested parties. The Partnership pays the overriding royalty rate specified in the partnership agreement multiplied by such rate as specified in the Ministry of Energy Demand and divided by 12.5%.

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

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

Note 18 – Royalties (Cont.):

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

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

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

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

Consequently, since Q2/2022, the Partnership has made an adjustment to the royalty expenses recorded in its financial statements from the date of commencement of the gas supply from the Leviathan Reservoir and until the report date, such that they reflect the Specific Instructions.

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

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

Note 18 – Royalties (Cont.):

In the Partnership's estimation, the actual rate of the State royalty should be approx. 10.79% in 2021, approx. 10.97% in 2022 and approx. 10.73% in 2023. The aggregate difference between the State royalties actually paid according to the rate of the advances set in accordance with the Ministry of Energy Demand and the said effective State royalty rate totaled approx. \$5.1 million and approx. \$3.6 million as of 31 December 2023 and 2022, respectively, and was included in the consolidated statement of financial position under the 'net other long-term assets' item, see Note 9 above. It should also be pointed out that according to the calculation made by Chevron, in accordance with the royalties report it submitted to the Ministry of Energy for the years 2020 and 2021, the rate of the State royalties in the Leviathan Project was approx. 9.58% and approx. 10.17%, respectively.

The method of calculation of 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. 5.15% in 2021, approx. 5.26% in 2022 and approx. 5.15% in 2023. The aggregate difference between the overriding royalties actually paid and the said effective overriding royalty rate totaled approx. \$2.4 million and approx. \$1.7 million as of 31 December 2023 and 2022, and was included in the consolidated statement of financial position under 'net other long-term assets' as of 31 December 2022, see Note 9 above.

On 1 September 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 response has yet to be received.

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

Note 19 – Cost of Natural Gas and Condensate Production

	For the year ended 31 December		
	2023	2022	2021
	\$ in thousands		
Salary and professional consulting fees	4,361	4,064	*5,434
Protection and security	308	671	939
Transportation and haulage	1,306	1,189	1,100
Operation management and operator fee	4,444	5,077	4,649
Insurance	4,046	3,713	3,410
Natural gas transmission cost	22,913	16,517	8,491
Administration – operator of the joint venture	3,970	5,093	*5,679
Maintenance	5,048	4,565	4,608
Other	1,341	1,695	3,027
	<u>47,737</u>	<u>42,584</u>	<u>37,337</u>

* Reclassified

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

Note 20 – Oil and Gas Exploration Expenses

	For the year ended 31 December		
	2023	2022	2021
	\$ in thousands		
Zone A and Zone C licenses (Note 8D)	-	131	1,093
Zone G licenses (Note 8E)	1,156	-	-
	1,156	131	1,093

Note 21– G&A Expenses

	For the year ended 31 December		
	2023	2022	2021*
	\$ in thousands		
Payroll expenses*	3,595	3,858	2,766
GP management fee	1,140	1,140	785
Office expenses	423	436	405
Directors’ fees and related expenses	338	466	465
Professional services	1,808	1,541	959
Legal	1,247	1,168	710
Employee options	-	(5)	(155)
Other	1,084	941	798
	9,635	9,545	6,733

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

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

Note 22 – Financial Expenses/Income

	For the year ended 31 December		
	2023	2022	2021
	\$ in thousands		
Financial income:			
Interest on deposits	5,268	1,016	165
Dividend and interest	322	273	126
Net exchange rate differentials	-	6,304	-
Profit from revaluation of derivative financial instruments	3,369	7,957	-
Profit from early redemption of Series D Bonds	87	-	-
Other	570	470	-
Indexation and interest in respect of institutions	1,445	-	-
	<u>11,061</u>	<u>16,020</u>	<u>291</u>
Financial expenses:			
Loss from revaluation of assets at fair value through profit or loss	1,858	3,409	14,413
Bank expenses	562	518	476
Costs in relation to loans from banking corporations	52,839	34,352	24,277
Loss from early redemption of Series B and Series C Bonds	10	1,354	140
Interest and discount expenses in respect of bonds	8,088	19,408	26,976
Net exchange rate differentials	723	-	2,920
Expenses for changes in oil and gas asset retirement obligation due to the lapse of time	580	342	231
	<u>64,660</u>	<u>59,383</u>	<u>69,433</u>

Note 23 – Profit Per Participation Unit

A. Basic

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

	For the year ended 31 December		
	2023	2022	2021
Profit attributed to the holders of the Participation Units (\$ in thousands)	<u>126,817</u>	<u>149,546</u>	<u>77,441</u>
The weighted average of the number of issued Participation Units	<u>1,123,871,146</u>	<u>1,123,871,146</u>	<u>1,123,856,584</u>
The basic profit per participation unit (\$)	<u>0.113</u>	<u>0.133</u>	<u>0.069</u>

B. Diluted

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

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

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

A. Transactions with interested parties and related parties

	For the year ended 31 December		
	2023	2022	2021
	\$ in thousands		
Overriding royalties (see Section C1)	18,543	18,795	15,855
Geological consultancy (see Section C4)	72	144	144
Operator fee to the GP (see Section C1B)	-	-	771
Management fees to the GP (see Section C1C)	1,140	1,140	785
Sums paid to the GP for:			
Expenses entailed by the management of the Partnership's business (see Section C1)	-	-	36
Director compensation and related expenses (see Section C1)	338	466	423
Compensation and expenses of the LP, the trustee (see Section C1)	2	2	2

“Interested parties” – as defined in the Securities Regulations (Annual Financial Statements), 5770-2010.

“Related party” – within the definition of such term in IAS 24 (Amended) – “Related Party Disclosures”.

B. Balances with interested parties and related parties

	31 December	
	2023	2022
	\$ in thousands	
Negative (positive) balance as of the date of the statement of financial position		
The GP – current account	(1,891)	(1,056)
The GP – non-current account*	1,216	870
Geologist – current account - included in payables	(843)	(796)
Geologist – non-current account*	1,216	870
The trustee – current account	257	269

* The balance presented in the table above is presented under the ‘net other long-term assets’ item in the statement of financial position, in respect of adjustment of the royalty rate. For further details, see Note 18 above.

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

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

C. Engagements with interested parties and related parties

- 1) Engagements with interested parties and related parties deriving from the partnership agreement

According to the partnership agreement signed on 20 January 1993 (as amended) (the “**Partnership Agreement**”), the Partnership undertook to make the following payments:

- a) Until 22 April 2021 – to pay the GP:
- (1) \$10,000 per month – for compensation of the directors of the GP (direct or indirect shareholders of the GP).
 - (2) \$7,000 per month – for coverage of all expenses entailed by the management of the Partnership’s business (such as the Partnership’s bookkeeping, preparation of financial statements and approval thereof for tax purposes, accountant fees, legal advice and computer services).
 - (3) \$2,000 per month – for the use and maintenance of the offices and for office services.
 - (4) To pay Director compensation according to the Companies Regulations (Rules on Compensation and Expenses of Outside Directors), 5760-2000 for the directors who are not the directors described in Section 1 above.
- b) In addition, in accordance with the Partnership Agreement, until 22 April 2021, the GP was entitled to operator fee at the rate of 7.5% of the costs of the petroleum exploration, development of the petroleum assets and petroleum production of the Partnership, and to 3.5% of the costs of work on construction and/or installation of petroleum production facilities. The said operator fee was paid in addition to the payments made to the operator of the joint venture.
- c) On 27 May 2021, the general meeting of the holders of the Participation Units approved a management services arrangement between the Partnership and the GP, in lieu of the fixed payments paid to the GP as specified in Section (a) above and in lieu of the operator fee as specified in Section (b) above, according to which, for the provision to the Partnership of management services, consulting services, business development services, advise and support in areas of funding and financing, strategy, collaborations, crisis management and other services necessary for the management of the Partnership’s business, which will be provided through officers of the GP, whom the Partnership and the GP consider as control holders of the GP, the GP will be entitled to receive management fees from the Partnership totaling \$95,000, plus VAT, each month. All other management expenses of the Partnership and the GP, of whatever kind, will be borne by the Partnership. In addition, and in accordance with the provisions of Section 65YY(g)(1) of the Partnerships Ordinance, the Partnership shall reimburse the GP any and all management expenses of the Partnership actually borne by the GP, except such expenses to be paid, directly or indirectly, to the control holders of the GP and expenses for which the control holders of the GP have a personal interest in their payment, provided that such expenses to be paid for the purpose of engaging with a director as to the terms of his office and employment, will be in accordance with the law. The aforesaid management services arrangement commenced on 23 April 2021 and will be in effect for three years.

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

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

- d) Payment of an overriding royalty to the GP (in the matter of replacing the GP in Ratio Energies Management Ltd., see Section 2 below), at an overall rate of 6% (6% overriding royalty before payout), of any share thereof in the petroleum to be produced and utilized from the petroleum assets in which it has an interest or shall have an interest in the future, up to the recovery of expenses expended thereby for the purpose of oil and gas exploration (before the deduction of royalties of whatever type, but after the deduction of the oil to be used for the purpose of the production itself), and at a rate of 8% (8% overriding royalty after payout) after the reimbursement of its expenses, as aforesaid.

The term “recovery of expenses” was defined as the date on which the Partnership recovers all of its investments and expenses in the performance of oil exploration, including expenses of oil exploration, drilling, well development, pipeline placement and storage tanks in the area of the prospect, but with the exception of the overriding royalty paid until the recovery of expenses. The date of recovery of expenses is affected, *inter alia*, by the gas and/or condensate prices, the royalty rate, the production pace, the exploration and development costs and other relevant expenses. According to the Partnership Agreement, the GP is entitled to receive the said overriding royalty or part thereof in kind, i.e. to receive in kind part of the petroleum that shall be produced or utilized from the petroleum assets in which the Partnership has an interest (up to the amount of the rate mentioned above).

Where the GP chooses to receive the royalty in kind, the parties shall regulate the methods by which and the dates on which the GP shall receive the royalty.

Where the GP chooses not to receive the overriding royalty in kind, the Partnership shall pay the GP the market value in dollars or (if, according to law, it will not be possible to pay, other than in Israeli currency) in Israeli currency, calculated in dollars according to the representative rate of the dollar at the time of actual payment, at the wellhead, of the overriding royalty due to the GP. Such payment will be made once a month.

Measurement of the quantities of petroleum that shall be produced and utilized from the petroleum assets for the purpose of calculation of the overriding royalty due to the GP will be performed in accordance with accepted principles in the petroleum industry.

Close to the date of release of the report, the Audit Committee of the GP commenced an examination of the date on which “recovery of expenses” occurred under the circumstances, with the assistance of external consultants. As of the report date, subject to the completion of such examination by the Audit Committee and the reaching of final conclusions, it is transpiring that the date of recovery of expenses falls in Q1/2024 (the exact date will be determined after the compilation of the financial data for Q1/2024), from which date forth the 8% overriding royalty will apply. For further details regarding the assignment of one half of the overriding royalty to a geologist, see section 3 below).

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

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

- 2) On 5 March 2024 the general meeting of participation unit holders approved amendments to the Partnership Agreement, replacing the GP with a new GP, Ratio Energies General Partner Ltd. ("**Ratio GP**"), which is a wholly-owned SPV subsidiary of Ratio Energies Management Ltd ("**Ratio Management**"). As a result of the replacement of the GP as aforesaid, all of the required related actions shall be taken, including as follows:
- a) Ratio GP shall step into the shoes of the Ratio Management as a party to the Partnership Agreement, and accordingly shall be entitled to 0.01% of the revenues and shall bear 0.01% of the Partnership's expenses and losses.
 - b) Ratio GP shall step into the shoes of Ratio Management in all aspects pertaining to the management agreement, such that all of the Ratio Management's rights and undertakings under the management agreement were assigned to Ratio GP, without prejudice to or derogating from all of the Partnership's rights under the management agreement. Accordingly, Ratio GP is entitled to the management fees set forth in the management agreement (with no change), and is required to provide the Partnership with the management services undertaken by Ratio Management in the management agreement (including through service providers and consultants), with no change in the scope or quality of the management services or the identity of the managers made available to the Partnership by Ratio Management until the date of the change.
 - c) There shall be no change to Ratio Management's right to continue receiving the royalties from the Partnership.
 - d) All board members holding office in Ratio Management, including the current external and independent directors, were appointed to the board of Ratio GP. It is clarified that the current external and independent directors retired from their office in the board of Ratio Management, and that the maximum term of office permitted by law for the external directors shall continue to be counted from the original date of appointment of each one of them to Ratio GP, such that their maximum term of office shall be nine years from the date of their appointment to Ratio Management.
 - e) Ratio GP and all the directors holding office therein (including directors Ligad Rotlevy, Yair Rotlevy, Yigal Landau and Yuval Landau, whom the Partnership deems as control holders), shall be granted letters of undertaking for indemnification and exemption from liability according to the language and terms approved by the general meeting of unitholders of 8 August 2021, such that the letters of undertaking for indemnification and exemption from liability granted to Ratio GP and its directors shall continue to be effective for the period until the date of replacement, and the letters of undertaking for indemnification and exemption from liability to be granted to Ratio GP and its directors shall take effect on the date of replacement. The D&O insurance policies of Ratio Management shall continue to apply unchanged to the said officers also after their appointment to their office in Ratio GP.
- 3) The founders agreement made by and between the shareholders of the GP in December 1992 provides that the GP will endorse and transfer to Eitan Aizenberg Ltd. (a company which is an interested party in the GP and serves as the Partnership's geological consultant) one half of the GP's overriding royalty, i.e., 3% of any petroleum produced until the recovery of expenses and 4% of any petroleum produced after the recovery of expenses.

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

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

- 4) In accordance with a geological consultancy agreement of 10 December 1992, as amended in January 1993 and in June 2001, the GP, on behalf of the Partnership, retained the services of Eitan Aizenberg Ltd., which serves as the Partnership's geological consultant, through Mr. Eitan Aizenberg, in consideration for \$12,000 per month (plus VAT), plus recovery of expenses in a sum not to exceed \$750 per month against receipts.
- 5) The trust agreement of 19 January 1993 (as amended from time to time), determines that the terms and conditions of the Supervisor's fee, including its entitlement to any special payments, including in respect of offerings, shall be determined from time to time according to the general meeting's resolutions and in accordance with the provisions of the law. According to a resolution of the general meeting dated 27 May 2021, and re-affirmation of 6 December 2022, starting from June 2021, the Supervisor is entitled to receive a monthly fee in ILS equal to \$6,000 per month (plus VAT). The Supervisor is also entitled to additional fees in the case of future issuances, for its additional work entailed by the issuance. The additional fees will be paid for actual work according to the Supervisor's standard rates per working hour up to an amount equal to U.S. \$10,000 (plus VAT) for the processing of one issuance.
- 6) Loan agreements in relation to the bonds (which are inter-company loans and were cancelled in the consolidated statement):

On 9 November 2016, Ratio Financing entered into a loan agreement with the Partnership in relation to the Series B Bonds. This loan was repaid on 6 November 2022 and in accordance with the terms and conditions of the loan agreement, early redemption of the Series B bonds was performed at the same time. On 3 December 2017, Ratio Financing entered into a loan agreement with the Partnership in relation to the Series C Bonds. This loan was fully repaid on 31 August 2023 and according to the terms of the loan agreement, the Series C bonds were fully redeemed at the same time. See Note 11B above for details. On 4 July 2021, Ratio Financing entered into a loan agreement with the Partnership in relation to the Series D Bonds (the "**Loans**").

Below is a summary of the main terms of the loan agreements:

- a) Ratio Financing undertook to transfer to the Partnership the issue proceeds (net of issue expenses) for each of the bond series and on the same terms as each of the bond series ("**Back To Back**"), as non-recourse loans.
- b) The Partnership has undertaken that the Loans would be used thereby solely for the purpose of financing its share of the expenses related to the Leviathan Leases (as well as for Series C Bonds and Series D Bonds, including for the purpose of refinancing its debts in relation to the financing of its share of the expenses related to the Leviathan Leases).
- c) The Partnership has undertaken to repay Ratio Financing a sum equal to the sum of the par value of each of the bond series (the "**Loan Amount**") plus the then-applicable interest and on the same and terms and payment due dates as each of the bond series as described in Note 11B above.

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

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

- d) The Loans were initially recognized at fair value, net of issue expenses. In subsequent periods, the Loans are measured at amortized cost. Any difference between the issue proceeds (net of issue expenses) and the issued par value is recognized in the income statement over the loan period, according to the effective interest method.
- e) Notwithstanding the aforesaid, the Partnership may prepay each one of the Loans (the Loan Amount plus interest) at any time. It is agreed that in the event of full or partial prepayment of the relevant loan, early redemption of the bonds against which the loan was extended shall be carried out at the same time and in the same amounts. See Note 11B4 above regarding full early redemption of the balance of the Series B bonds and accordingly full early redemption of the balance of the loan that was given to the Partnership in connection with the Series B bonds. Furthermore, each one of the loan agreements provides that if the bonds are accelerated for any reason, Ratio Financing is entitled to accelerate the loan for such bond, and the acceleration of the bonds will in itself be deemed as sufficient grounds therefor.
- The loan agreement in connection with the Series C Bonds and Series D Bonds provides that the Partnership may also prepay any amount out of the loan (the principal of the loan plus interest), contingent upon the repurchase of the bonds by Ratio Financing, in accordance with the provisions of the indenture and of any law.
- The loan agreement in connection with the Series D Bonds provides that the Partnership will be required to repay the outstanding balance of the loan by early redemption in the event that the Partnership sells its full rights in the Leviathan Leases, and all as specified in the loan agreement and in the indenture. In such cases, Ratio Financing will simultaneously make early redemption of the Series D Bonds in the same amounts.
- f) To secure the repayment of the Loans (the Loan principal plus interest), the Partnership has granted Ratio Financing, with respect to each loan separately, the right to receive a pecuniary royalty from the Partnership's share in the gas and oil to be produced and utilized from the Leviathan Reservoir only (the "**Royalties**") (see Note 11B5D1 with respect to the registration of the pledge over the royalty), as specified below.
- Such rights, which were granted with respect to each loan separately, are to secure all of Ratio Financing's undertakings in relation to each of the bond series, including the full and timely repayment thereof, including the payments of principal and interest.
- Creation of the pledge on the royalty in relation to each of the bond series is by way of registration thereof in the Petroleum Register and with the Registrar of Companies. The registration of all the pledges as aforesaid in accordance with the indentures for the existing bonds of Ratio Financing has been completed. The pledge in respect of the Series B Bonds and the Series D Bonds was removed following redemption of the Series B and Series C bonds. See Note 11B5B. As of the date of the Financial Statements and the date of approval of the Financial Statements, the royalty pledge is imposed only on the Series D bonds.

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

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

- (1) Ratio Financing is entitled to a royalty immediately against the provision of the loan for the Series D bonds to the Partnership. However, actual proceeds by virtue of the royalty will be paid to the Company only if the loan (the Loan Amount plus interest) is not repaid by (and including) the last repayment due date or when there are ground for acceleration of the loan (the “**Effective Date for Receipt of Proceeds by Virtue of the Royalty**”), whichever is earlier. Furthermore, the receipt of proceeds by virtue of the royalty will be deferred until the payment of senior debts by the Partnership, as specified in Section 3G below.
- (2) Only after the full and final repayment of all of the amounts owed by the Partnership to Ratio Financing according to the loan agreement, including the Loan Amount (plus the interest) by (and including) the last repayment and the final settlement of all of the undertakings to the bondholders in accordance with the indentures, the right of Ratio Financing to receive the royalty shall expire and in such a case the right of Ratio Financing (including anyone that shall step into its shoes) to receive the royalty shall automatically revoke. In such a case, Ratio Financing shall sign all documents required for the purpose of revocation of the royalty.
- (3) Following are additional details with respect to the Royalties for the Series D Bonds:
 - (a) The royalty will be paid with money from gas and oil to be produced and utilized from the Leviathan Reservoir only.
 - (b) The royalty rate is 12% which is calculated in relation to a rate of 10% (out of 100%) of the Leviathan Reservoir. It is clarified that the royalty rate and the manner of calculation thereof as aforesaid will not change in the event of a change (whether increase or decrease) in the evaluation of the resources and DCF figures in the Leviathan Reservoir (see Note 25C).

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

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

(c) Notwithstanding the aforesaid, in the following cases, adjustments will be made to the royalty rate:

(1) In the event that partial prepayment of the loan and the bonds is made, the royalty rate shall not change, but will be calculated out of a rate of the Partnership's holdings in the Leviathan Reservoir according to the following calculation:

$$12\% * \frac{\text{The balance of the new par value of the bonds}}{\text{The par value of the bonds on the date of provision of the loan}}$$

(2) In the event that the Partnership sells some of its holdings in the Leviathan Reservoir, such that its new holding rate in the reservoir falls below 10% (out of 100%), without prepayment of the loan and the bonds being made – the royalty rate will be revised according to the following calculation and will be recorded with respect to the part of the new holding rate:

$$\text{New royalty rate} = \frac{\text{Old royalty rate}}{X}$$

$$X \text{ being } = \frac{\text{The new holding rate in the reservoir}}{10\%}$$

(d) The Partnership shall pay the royalty to Ratio Financing in dollars or (if, by law, only payment in Israeli currency is permitted) in Israeli currency, it being calculated in dollars according to the representative rate of the dollar at the time of actual payment, calculated according to the price at the wellhead. Such payment will be made once a month. The indentures for the bond series provide that any tax and/or levy etc. that are required by law to be withheld, including by virtue of the Taxation of Profits from Natural Resources Law, 5771-2011, shall be deducted from the royalty.

(e) The measurement of the quantities of gas and oil to be produced and utilized from the Leviathan Reservoir for the purpose of calculation of the royalty, insofar as relevant, shall be made in the same manner as the measurement for the purpose of payment of royalties to the State under the Petroleum Law. The royalty will be calculated only in relation to the quantities of gas and oil to be produced and utilized from the Leviathan Reservoir as of the effective date for receipt of proceeds by virtue of the royalty.

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

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

- (f) The right to such royalty shall be partially linked in accordance with the mechanism specified above, to the Partnership's share in the Leviathan Reservoir (limited to 10% out of 100% and subject to adjustments, as aforesaid). If the Partnership sells part of its holdings in the Leviathan Reservoir, the royalty rate will be increased in relation to the relative share in the Leviathan Reservoir that will remain in the Partnership's possession, in a manner that reflects such weighted rate of royalty to the Company.
- (g) The royalty shall be paid out of the Partnership's revenues from gas and oil to be produced and utilized from the Leviathan Reservoir, after and subject to the making of payments as follows: payment of royalties to the State under the Petroleum Law (and/or any and all burdens and/or levies etc. under law), the payment of overriding royalties to the GP of the Partnership, and to Eitan Aizenberg Ltd. (the Partnership's geologist), as well as current payments to financial corporations that have extended and/or shall extend financing to the Partnership for the development of the Leviathan Leases (see Note 11).
- (h) The right to receive monies by virtue of the royalty will be limited to the amount of the balance of the principal of the bonds plus the interest and arrears interest (as defined in the indentures) borne thereby. This right will include additional amounts that the Partnership will be liable towards Ratio Financing according to the loan agreement, and upon payment of such amount in full, Ratio Financing's right to receive the royalty shall expire and the royalty shall expire and be revoked. In such a case, Ratio Financing and/or the trustee, as applicable, will sign all documents required for the purpose of revocation of the royalty and for the removal of the pledge to be registered thereon.
- (i) It is clarified that the royalty rate will not be revised in the case of expansion of the Series D Bonds up to the Maximum Series Size, as specified in Note 11B.

Notwithstanding the aforesaid, in the event that Ratio Financing chooses to expand the Series D Bonds over and above the maximum series size, up to the additional maximum series size, the royalty rate will be updated to the rate of the additional royalty as defined below.

For the avoidance of doubt, the additional royalty (with respect to the Series D bonds) will be calculated similarly to the calculation in Section C6f, with respect to a rate of 10% (out of 100%) of the Leviathan Reservoir, according to the following calculation (subject to the creation and registration of pledges (in the same method as the pledge over the royalty) on the additional royalty (the "**Additional Royalty**") that the Partnership will grant Ratio Financing, if any):

$$12\% * \frac{\text{The balance of the new par value of the bonds}}{\text{The par value of the maximum series size}}$$

- (j) It is clarified in the loan agreement that the loan will not be secured by any other collateral on the Partnership's part (other than the interest cushion accounts, as described in Note 11B above).

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

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

Ratio Financing's only relief, collateral and remedy in the event of non-repayment of the loan on the last repayment date and/or when there is ground for acceleration of the loan, are the royalty, and Ratio Financing will have no right of action against the Partnership in such a case. Accordingly, it is agreed that as of the effective date for the receipt of proceeds under the royalty and subject to the payment of the royalty, the loan will be deemed to have been repaid in full.

Also within the framework of the loan agreements, the Partnership undertook to transfer to Ratio Financing, at Ratio Financing's first written demand, the full amount that Ratio Financing is required to pay to the bondholders and/or the trustee and/or deposit in a trust account for the benefit of the bondholders and/or the trustee as part of Ratio Financing's undertaking for indemnification and/or payment of expenses in the indenture for the bonds.

- g) As of the date of approval of the Financial Statements, the Partnership complies with all of its undertakings under the loan agreement in respect of the Series D bonds of Ratio Financing, including the grant of the royalty to Ratio Financing as described in Note 11B and the pledge of the Partnership's rights in the interest cushion account as described in Note 11B5D. In addition, all of the collateral pledge registrations have been completed in accordance with the indentures for the bonds. With respect to removal of the pledges in connection with the Series B bonds and the Series C bonds, see Note 11B5D above.

The following table presents the book value and fair value of the Loans to the Partnership:

	As of 31 December	
	2023***	2022
	\$ in thousands	
Loans to the Partnership:		
Loan to the Partnership (Series C)*	-	63,634
Loan to the Partnership (Series D)**	79,845	91,862
Fair value:		
Loan to the Partnership (Series C)	-	63,572
Loan to the Partnership (Series D)	77,041	86,309

* As of 31 December 2022, the balance of the loan for the Series C Bonds includes interest receivable in the sum of approx. \$2,018 thousand.

** As of 31 December 2023 and 2022, the balance of the loan for the Series D Bonds includes interest receivable in the sum of approx. \$763 thousand and approx. \$883 thousand, respectively.

*** The balances are net of the Series D bonds that were purchased by the Partnership as stated in Note 11B5A.

- 7) Purchase of bonds (Series B, Series C and Series D) of Ratio Financing – See Note 11B5A.

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

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

8) Loan agreement in relation to loans from banking corporations

The Partnership has entered into a loan agreement with Leviathan Development (the “**Loan Agreement with the Partnership**” and/or “**Loan to the Partnership**”) in relation to the Financing Agreement as set forth in Note 11A above. The principles of such loan agreement are as follows:

- a) Leviathan Development undertook to provide the Partnership with the funds of the loans to be received under the Financing Agreement (“Back To Back”), as limited-recourse dollar loans (the “**Loans**”). The Partnership undertook that the Loans would be used thereby solely for the purpose of financing its share of the expenses related to the Leviathan Project.
- b) The Partnership has undertaken to repay Leviathan Development a sum equal to the sum of the Loans transferred therefrom plus the then-applicable interest and on the same payment due dates in accordance with the Financing Agreement.
- c) The Loans bear interest which is identical to the interest stipulated in the Financing Agreement. The interest will be paid on the same dates on which Leviathan Development is required to pay interest to the lenders.
- d) Leviathan Development may require the Partnership to prepay the Loans (the sum of the relevant loan plus interest) at any time.
- e) Furthermore, the Partnership will bear all of the related expenses in relation to the Financing Agreement, as well as all expenses of Leviathan Development, including expenses entailed by the operations thereof.

9) Management and consultancy service agreement

On 14 September 2014, the Partnership and Ratio Financing entered into an agreement for the receipt of management and consultancy services (the “**Agreement**”).

According to the Agreement, as of October 2014, the Partnership provides Ratio Financing, free of charge, with management and consultancy services that include, *inter alia*, the following main services: CEO services, director services, bookkeeping and comptrollership services, office and secretarial services, legal advice and company secretary services, information system services, consultancy services on various issues, use of the Partnership’s offices, as well as additional services, to the extent required by Ratio Financing and with the Partnership’s consent (jointly: the “**Management and Consultancy Services**”).

The Management and Consultancy Services are provided to Ratio Financing by the Partnership and/or the GP thereof through functionaries and consultants employed thereby (the “**Service Providers**”).

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

Note 24 – Transactions and Balances with Interested Parties and Related Parties (Cont.):

The identity of the Service Providers is determined by the Partnership, according to the Partnership’s discretion, and may change from time to time according to the Partnership’s decisions and subject to any law.

The Management and Consultancy Services are provided in a scope and according to Ratio Financing’s needs, with no obligation for a minimum number of hours. It is agreed that there shall be no employment relations between Ratio Financing and the Service Providers, and an arrangement for the indemnification of Ratio Financing by the Partnership has been determined, in case it is determined that a service provider was or is an employee of Ratio Financing.

Furthermore, Ratio Financing does not pay director compensation to the Service Providers who are members of the board and board committees of Ratio Financing (other than outside directors and independent directors holding office in Ratio Financing). The Partnership bears, free of charge, all of the expenses entailed by Ratio Financing’s issuances and all current expenses entailed by the management and operation of Ratio Financing that are not listed above, including, directors and officers liability insurance, compensation of outside directors and other officers to hold office in Ratio Financing, the fees of attorneys, accountants, tax advisors, outside consultants, various levies, payments and taxes, etc.

Moreover, the Partnership bears any liability or expense for which Ratio Financing is liable in relation to the indemnification letters that Ratio Financing grants the directors and officers thereof.

The Agreement will be effective until the date on which all reporting duties of Ratio Financing under the Securities Law come to an end or until the date on which Ratio Financing notifies the Partnership of the termination of the agreement, whichever is earlier.

The following table presents transactions with consolidated companies (that are cancelled out in the consolidation of the Financial Statements), which are “Back-To-Back” with such transactions in identical sums vis-à-vis third parties:

	For the year ended		
	31 December		
	2023	2022	2021
	\$ in thousands		
Expenses of interest and discount in respect of bonds*	8,157	20,482	29,268
Expenses (income) from exchange rate differences in respect of bonds*	(52)	(15,447)	4,410
Indemnification for recovery of expenses in the context of a loan agreement with Ratio Financing	136	152	191
Expenses of interest, discount and fees in respect of a loan agreement with Leviathan Development Ltd.	52,839	34,352	24,277
Profit from revaluation of derivative financial instruments**	(3,272)	(4,235)	-

* The amounts do not take into account the setoff in respect of bonds (Series B, Series C and Series D) purchased by the Partnership as stated in Note 11B5A above.

** Income from IRS hedging transactions. See Note 11A5(1-2).

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

Note 25 – Engagements and Contingent Liabilities

- A. With respect to the Partnership’s engagements pertaining to the various licenses and permits, see Note 8 above.
- B. With respect to Partnership’s engagements with interested parties and other related parties, see Note 24 above.
- C. **Engagements for the sale of natural gas and condensate:**

1) Agreements for the sale of natural gas from the Leviathan Project:

During the report period, the Leviathan Partners engaged in several agreements for the supply of natural gas with customers in the domestic market. In addition, the Leviathan Partners are continuing to conduct negotiations with additional potential customers in the domestic market and with customers in export markets for the supply of natural gas from the Leviathan Project.

Below is summary information about the agreements for the supply of natural gas on a firm basis from the Leviathan Project that were signed by the Partnership together with the other Leviathan Partners, and which are in effect as of the date of approval of the Financial Statements (a):

	Year of commencement of supply	Term of the agreement (b)	Total maximum contractual quantity for supply (100%) (BCM)	Total quantity supplied until 31 December 2023 (100%) (BCM)	Primary linkage base for the gas price
Independent power producers	2020, or the date of commencement of commercial operation of the buyers’ power plant (whichever is later)	The agreements are long-term agreements for a period of 9 to 25 years. Some of the agreements grant each party an option to extend the agreement in the event that the total quantity set forth in the agreement is not purchased.	Approx. 19.1	Approx. 2.3	In the majority of the agreements the linkage formula of the gas price is based on the Electricity Production Tariff and includes a “floor price”. In a number of short-term agreements there is a fixed price that is not linked. In one of the agreements there is a fixed price which is not linked
Industrial customers and marketing companies	2020	The agreements are for a period of 2.5 to 15 years. (3) In the majority of the agreements, the parties are not granted an option to extend the term of the agreement.	Approx. 4.2	Approx. 0.9	In the majority of the agreements the linkage formula is based in part on linkage to the Brent prices and in part to the Electricity Production Tariff, and includes a “floor price”. There is partial linkage also to the refining margin index and to the general TAOZ index published by the Electricity Authority. In a number of agreements there is a fixed price that is not linked.
Export agreement - NEPCO	2020	15 years. The agreement stipulates that in the event that the buyer does not purchase the total contractual quantity in the basic period, the basic supply period will be extended by another two years.	Approx. 45	Approx. 10	The linkage formula is based on linkage to the Brent prices and includes a “floor price”.
Export agreement - Blue Ocean	2020	15 years. The agreement stipulates that in the event that the buyer does not purchase the total contractual quantity, the supply period will be extended by another two years.	Approx. 60	Approx. 16.4	The linkage formula is based on linkage to the Brent prices and includes a “floor price”. The agreement includes a mechanism for updating the price by up to 10% (up or down) after the fifth year and after the tenth year of the agreement, upon fulfillment of certain conditions determined in the agreement.
Total			Approx. 128.3	Approx. 29.6 (c)	

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

- (a) It is noted that the data in the table do not include agreements for the supply of natural gas from the Leviathan Project, which are on an interruptible basis.
 - (b) In the majority of the agreements, the gas supply period may terminate on the date when the total maximum contract quantity set forth in the agreement was supplied to the customers.
 - (c) The total quantity supplied from the Leviathan Project by 31 December 2023 (100%) (both under the agreements appearing in the table and under the agreements that have terminated and agreements on an interruptible basis) is approx. 40 BCM.
- 2) Below are further details with respect to all of the agreements for sale of natural gas that were signed by the Partnership and the other partners in the Leviathan Reservoir:
- a) In 2023 until the date of approval of the Financial Statements, the Leviathan Partners signed several agreements for the sale of natural gas with various customers in the Israeli market on an interruptible basis. During Q4/2023, with the temporary halting of production from the Tamar reservoir following the outbreak of the Iron Swords War, the Leviathan Partners worked for the signing of SPOT agreements as aforesaid with several relevant customers in the Israeli market. See also Note 1E above.
 - b) In the natural gas sale agreements to IPPs and industrial customers, except for SPOT agreements (in this section: the “**Agreements**”), the customers undertook to take-or-pay for a minimum annual quantity of natural gas in such scope and according to such mechanism as determined in the supply agreement (the “**Minimum Quantity**”). Note that in the Agreements, provisions and mechanisms are provided, which allow each of such buyers, after paying for natural gas not consumed thereby under the agreement, due to the application of the Minimum Quantity mechanism as aforesaid, to receive gas with no additional payment up to the quantity paid thereby for gas not consumed thereby in the years following the year of the payment. The Agreements further establish a mechanism of accumulation of a balance in respect of surplus amounts (beyond the take-or-pay) consumed by the buyers in a specific year and the utilization thereof for reducing the buyers’ obligation to purchase such Minimum Quantity for several years thereafter.
 - c) The Agreements set forth additional provisions, inter alia, on the following subjects: a right to terminate the agreement in the event of the breach of a material undertaking, a right of the Leviathan Partners to supply gas to the buyers from other natural gas sources, compensation mechanisms in the event of a failure to supply the contract quantities, limits to the liability of the parties to the agreement, and with respect to the internal relationship among the sellers with respect to the supply of gas to the said buyers.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

- d) In accordance with the Gas Framework, each of the buyers in the Agreements that were signed by 13 June 2017 and for a period that exceeds 8 years, was given an option to reduce the Minimum Quantity to a quantity that is equal to 50% of the average annual quantity it actually consumed in the three years preceding the date of the notice of exercise of the option, subject to adjustments as determined in the supply agreement. Upon reduction of the Minimum Quantity, the other quantities determined in the supply agreement will be reduced accordingly. Each one of the said buyers may exercise the above option with a notice, to be given to the sellers during a period of 3 years which shall commence 5 years after the date of commencement of the gas flow from the Leviathan Project to the buyer. If the buyer shall have given notice of the exercise of the said option, the quantity will be decreased 12 months after the date the notice was given.
- 3) Agreement for the export of natural gas from the Leviathan Project to the Jordanian National Electric Power Company (NEPCO)

In September 2016, an agreement for the supply of natural gas was signed between the Marketing Company and NEPCO (the “**Export to Jordan Agreement**”). The Marketing Company is a subsidiary wholly-owned by the Partners in the Leviathan Project, which hold it in a proportionate rate to the rate of their holdings in the Leviathan Project (the Partnership’s share – 15%).

According to the Export to Jordan Agreement, the Marketing Company undertook to supply natural gas to NEPCO for a period of approx. 15 years after the commencement of the commercial supply which commenced on 1 January 2020 or until the total supply amount will be approx. 45 BCM. NEPCO undertook to take-or-pay for a minimum annual natural gas quantity, in such scope and according to such mechanism as determined in the Export Agreement.

On 3 July 2023, the parties to the agreement agreed on an increase to the natural gas quantities that will be supplied to NEPCO on a firm basis, temporarily and in relation to several months in 2023-2024, and that the minimum annual quantity that NEPCO had committed to take or pay for 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 (~45 BCM).

The delivery point of the gas is at the connection between the Israeli transmission system and the Jordanian transmission system at the Israeli-Jordanian border.

In December 2019, INGL completed the construction of the Israeli transmission system until the Israeli-Jordanian border for approx. \$109 million (100%) (the Partnership’s share, approx. \$16 million) which are presented under other long-term assets, see Note 9 above.

The gas price determined in the agreement is based on a price linked to the Brent oil barrel prices, and includes a "floor price" plus marketing fees, transmission fees and NEPCO's bearing of the cost of the transmission payments to INGL.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

In November 2016 the Leviathan Partners and the Marketing Company signed an assignment for the Export Agreement ("Back-to-Back") whereby the receivables, liabilities, risks and costs associated with the Export Agreement shall be assigned to the Leviathan Partners on the same terms and conditions, Back-to-Back, as if the Leviathan Partners were a party to the Export Agreement in lieu of the Marketing Company.

For details on a tax decision in relation to the Export to Jordan Agreement, see Note 14A8.

4) Agreement for the export of natural gas from the Leviathan Project to Blue Ocean in Egypt

In February 2018, an agreement was signed between NewMed and Chevron (collectively: the "**Sellers**") and between Blue Ocean (the "**Buyer**") (the agreement was signed with Dolphinus Holdings Limited that in June 2020 assigned the agreement for the export to Egypt to an affiliate – Blue Ocean Energy) for the export of natural gas from the Leviathan Project to Egypt (the "**Original Export Agreement**"). In September 2018, NewMed and Chevron assigned to the Leviathan Partners (including to the Partnership) the Original Export Agreement.

On 26 September 2019, the signing of an agreement for amendment of the original Leviathan-Blue Ocean agreement between the Leviathan Partners and Blue Ocean (in this section below: the "**Amendment to the Agreement**" or the "**Agreement for Export from Leviathan**") was completed, and an agreement was signed in connection with the allocation of the available capacity in the transmission system from Israel to Egypt, between the Leviathan Partners and the Tamal Partners. On 15 January 2020, natural gas flow commenced according to the Leviathan agreement.

Additional key points regarding the Amendment to the Agreement:

- (a) The total contract quantity of gas which the Leviathan Partners undertook to supply to the Buyer on a firm basis is ~60 BCM (the "**Total Contract Quantity**").
- (b) The supply of gas began on 15 January 2020 and will be until 31 December 2034 or until the supply of the Total Contract Quantity, whichever is earlier. According to the Amendment to the Agreement, the Leviathan Partners undertook to supply to the Buyer quantities of gas as follows: (1) ~2.1 BCM per year for the period commencing on 1 January 2020 and ending on 30 June 2020; (2) ~3.6 BCM per year for the period commencing on 1 July 2020 and ending on 30 June 2022; and (3) ~4.7 BCM per year for the period commencing on 1 July 2022 and ending on the date of termination of the Agreement. In addition, the agreement includes provisions regarding the possibility of piping additional gas quantities, over and above the daily quantities stated above on an interruptible (spot) basis. The increase in the supply as aforesaid is made through upgrade of the systems in the EMG station in Ashkelon, including the installation of another compressor, and through the increase of the transmission capacity of the INGL system and/or the transmission of natural gas from Israel to Egypt through Jordan. See Section 5 below.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

- (c) Blue Ocean committed to take or pay for quarterly and annual quantities in accordance with the mechanisms set forth in the Amendment to the Agreement which, *inter alia*, enables Blue Ocean to decrease the minimum annual quantity in a year where the average daily price of the Brent (as defined in the Agreement) dropped below \$50 per barrel, such that the aforesaid quantity will be 50% of the annual contract quantity. If the contractual quantity is decreased in the event of disagreement on the update of the gas price, as stated in Section (d) below, Blue Ocean's right to reduce the take-or-pay quantity as aforesaid will be cancelled. The Amendment to the Agreement further stipulates that in the event that the Buyer does not buy the Total Contract Quantity, each party may extend the supply period by another two years. In addition, in connection with the Buyer's take-or-pay commitment, the agreement determined, *inter alia*, provisions and a mechanism which allow the Buyer, after having consumed the minimum billable quantity in respect of a certain year, to receive in the same year a gas supply for no additional payment up to the balance of the gas quantity that was not consumed in previous years and for which it paid consideration to the sellers in the context of the take-or-pay commitment (a make-up mechanism), and provisions and a mechanism that allow the Buyer to accrue quantities purchased in any year over and above the minimum quantity and to utilize them for purposes of reducing the buyers' commitment (a carryforward mechanism).
- (d) The price of the gas supplied to the Buyer under the Amendment to the Agreement shall be determined according to a formula based on the Brent oil barrel prices and includes a "floor price". The Amendment to the Agreement includes a mechanism for updating the price by up to 10% (up or down) after the fifth year and after the tenth year of the Agreement, upon fulfillment of certain conditions determined in the Agreement. In the event that the parties fail to reach an agreement regarding the update of the price as aforesaid, the buyers will be entitled to reduce the contractual quantity by up to 50% on the first adjustment date and by 30% on the second adjustment date. The Agreement includes an incentive mechanism which is dependent on quantities and is subject to the price of an oil barrel.
- (e) The Amendment to the Agreement includes customary provisions relating to the termination of the agreement, and also provisions in the event of termination of the export agreement between the Buyer and all of the partners of the Tamar reservoir (the "**Tamar Partners**") as a result of its breach, and the non-consent of the Leviathan Partners to supply also the quantities according to the export agreement between the Buyer and the Tamar Partners, and also includes compensation mechanisms in such an event.
- (f) To allow for an increase of the export quantities to Egypt, and in view of the delay in completion of the Ashdod-Ashkelon combined section project, as specified in Section 5A13 below, the Leviathan Partners and Blue Ocean signed an amendment to the export to Egypt agreement, stipulating, *inter alia*, that another gas delivery point be defined in Aqaba, Jordan, under the export to Egypt agreement, in which a certain price assumption was determined as compensation to Blue Ocean for the additional transmission expenses entailed by the transmission of the gas from the additional delivery point, which it bears. The piping of the gas to Egypt to the delivery point in Aqaba began in March 2022, and is performed via the Jordan-North Export Pipeline, as specified in Section 5B below.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

Concurrently with the signing of the Leviathan agreement, on 26 September 2019 (as amended on 21 August 2023), NewMed and Chevron signed an agreement with the other Leviathan Partners and with the Tamar Partners in connection with the allocation of the capacity (the “**Capacity Allocation Agreement**”) available in the transmission system from Israel to Egypt.

The allocation of the capacity in the transmission system from Israel to Egypt (EMG pipeline and the transmission pipeline in Israel) shall be on a daily basis, in order of precedence, as follows:

- (1) First layer – Up to 350,000 MMCF per day will be allocated in favor of the Leviathan Partners.
- (2) Second layer – The capacity beyond the first layer, up to 150,000 MMCF per day until 30 June 2022 (the “Date of Increase of Capacity”) and 200,000 MMCF per day after the Date of Increase of Capacity will be allocated in favor of the Tamar Partners.
- (3) Third layer – Any additional capacity beyond the second layer shall be allocated in favor of the Leviathan Partners.

The Capacity Allocation Agreement stipulates that the Leviathan Partners and the Tamar Partners shall pay NewMed and Chevron \$250 million, 80% by the Leviathan Partners and 20% by the Tamar Partners, as participation fees, in exchange for an undertaking to allow natural gas flow from the Leviathan and Tamar reservoirs and to ensure capacity in the EMG pipeline. The Agreement states that the amount of such payments shall be updated according to the formula and dates set forth in the Agreement, based on the actual usage of the EMG pipeline. Therefore, for the period between 1 January 2022 and 30 June 2022, the allocation of payments between the Leviathan Partners and the Tamar Partners was ~83% and ~17%, respectively. The capacity allocation agreement sets forth further arrangements regarding the bearing of costs and further investments required to refurbish the EMG pipeline, and for maximum usage of the pipeline's capacity, to be divided between the Leviathan Partners and the Tamar Partners. In this context it is noted that on 30 June 2022, the parties updated the payment division between the Leviathan Partners and the Tamar Partners, and accordingly an accounting was performed in non-material amounts for purposes of adjusting the rates borne by the parties in the costs of the actual usage of the EMG pipeline's capacity in the said period. The Capacity Allocation Agreement further determines that from 30 June 2020 until the date of increase of the capacity, insofar as the Tamar Partners are unable to supply the quantities they undertook to provide to Blue Ocean, the Leviathan Partners shall supply the required quantities to the Tamar Partners.

The term of the Capacity Allocation Agreement is until the termination of the export to Egypt agreement, unless terminated earlier in the following cases: a breach of payment obligation which is not remedied by the breaching party; or in the event that the Competition Authority has not approved the extension of the capacity lease & operatorship agreement in accordance with the decision of the Competition Commissioner. Each party will also have the right to terminate its share in the Capacity Allocation Agreement insofar as its export agreement is revoked.

For details on a tax decision in relation to the export to Egypt agreement, see Note 14A9.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

5) Engagement in a transmission agreement for the export of gas

As of the date of approval of the Financial Statements, the pipeline infrastructure for export to customers of the Leviathan Partners in Egypt and Jordan includes the following main systems:

- a. On 28 May 2019, Chevron and INGL engaged in an agreement for supply of interruptible transmission services in relation to the piping of natural gas from the Leviathan Reservoir and Tamar reservoir to EMG's terminal in Ashkelon, for the purpose of export to Egypt (in this section: the "2019 Agreement"). The payment pursuant to the 2019 Agreement will be made based on the gas quantity actually piped through the transmission system, subject to Chevron's undertaking to pay for certain minimum quantities.

In July 2020, upon the operation of a compressor at the entrance to the EMG system in Ashkelon, the flow capacity in the EMG pipeline increased, within the infrastructure limits of the current INGL transmission system, to approx. 500 MMCF (approx. 5 BCM per year). According to the export to Egypt agreement, as described in Section 4 above, the additional compressor was installed in Ashkelon, enabling to increase the flow capacity of the EMG system to ~600 MMCF/d (~6 BCM per year). Upon completion of the Ashdod-Ashkelon combined section, the flow capacity in the EMG system will increase to ~800 MMCF/d (~8 BCM per year), and even more, given certain conditions in the Israeli and Egyptian transmission systems.

On 18 January 2021 Chevron engaged with INGL in an agreement for provision of transmission services on a firm basis as aforesaid for the purpose of piping of natural gas from the Tamar reservoir and the Leviathan Reservoir to EMG's terminal in Ashkelon for purpose of transmission thereof to Egypt, which took effect on 14 February 2021 (the "**Transmission Agreement**"). The highlights of the agreement, as amended from time to time, are as follows:

- 1) In the Transmission Agreement, INGL undertook to provide transmission services for the natural gas that shall be supplied from the Tamar reservoir and from the Leviathan Reservoir, including maintaining an annual base capacity in the transmission system of approx. 5.5 BCM (the "Base Capacity"). For the transmission services in relation to the Base Capacity, Chevron will pay capacity fees and a payment for the gas quantity that shall actually be piped (throughput), in accordance with the accepted transmission rates in Israel, as shall be updated from time to time. In addition, INGL undertook to provide transmission services on an interruptible basis of additional gas quantities over and above the Base Capacity, subject to the capacity that shall be available in the transmission system. For transmission of the additional quantities as aforesaid, Chevron will pay a transmission rate for transmission services on an interruptible basis in relation to the quantities actually piped.
- 2) In the Transmission Agreement Chevron committed to payment for the piping of a gas quantity that shall be no less than 44 BCM throughout the term of the agreement. If the parties agree on an increase in the Base Capacity, then the minimum quantity for piping as aforesaid will be increased accordingly.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

- 3) According to the Transmission Agreement, INGL undertook to construct the combined section, which is being built in accordance with the decision of the Natural Gas Commission in connection with the financing of projects for export via the Israeli transmission system, and division of the costs of the construction of the Ashdod-Ashkelon combined section (see Section (f)) (the “Commission’s Decision”) and the doubling of the Sorek-Nesher and Dor-Hagit transmission system’s sections in a manner which will allow the piping of the full quantities under the Transmission Agreement.
- 4) The piping of gas according to the Transmission Agreement will commence on a date to be coordinated and agreed between the parties, but no earlier than 1 July 2022 and no later than 1 April 2023 (the “**Piping Commencement Date**”), subject to INGL’s right to postpone the Piping Commencement Date in the event of a delay in approval of the National Outline Plan under which the combined section is being built. In February 2023, Chevron received a letter from INGL whereby as a result of a fault in the vessel performing the infrastructure work for the laying of the combined section (the “**Work**”), and further to an initial estimate received by INGL from the contractor performing the Work, a delay of at least 6 months is expected in the completion thereof, such that the window of time in which the Piping Commencement Date will fall postponed to the period from 1 October 2023 to 1 April 2024. INGL’s said notice was given as a notice regarding the existence of *force majeure* under the Transmission Agreement, in which it stated that the full implications were still unknown thereto at that stage. In a letter of 9 March 2023, Chevron rejected INGL’s *force majeure* claim pending the provision of information regarding the fault and its impact on INGL’s ability to fulfill its undertakings under the Transmission Agreement. In October 2023, Chevron updated the Partnership that it had received notice from INGL whereby following the outbreak of the Iron Swords War, the Work on the project as aforesaid had been suspended and that commencement of piping was expected around four months from the date of resumption of the Work. In February 2024, Chevron updated the Partnership that it had received a notice from INGL whereby the foreign contractor performing the work on construction of the combined section has no intention of continuing to remain on standby to continue the work, and that it intends to return in August-September 2024 to complete its undertakings in the project. In view of the aforesaid, the Leviathan Partners are reviewing the implications deriving therefrom and the options available to them. In February 2024, Chevron sent INGL a letter stating that it is Chevron’s position that the Piping Commencement Date was 30 April 2023, at the very latest, and therefore, *inter alia*, INGL is required to provide transmission services in accordance with the Transmission Agreement that applies from such date, and to reimburse Chevron with the excess transmission fees it collected from the said date and until the present day. On 26 February 2024, Chevron received a response letter from INGL in which INGL rejected all of Chevron’s claims and according to which the Piping Commencement Date will be possible only after completion of the combined section. It is the position of Chevron and the Leviathan Partners that INGL’s said position is contrary to the provisions of the Transmission Agreement. As of the date of approval of the Financial Statements, the parties are holding discussions with the aim of attempting to resolve the said dispute.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

- 5) The Transmission Agreement will terminate on the earlier of: (1) the date on which the total quantity that is piped is 44 BCM; (2) 8 years after the Piping Commencement Date; or (3) upon expiration of INGL's transmission license.
- 6) The transmission period under the 2019 Agreement will be extended until the earlier of the date of expiration of the 2019 Agreement according to the terms and conditions thereof, or 1 January 2025, or the Piping Commencement Date according to the Transmission Agreement.
- 7) In accordance with the principles determined in the Commission's Decision, Chevron undertook to pay INGL for the Partners' share both in Leviathan and Tamar the estimated total cost of construction of the Ashdod-Ashkelon combined section in the sum of approx. ILS 738 million. On 2 May 2022, INGL updated the project's budget to approx. ILS 796 million. In addition, in order to meet the transmission capacity in Ashkelon it was required by INGL to bring forward the doubling of the Dor-Hagit and Sorek-Nesher sections at a cost of approx. ILS 48 million. Therefore, Chevron undertook to pay ILS 27 million for the Partners' share as aforesaid (56.5%).
- 8) In accordance with the Commission's Decision, the Leviathan Partners and the Tamar Partners have provided a bank guarantee to secure INGL's share in the cost of construction of the foregoing infrastructure, and to cover Chevron's commitment to pay the capacity and transmission fees. See Section e3 below.
- 9) The partners in Leviathan and the partners in Tamar will bear the costs stated in Section 7 above and will provide the guarantees stated in Section 8 above at the rates of 69% and 31%, respectively.
- 10) In the Partnership's estimation, its share in the cost of construction of the Ashdod-Ashkelon combined section according to the initial estimate in Section 7 above and the costs of accelerating the doubling of the Dor-Hagit and Sorek-Nesher transmission system sections may total approx. ILS 49 million and its share in guarantees (as mentioned in Section 8 above) is approx. ILS 47 million. See also Section e)3 below. The total costs that were accrued due to the Partnership's share in the construction of such section, as of the date of the Financial Statements, amounted to \$14.5 million and are presented under other long-term assets, net.
- 11) The Transmission Agreement determines that if the export of natural gas from the Tamar Project and from the Leviathan Project to Egypt stops, Chevron will be entitled to terminate the Transmission Agreement subject to payment of compensation to INGL due to the early termination, in an amount equal to 120% of the costs of construction of the combined section, plus the costs of accelerating the doubling of the Dor-Hagit and Sorek-Nesher sections, net of the amounts Chevron paid until the date of the termination in respect of such construction and acceleration costs and in respect of the piping of the gas under the Transmission Agreement. If, after the termination of the Transmission Agreement, export to Egypt resumes, then the Transmission Agreement will be renewed subject to and in accordance with the capacity that will be available in the transmission system at such time.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

- 12) Concurrently with the signing of the Transmission Agreement, the partners in Leviathan and the partners in Tamar signed a back-to-back service agreement which determined that the partners in Leviathan and the partners in Tamar will be entitled to transmit gas (through Chevron) under the Transmission Agreement, and will be responsible for fulfillment of Chevron's undertakings under the Transmission Agreement, as if the partners in Leviathan and the partners in Tamar were a party to the Transmission Agreement in Chevron's stead, each according to its share, as determined in the Capacity Allocation Agreement between the partners in Leviathan and the partners in Tamar. The service agreement further determines that the Base Capacity that is kept in the transmission system for Chevron will be allocated between the partners in Leviathan and the partners in Tamar according to the rates specified in Section 9 above, and according to the order set forth in the Capacity Allocation Agreement. Notwithstanding the aforesaid, the partners in Leviathan and the partners in Tamar will bear capacity fees at a fixed ratio of 69% (the partners in Leviathan) and 31% (the partners in Tamar), except in a case where a party (the Leviathan Partners or the Tamar Partners, as the case may be) used the excess capacity of the other party.
- b. The Jordan-North export pipeline, connecting the Israeli and Jordanian transmission systems near the Sheikh Hussein crossing. The construction of this export pipeline was completed in December 2019, *inter alia* through INGL's construction of a natural gas pipeline from the Tel Kashish station to the Jordanian border, including construction of a station near the border for measurement of the gas exported to Jordan. The follow-on pipeline on the Jordanian side was built by FAJR, the Jordanian transmission company (under Egyptian ownership), connecting the Israeli transmission system with the existing transmission pipeline in Jordan and the Arab Gas Pipeline, and connecting to the Egyptian transmission system near Aqaba (above and below, the "**Jordan-North Export Pipeline**"). As of the date of approval of the Financial Statements, the total maximum capacity of the Jordan-North Export Pipeline is ~7 BCM per year, of which ~3.5 BCM are allocated to the NEPCO agreement. In view of the delay in completion of the project for the construction of the Ashdod-Ashkelon combined section, the Leviathan Partners signed a set of agreements intended to allow the piping of quantities of natural gas to Egypt under the export to Egypt agreement, via Jordan, using the Jordan-North Export Pipeline. In accordance with the said set of agreements, in March 2022, the piping of natural gas to Egypt via Jordan began, allowing maximization of the sale of natural gas produced from the Leviathan Reservoir and the transfer of the surplus natural gas, which is not consumed in Israel or Jordan and/or piped to Egypt via the EMG pipeline, to the Egyptian market, via the Jordanian transmission system, mainly until completion of the combined section by INGL as aforesaid. As of the date of approval of the Financial Statements, and as the Partnership has been informed by the Operator, through the existing transmission infrastructures and in the present operating conditions, it is possible to pipe natural gas to Egypt, via Jordan, in an average daily quantity of up to around 350 MMSCF (approx. 3.5 BCM per year). In this context it is noted that the Ministry of Energy has approved for the Leviathan Partners the addition of a point of delivery of natural gas to Egypt in Aqaba, Jordan. It is further noted that the transmission of gas to Egypt via the Jordan-North Export Pipeline entails additional transmission costs compared with transmission of the gas via the EMG pipeline.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

The said set of agreements includes the following agreements:

1. An agreement between Chevron and FAJR, the Jordanian transmission company, for the provision of interruptible transmission services, in connection with the piping of natural gas from the Leviathan and Tamar reservoirs via the transmission system in Jordan, from the entry point on the Israel-Jordan border to the delivery point on the Jordan-Egypt border near Aqaba (the “**FAJR Agreement**”). The payment according to the FAJR Agreement will be made based on the quantity of gas that is actually piped in FAJR’s transmission system.
2. Concurrently with the signing of the FAJR Agreement, Chevron and the other Leviathan and Tamar partners engaged, back-to-back, in a service agreement in which the holders of the interests in the Leviathan and Tamar reservoirs will be entitled to transport gas (through Chevron) with the consent of FAJR and according to which, *inter alia*, use of FAJR’s transmission system for the export of natural gas to Egypt from the Leviathan and Tamar reservoirs will be made in accordance with the mechanism, terms and conditions and priorities specified in the said agreement.
3. An agreement between Chevron and INGL for the provision of interruptible transmission services in connection with the piping of natural gas from the Leviathan Reservoir via the Jordan-North Export Pipeline to the point of connection to FAJR’s transmission system on the Israel-Jordan border (the “**Jordan-North INGL Agreement**”). The payment under the Jordan-North INGL Agreement will be made based on the quantity of gas that is actually piped in INGL’s transmission system, subject to Chevron’s undertaking to pay for a minimum quantity as specified in the agreement. The term of the Jordan-North INGL Agreement was extended until 1 January 2025, unless it is extended by consent between the parties subject to decisions of the Natural Gas Authority on such date. Concurrently with the signing of the Jordan-North INGL Agreement, Chevron and the other Leviathan Partners engaged, back-to-back, in a service agreement in connection with the Jordan-North INGL Agreement.
4. The Leviathan Partners and Blue Ocean signed an amendment to the export to Egypt agreement as specified in Section 4 above.

According to the export to Egypt agreement, the Leviathan Partners are obligated, since July 2022, to supply Blue Ocean with 450 MMCF of natural gas per day. The piping of this entire quantity via the EMG pipeline will be possible only after completion of the combined section, whose construction as aforesaid has been delayed. Despite the fact that until the date of approval of the Financial Statements, the piping of gas via Jordan was carried out as usual, because the transmission agreements with INGL, which are in effect on the date of approval of the Financial Statements, are for the provision of interruptible transmission services, there is no certainty on the date of approval of the Financial Statements that it will be possible, at all times, to pipe via Jordan the full quantities that the Leviathan Partners are obligated as aforesaid to supply to Blue Ocean.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

To increase the capacity for transmission to Egypt using the Jordan-North Export Pipeline, the Leviathan Partners approved, until the date of approval of the Financial Statements, preliminary budgets before adoption of an FID (if any), in the sum total of approx. \$37.5 million (100% - the Partnership's share is approx. \$5.6 million), for construction of a compressor station and additional related work in the Jordanian transmission system (the "**FAJR+ Project**"). In the Operator's estimation, the FAJR+ Project budget is estimated at approx. \$335 million (shared equally between the Leviathan Partners and the Tamar Partners, the Partnership's share is approx. \$25 million).

The FAJR+ Project is expected to increase the total transmission capacity of the Jordan-North Export Pipeline to ~10.5 BCM per year in H1/2026. As of the date of approval of the Financial Statements, the parties are working to reach the required agreements for the execution of the project.

- c. The Jordan-South Export Pipeline, connecting the Israeli transmission system in the Southern Dead Sea area to Jordanian industrial plants.
- d. As of the date of approval of the Financial Statements, the Operator, on behalf of the Leviathan Partners and the Tamar Partners, is considering the possibility of participating in the construction of a new onshore connection between the Israeli transmission system and the Egyptian transmission system in the Nitzana region (the "**Nitzana Pipeline**"), which includes a pipeline and construction of a compressor station in the Ramat Hovav region. The Nitzana Pipeline (if built) will be part of INGL's transmission system and is expected to increase the capacity for transmission to Egypt by ~6 BCM per year. To promote the construction of the Nitzana Pipeline, the Leviathan Partners approved, until the date of approval of the Financial Statements, preliminary budgets before committing to participate in the financing of the Nitzana Pipeline, according to the decision of the Natural Gas Commission in this regard, and before adopting an FID (if any), in the sum total of approx. \$14.5 million (100%, the Partnership's share is approx. \$2 million). According to the Operator's estimation, the Nitzana Pipeline project budget is approx. \$360 million (shared equally between the gas exporters which will contribute to its financing). As of the date of approval of the Financial Statements, the Partnership, together with the other Leviathan Partners, is reviewing all of the commercial terms and conditions of this project, compared with alternatives of other projects for increasing the export capacity to Egypt, and accordingly will make a decision as to whether to participate in the Nitzana project and in what manner.

6) Agreement for the supply of condensate to ORL

In December 2019, an agreement was signed (the "**ORL Agreement**"), whereby condensate to be produced from the Leviathan Reservoir shall be transported to the existing fuel pipeline of EAPC, leading to a container site of PEI, from where it will be piped to the ORL facilities, *inter alia* according to regulatory instructions.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

The ORL Agreement is on an interruptible basis, for a period of 15 years from the date of commencement of the flow of condensate (in commercial quantities). Each party has the right to terminate the ORL Agreement by giving advance notice of at least 360 days to the other party. In addition, each party is entitled to terminate the ORL Agreement by shorter notice upon the occurrence of various events, including in case of breach by the other party, as well as in the case of regulatory and other changes which do not allow for the piping of the condensate in accordance with the provisions of the ORL Agreement.

The piping of the condensate to ORL according to the ORL Agreement is made on an interruptible, non-firm basis up to a maximum quantity agreed by the parties (the "**Maximum Quantity**"). The parties are entitled to update the Maximum Quantity from time to time, subject to compliance with conditions determined by the authorities in this regard, including the Ministry of Energy and the Ministry of Environmental Protection. The ORL Agreement provides that the condensate shall be delivered to ORL free of charge, with the Leviathan Partners bearing any and all expenses with respect to the piping of the condensate. In correspondence exchanged between the Leviathan Partners and ORL in Q1/2022, the Leviathan Partners claimed to ORL that non-payment for the condensate supplied to ORL as aforesaid constitutes prohibited and unlawful abuse of ORL's power as a monopsony for the purchase of condensate. In this letter, the Leviathan Partners called ORL to start negotiations for the curing of such breach immediately and retroactively. ORL responded in a letter rejecting the Leviathan Partners' claims. The Leviathan Partners again clarified their position whereby the non-payment by ORL for the condensate supplied thereto as aforesaid is a breach of law, which causes the Leviathan Partners material damage.

Following the signing of the agreement with ARF (as stated in Section 8 below), ORL sent a letter to the Leviathan Partners whereby the engagement with PAR constitutes a breach of the agreement with ORL, an anticipatory breach of the agreement and bad faith conduct. Later, on 4 February 2024, the Leviathan Partners informed ORL that the piping of condensate to ARF was expected to commence in March 2024, from which time the quantities piped to ORL would be reduced significantly. In response to this notice, ORL sent a letter to the Leviathan Partners whereby the Leviathan Partners' said notice constituted "*de facto* termination" of the agreement without notice and contrary to the agreement, and that according to ORL, this is a breach of the agreement with ORL. In this letter, ORL further demanded that the Leviathan Partners clarify the quantities of condensate they intended to pipe to ORL. It is the position of the Leviathan Partners that ORL's said claims and requirements are unfounded.

7) Agreement for the transport of condensate from the Leviathan Reservoir

On 1 September 2022, an agreement was signed between Chevron (on behalf of the Leviathan Partners) and PEI to arrange for an alternative mechanism to transport condensate from the Leviathan Project through an existing 6 inch pipeline of PEI and its related systems (the "**Agreement**" and the "**Pipeline**", respectively), whose highlights are as follows:

- a) The Agreement shall be valid for 20 years from the Piping Commencement Date, subject to provisions granting the parties rights of early termination.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

- b) PEI shall be responsible for the design and performance of the work for connection and refurbishment of the Pipeline for the purpose of transporting condensate as aforesaid (the "**Connection Work**"). PEI shall be responsible for obtaining any and all approvals to transport condensate in the Pipeline and for the current maintenance and operation of the Pipeline.
- c) According to the Agreement, Chevron (through the Leviathan Partners, according to their share in the Leviathan Leases), shall bear the costs of the Connection Work according to the scope and mechanism set forth in the Agreement, in amounts to be agreed by the parties in advance.
- d) Each one of the parties may terminate the Agreement if the conditions precedent are not fulfilled within 12 months from the date of signing, or if the Piping Commencement Date does not occur within 12 months from the Effective Date of the Agreement.
- e) During the transportation period, PEI will make the Pipeline available for Chevron's use (other than in emergencies determined in the Agreement, during which the flow of condensate to the Pipeline will be temporarily suspended), and reserve an agreed capacity in the Pipeline in consideration for fixed capacity fees stated in the Agreement. In addition, PEI will transport the condensate in the Pipeline in consideration for transport fees determined in the Agreement.

It is further noted that in November 2022, the Leviathan Partners approved a budget of approx. \$27 million (100%, the Partnership's share is approx. \$4 million) to implement the Agreement as aforesaid.

On 1 February 2024, the Leviathan Partners were informed that all of the Agreement's closing conditions had been fulfilled, and on 7 March 2024, piping of condensate to ARF began.

8) Agreement with ARF for the sale of condensate from the Leviathan Reservoir

On 18 January 2023, the Leviathan Partners (the "**Sellers**"), engaged with ARF in an agreement for the sale of condensate (the "**Agreement**"), whose highlights are as follows:

- a) The Sellers undertook to supply to ARF the condensate produced from the Leviathan Reservoir, which will be transported through the PEI pipeline.
- b) The Agreement provides, *inter alia*, for restrictions on the maximum quantities (on the daily and monthly levels) of the condensate to be supplied to ARF, fines for breach of the provisions of the Agreement, and other standard provisions in agreements of this kind.
- c) The transport of the condensate to ARF will begin on the date of commencement of the transport in the PEI pipeline (the "**Piping Commencement Date**"), and last for a period of 4 years. The transport of condensate from the Leviathan Project to ARF commenced on 7 March 2024.
- d) The price to be paid to the Sellers is determined according to the Brent oil barrel price, net of a margin, in a graded method, as detailed in the Agreement.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

9) Dependence on a customer

As of 31 December 2023, NEPCO and Blue Ocean are the Partnership's largest customers and therefore, termination of the agreements signed between them and the Leviathan Partners, or the non-fulfillment thereof, will materially affect the Partnership's business and future revenues. For details regarding sales volumes and trade receivables balance of the aforementioned as of 31 December 2023 and 31 December 2022, see Notes 1B, 4A3 and 17B.

D. Legal Proceedings:

1) Motion for class action certification – Olir Trade and Industries. Ltd. vs. Ratio Oil Explorations Ltd. *et al.* and C.A. 7433/21 Olir Trade and Industries. Ltd. v. Ratio Oil Exploration (1992), Limited Partnership

On 21 April 2020, an action and a motion for certification thereof as a class action were filed with the Tel Aviv District Court (Economic Department) by a company that held participation units of the Partnership ("**Petitioner 1**" and the "**Certification Motion**", respectively). The Certification Motion was filed against the Partnership, the GP, the directors of the GP, the (former) CFO of the GP and the Supervisor of the Partnership (both the present and the former supervisors) (collectively: the "**Respondents**").

In an agreement made for the export of natural gas from the Leviathan Reservoir to Dolphinus Holdings Limited (today - Blue Ocean) includes a stipulation that allows Blue Ocean to reduce by 50% the minimum annual quantity of gas it had undertaken to purchase in the event that the average daily price of a Brent oil barrel (as defined in the agreement) falls below \$50 per barrel.

According to the Petitioner 1, this information detail should have been disclosed immediately after the making of such agreement with Dolphinus Holdings Limited, but it was first published only upon the release of the Partnership's annual statements for 2019, on 24 March 2020. Hence, Petitioner 1 believed that the alleged non-disclosure amounts to a breach of duties imposed on the Respondents, *inter alia*, under the securities laws, the tort of negligence and the breach of statutory duty. The Respondents filed their answer to the Certification Motion on 31 December 2020.

On 6 June 2021, a new motion for class certification was filed against most of the Respondents (except the past and present Supervisor of the Partnership) by a holder of participation units (the "**Petitioner 2**") on a similar matter. He concurrently filed a motion for dismissal of the current proceeding and continuation of the hearing on the matter within the context of the new certification motion (Cl.A. 13139-06-21 Sapir vs. Ratio Oil Exploration (1992), Limited Partnership), arguing that also in our case, Petitioner 1 has no personal cause of action, as was ruled in the judgement issued in a parallel proceeding filed by Petitioner 1 against Isramco Partnership (Cl.A. 40354-04-20 Olir Trade and Industries Ltd. Vs. Isramco). (see Section 2 below for further details).

Following an exchange of responses and answers between the parties, on 29 September 2021, the judgment of the district court was issued, in which the Certification Motion was dismissed without prejudice and Petitioner 1 (Olir) was charged with payment of the Respondents' trial costs in the sum of ILS 110,000.

On 3 November 2021, Olir filed an appeal from the judgement of the District Court, with the appeal addressing only the aforesaid order for costs.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

On 31 March 2022, a preliminary hearing of the appeal was held at the Supreme Court.

On 19 January 2023, the hearing of the appeal was held, at the end of which a judgment was issued denying the appeal and charging the appellant with payment of the Respondents' costs in the sum of ILS 5,000.

2) Motion for class certification – Sapir vs. Ratio Oil Exploration (1992), Limited Partnership

As specified in Section 1 above, on 6 June 2021, a motion for class certification was filed with the Tel Aviv District Court (Economic Department) by a holder of participation units (the “**Petitioner**”), an action and a certification motion thereof against the Partnership, Ratio Energies Management Ltd. (formerly the Partnership’s GP), all of the directors of the GP and the former CFO of the GP (collectively: the “**Respondents**”). This motion was filed on the same issue addressed by the certification motion filed by Olir Trade and Industries Ltd. (the “**New Certification Motion**” and “**Olir’s Motion**”, respectively). The Petitioner claims that the alleged non-disclosure constitutes a breach of duties imposed on the Respondents, *inter alia*, under the securities laws, the tort of negligence and the tort of breach of statutory duty.

The certification motion alleges that as a result of disclosure of the information regarding such stipulation in the agreement vis-à-vis Dolphinus Holdings Limited, the value of the Partnership’s participation units on TASE trading dropped by 6.2%, causing the Petitioner damage in the sum of ILS 754. Similarly, the Petitioner argues that damage of 6.2% of the value of the participation units was caused to all of the other class members, who were defined as anyone who bought participation units of the Partnership from 2 October 2019 to 24 March 2020, and held them as of 24 March 2020 at the end of the trading day, other than the Respondents or anyone on their behalf or affiliates thereof.

As noted, the New Certification Motion concerned the same issue as Olir’s Motion. Therefore, concurrently the Petitioner also filed a motion in which he moved that the court dismiss Olir’s Motion and continue to conduct the hearing on this matter in the context of the certification motion which was filed by him.

According to him, Olir has no personal cause of action since it purchased the participation units before the publication of the misleading detail, similar to the court’s decision in a parallel proceeding on the same matter that was filed against another partnership (Cl.A. 40354-04-20 Olir Trade and Industries Ltd. vs. Isramco Negev 2, Limited Partnership). He therefore believes that his motion is preferable and the hearing should continue within the framework thereof.

On 30 June 2021, Olir filed its response to the New Certification Motion, in which it stated that it did not object to the dismissal of this proceeding, with no order for costs. On that same day, the Respondents’ answer was also filed, in which the court was moved to decide which of the certification motions would continue to be heard, and to the extent that Olir’s Motion is dismissed, charge the Petitioner with the Respondents’ costs.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

On 29 September 2021, the decision of the court was issued, according to which Olir's Motion was dismissed without prejudice and it was determined that this proceeding (the New Certification Motion) will continue to be conducted. On 27 February 2022, the Respondents' answer to the certification motion was filed. The answer argued, inter alia, that the contractual stipulation at the center of the certification motion was not a material stipulation that was required to be disclosed, according to the tests set forth in statutory and case law, and especially given the low foreseeable probability of the Brent price falling below \$50 per barrel on annual average, and the low foreseeable impact of the stipulation on the value of the Partnership's assets. The Respondents further argued that even if the stipulation had been fully disclosed to the public, it would not have added any material information that would have been relevant to the "reasonable investor", inter alia, in view of the lack of supplementary details that would have contributed to an understanding of its impact on the value of the participation units.

On 14 June 2022, the Petitioner filed his response to the Respondents' answer. The response claims, in essence, that a strict legal test should be applied to contractual stipulations, and further claims that the stipulation at the center of the certification motion was in any event material and essential.

In June 2023 the first trial hearing was held, during which the Petitioner's witnesses were cross-examined. In October 2023 the parties informed the court that they had reached in-principle understandings for a settlement outline which is expected to obviate the litigation between the parties, subject to its finalization as a full and signed settlement agreement. Further thereto, in December 2023 the parties filed a motion for approval of the settlement agreement, under which, if approved, the Partnership undertook to pay the sum total of ILS 200,000 (including compensation for the class, remuneration and legal fees). On 24 December 2023 the court decided to publish the settlement agreement for objections.

In view of the aforesaid, it is estimated at this time that the case will most probably end in a settlement in which the Partnership will pay the sum total of ILS 200,000.

- 3) Oil Fields Exploration (1992) – Limited Partnership (in Liquidation) against Eitan Aizenberg Ltd. *et al.*

On 28 December 2020, Oil Fields Exploration (1992) – Limited Partnership (in Liquidation) ("**Oil Fields Partnership**" or the "**Plaintiff**") filed a monetary claim in the amount of ILS 700 million (in this section below: the "**Claim**" or the "**Oil Fields Partnership Claim**") against Eitan Aizenberg Ltd., Eitan Aizenberg (collectively in this section: "**Aizenberg**"), the Partnership and the former GP (collectively, the "**Defendants**").

The Plaintiff's main arguments are that the Defendants were privy to (alleged) trade secrets of the Plaintiff (the "**Alleged Secrets**") and that it is unlawful use which was allegedly made by the Defendants of the Alleged Secrets which allegedly led to the Leviathan discovery by Aizenberg; to the applications filed by the Partnership for permits and licenses for oil exploration in the Leviathan structure; and the discovery of gas in the Leviathan Reservoir.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

According to the Plaintiff, the use made by the Defendants of the Alleged Secrets constitutes a violation of proprietary rights of the Plaintiff; a breach of agreements between the Defendants and the Plaintiff, a trade secret conversion tort; a breach of loyalty/fiduciary duties; a breach of obligations deriving from the Torts Ordinance (including fraud, misappropriation, negligence and negligence per se); unjust enrichment; and a breach of the duties of good faith, fair dealing and to act fairly.

In the complaint, the court was moved to declare that the petroleum rights, the overriding royalties and the operator fee, in whole or in part, as the case may be, that are due to the Defendants (or any of them) in connection with the Leviathan Reservoir, belong to the Oil Fields Partnership; and to order the registration and/or transfer and/or payment and/or assignment of these rights in the name of, or to the Oil Fields Partnership. Alternatively, a monetary remedy of ILS 700 million was sought.

The aforesaid Claim was filed following approval on 24 June 2020 by the Tel Aviv-Jaffa District Court (while hearing the insolvency proceedings of the Oil Fields Partnership) authorized the Oil Fields Partnership to file a claim, and authorized the Oil Fields Partnership to engage in an agreement to receive financing in the amount of ILS 18 million from First Libra Fund to cover the claim costs (concurrently, the court also approved a legal fee agreement with the attorneys of Oil Fields and an agreement to provide information and documents with Joseph Langotzky). The court issued the aforesaid approvals simultaneously with issuing a permanent winding up order and appointing a permanent receiver for Oil Fields.

An answer was filed on 14 April 2021, in which the Defendants claimed, *inter alia*, that the Alleged Secrets were not at all confidential; that the information included in the Alleged Secrets does not at all cover the Leviathan area and it was impossible to reveal through it either the Leviathan structure or the natural gas reservoir therein; the existence of the Leviathan structure was known (and was not confidential) many years before the defendants were exposed to the Alleged Secrets; the Defendants were entitled – both by law and by any agreement – to make use of the Alleged Secrets (although they did not in practice do so) and there is no proximate cause between the discovery of a geological structure (such as Leviathan) and the exposure and development of an economic reservoir and commercialization of the gas therein.

On 22 June 2021, a replication was filed in which the Plaintiff adds and claims that the arguments in the answer ostensibly contradict the claims raised by the Defendants in the 'Langotzky' claim, based on which the claim was denied. Accordingly, the Plaintiff argues for an alleged judicial estoppel, by virtue of which the Defendants are allegedly barred from claiming some of the claims raised thereby.

On 1 November 2021, the Defendants in the case of Oil Fields Ltd. vs. Eitan Aizenberg *et al.*, which is described in section (4) below, filed a motion for the consolidation of actions, by which the court was moved to order that the aforementioned case be consolidated and adjudicated with this case.

In the meantime, on 8 February 2021, the Defendants filed a motion to order the Plaintiff to post a bond for payment of the Defendants' defense costs: after receiving the parties' positions, the court ordered the Plaintiff by a decision as of 7 April 2021, to post a bond for payment of the defense costs in the sum of ILS 700 thousand.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

In May 2022, pretrial sessions were held in which the parties were able to narrow the issues in dispute regarding the listed motions. However, disputes arose regarding the actions to be taken and several motions were exchanged between the parties and the court.

On 9 November 2022, the Plaintiff filed a motion to add an expert witness to its list of witnesses in order to file an economic opinion aimed at appraising the value of the petroleum rights, the overriding royalties and the operator fee. The court granted the motion.

On 27 April 2023, the Plaintiff filed a motion for leave to file a motion for discovery and inspection of documents from the motion for class certification described in Section 6 below. After the filing of the answer of the Fields Partnership defendants to the motion, the court issued a decision granting the motion, while emphasizing that this did not derogate from arguments made by the Fields Partnership defendants whereby transcripts from the examination of witnesses in the Langotsky claim are inadmissible and carry no evidentiary weight.

At this stage, in view of the preliminary stage of the proceeding, the Partnership and its legal counsel are unable to estimate the chances of the claim being accepted. However, based on the information the Partnership and its legal counsel have in their possession 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.

4) C.C. (Tel Aviv District) 52118-03-21 Oil Fields Ltd. v. Eitan Aizenberg *et al.*

On 24 March 2021, counsel for the Partnership was served a complaint in the amount of ILS 750 million which was filed by Oil Fields Ltd., the general partner of Oil Fields Partnership, the plaintiff in the proceeding mentioned in Section (3) above (“**Oil Fields**” or the “**Plaintiff**”), with the Tel Aviv Jaffa District Court against Mr. Eitan Aizenberg; Eitan Aizenberg Ltd.; the Partnership; the GP; Mr. Ligad Rotlevy (Chairman of the Board of the GP); and Mr. Yigal Landau (CEO and director of the GP) (below in this section: the “**Defendants**” and the “**Complaint**”, respectively).

The Complaint largely relies on a factual foundation that is identical to the one underlying the Oil Fields Partnership Claim. Oil Fields asserts in the Complaint that, as a result of alleged misappropriation of rights of the Oil Fields Partnership (as argued in the Oil Fields Partnership Claim), Oil Fields was denied various payments (royalties and operator fee) to which it is entitled in accordance with the agreement between it and the Oil Fields Partnership; and royalties to which it is entitled in accordance with direct agreements between it and the Partnership.

In the Complaint, the court was moved to obligate the Defendants, jointly and severally, to *inter alia* pay to Oil Fields overriding royalties at the rate of 8% of all the gas/oil/other resource that was and/or will be produced from the Leviathan Reservoir, and operator fee at the rate of 7.5% (plus VAT) of all the expenses incurred due to exploration/development/production of gas from the Leviathan Reservoir. Alternatively, the court is moved to charge the Defendants, jointly and severally, with payment of all the profits made thereby at the expense of Oil Fields and to compensate it for its damage. The court is further moved to issue an accounting order against the Defendants.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

An answer was filed on 24 June 2021. In the answer, the Defendants reiterate all of the arguments raised in the answer filed against the claim of Oil Fields Partnership (as specified above), and further argue lack of controversy, since the inspection of the Complaint indicates that it does not reveal any dispute regarding the relationship between the plaintiff and the Defendants.

A replication on behalf of the plaintiff – Oil Fields was filed on 1 September 2021. In the replication, the plaintiff repeats some of the arguments already raised thereby in the Complaint and adds, allegedly in response to the lack of controversy argument, that the Complaint includes ostensibly, a factual basis that establishes an independent cause of action for the plaintiff against the Defendants, including causes from the field of tort law, unjust enrichment law and Commercial Tort Law.

In April 2022, a pretrial hearing was held, in which the parties were able to narrow the disputes regarding the listed motions, apart from one motion which was denied by the court in a decision of June 2022.

At this stage, in view of the preliminary stage of the litigation, the Partnership and its legal counsel are unable to assess the chances of the claim being granted. However, based on the information available to the Partnership and its legal counsel as of the date of approval of the Financial Statements, the chances of the claim being granted are lower than the chances of the claim being denied.

Consolidation of the hearing of the Fields company claim with the hearing of the Fields partnership claim

On 1 November 2021, the Defendants filed a motion for the consolidation of actions, in which the Court was moved to order that the hearing of the Oil Fields Ltd. v. Eitan Aizenberg Ltd. et al. case, mentioned in this section above, be consolidated and adjudicated with the case of Oil Fields Exploration (1992) – Limited Partnership (in Liquidation) vs. Eitan Aizenberg Ltd. et al., which is described in Section (3) above. In its response to the consolidation motion, Oil Fields announced that it is leaving the decision to the discretion of the court. Oil Fields Partnership announced its objection to the consolidation motion.

In a decision of 28 April 2022, the court ruled that "there is a great degree of overlap (if not identity) between the events covered by the two actions", and ordered the hearing consolidated as requested.

In a pretrial hearing held in May 2023, trial dates were scheduled, and it was further ruled that at this time there is no justification for appointing an expert for the court. However, and considering the difficulty in finding an appropriate expert, the court ordered the parties to talk among themselves and start looking for a possible expert.

On 6 November 2023, in view of the security situation in Israel, the parties filed an agreed motion to approve a stipulation, changing some of the trial dates and the witness order. The stipulation was approved in a decision of 8 November 2023.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

According to the agreed stipulation, cross-examinations have been held to date on behalf of the plaintiffs and the defendants. At present, the examination of the other witnesses is scheduled for May-June 2024.

- 5) HCJ 2351/21 Noble Energy Mediterranean Limited v. the Natural Gas Commission – the Ministry of Energy

On 7 April 2021, the Partnership, jointly with the other Leviathan Partners, and with the partners in the Tamar reservoir (the "**Petitioners**"), filed a petition with the High Court of Justice against the Natural Gas Commission and the Ministry of Energy. The petition moves for annulment of the Natural Gas Commission's decision no. 5/2020 of 29 December 2020 - Amendment to the Commission's decision no. 8/2019 - criteria and tariffs for the transmission system in a flow control regime (Amendment No. 2), published on 3 January 2021 (the "**Commission's Decision**"). According to the Commission's Decision, the natural gas suppliers shall bear one half of the "Unaccounted For Gas Target (UFG-T)", which is defined in the Commission's Decision as a difference of up to 0.5% between the quantity of gas measured by the meter at the entrance to the national natural gas transmission system and the quantity measured by the meter at the exit therefrom.

The petition argues that this decision was adopted without lawful authority and is extremely unreasonable.

On 26 October 2021, Energean Israel Limited ("**Energean**") which is added as a respondent to the petition, filed its response, arguing that the petition is justified for the reasons specified therein. On 27 October 2021, INGL, which was also added as a respondent to the petition, filed its response, whereby the petition should be summarily dismissed with prejudice. In response, INGL argued that the petition is tainted by bad faith and unclean hands due to the concealment of material facts and failure to join entities that may be harmed by the petition. INGL further claimed that the decision contemplated in the petition was adopted with authority and reasonableness. On 5 November 2021, the State respondents filed their response to the petition, according to which the petition should be dismissed with prejudice summarily and on the merits.

On 9 February 2023, a hearing of the petition was held, at the end of which the court recommended to the Petitioners to withdraw the petition, which they did. As a result, the petition was dismissed with no order for costs.

- 6) D.S. 29330-02-22 Nof v. Rotlevy – Motion for Certification of a Derivative Suit

On 14 February 2022, the Partnership received a motion for certification of a derivative suit filed by a petitioner who claims to hold participation units of the Partnership (the "**Petitioner**") against Messrs. Ligad Rotlevy (Chairman of the board of the Partnership's GP) and Yigal Landau (CEO and director of the Partnership's GP), Landlan Investments Ltd. and D.L.I.N Ltd. (private companies controlled by entities which the Partnership and the GP treat as control holders of the GP and the Partnership), Ratio Oil Exploration Ltd. (the Partnership's former GP) (the "**Respondents**") and the Partnership (the "**Certification Motion**") The amount of the suit, whose certification is sought, was set at approx. ILS 1,024 million.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

The Petitioner argues that in the period between December 2007 and December 2009, the Respondents were allegedly an “Insider”, “Key Insider” and “Principal Shareholder” of the Partnership, within the meaning of these terms in the Securities Law, 5728-1968, and made transactions in securities of the Partnership (each one for themselves) while, allegedly, using inside information. The amount of the claim is the profit that was allegedly (cumulatively) derived for the Respondents from such transactions.

On 8 June 2022, the Partnership filed a motion for summary dismissal of the certification motion on grounds of prescription (the "**Dismissal Motion**"). In a decision of 13 September 2022, the court denied the Dismissal Motion since, according to its ruling, deciding the parties' claims regarding prescription requires a factual investigation, for which a sufficient evidentiary foundation has not yet been laid. The court clarified in its decision that the defendants' arguments regarding prescription of the claim are reserved for the stage of hearing of the Certification Motion, in which the court will be presented with a broader evidentiary foundation .

Further on 8 June 2022, concurrently with the filing of the Dismissal Motion, the Partnership filed a motion to stay the Certification Motion proceedings, on grounds of *lis alibi pendens* (the "**Motion for Stay of Proceedings**"), based on the argument that, concurrently with the Certification Motion, two other proceedings are pending before the court, the hearing of which has been consolidated, namely the claim of the Oil Fields Partnership and the claim of the Oil Fields Ltd., detailed above. Since the three proceedings concern a key issue which is identical in substance, namely the materiality of the information (as defined above), the hearing of the Certification Motion should be stayed pending completion of the hearing of the parallel proceedings and a decision on the claim regarding the materiality of the information. In a decision of 13 September 2022, the court denied the Motion for Stay of Proceedings since, according to its ruling: (a) There is no identity between the issues expected to be heard in the Certification Motion and those expected to be heard in the parallel proceedings; and (b) The partial overlap between the issues in dispute does not justify staying the hearing of the Certification Motion.

On 15 December 2022, the Respondents filed their answers to the Certification Motion. The Respondent’s reply to the answer was filed in January 2023.

On 14 February 2023 a hearing of the Certification Motion was held in the court, in which the Petitioner was examined. In March and April 2023 the parties filed motions and answers regarding the plaintiff’s witnesses and to revisit. As of the date of approval of the Financial Statements, no decision thereon has yet been issued.

In May 2023 the Partnership moved the court to schedule dates for the filing of the parties’ summations.

In February 2024 the petitioner filed a motion for discovery and inspection (the “Discovery Motion”), following new facts allegedly revealed in the cross-examination of Aizenberg in the consolidated Fields proceedings mentioned at the end of Section 4 above.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

At this stage, in view of the preliminary stage of the proceeding, the Partnership and its legal counsel are unable to estimate the chances of the Motion being granted. However, based on the information the Partnership and its legal counsel have in their possession nowadays, the chances of the claim being accepted are lower than the chances of the claim being denied.

- 7) Proceedings against the Operator in the Leviathan Project in connection with the operation of the Leviathan platform

Legal Proceedings

- a) On 15 December 2020 a motion for class certification was filed with the Tel Aviv District Court against Chevron and Chevron Corporation (jointly, the “Respondents”) by a resident of the Dor Beach area on behalf of “anyone who was exposed to the air, sea and coastal environment pollution, due to prohibited emissions from the gas platform operated by the Respondents in the sea, which is located opposite Dor Beach, and treats the natural gas reservoir, Leviathan, in the period from the commencement of the platform’s activity in December 2019 until a judgment is issued in the claim” (in this section: the “**Certification Motion**”, the “**Petitioner**” and the “**Class Members**”).

In essence, according to the Certification Motion, the Respondents exposed the Class Members to air, sea and environmental pollution, due to prohibited emissions deriving from the Leviathan Reservoir platform. Such exposure, according to the Petitioner, created various health problems (which were not specified in the Certification Motion) and damage of injury to autonomy due to the concern of health damage as aforesaid. The main remedy sought in the Certification Motion is compensation of the class for the damage it allegedly incurred which is estimated at approx. ILS 50 million. In addition, the Petitioner moved for a remedy of an order instructing the Respondents to immediately fulfill the obligations imposed thereon in the Clean Air Law, 5768-2008 (the “**Clean Air Law**”) and the regulations promulgated thereunder.

On 7 February 2024 a judgement was issued denying the Certification Motion, with an award of costs against the Petitioner.

- b) On 3 May 2021, Haifa Port Ltd. (“**Haifa Port**”) filed a claim against Chevron, Coral Maritime Services Ltd. and Gold-Line Shipping Ltd. (the “**Additional Defendants**”). The amount of the claim is approx. ILS 77 million.

The claim concerns the unloading of cargo by Chevron directly in the area of the Leviathan Reservoir platform. According to Haifa Port, direct unloading to such platform, without first unloading such cargoes at one of the Israeli ports, was unlawful. According to Haifa Port, Chevron, by unloading the cargoes directly to such platform, evaded mandatory payments to the port, including infrastructure and handling fees, thus causing the port a loss.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

As argued in the complaint, from July 2018 onwards, Chevron carried out such direct unloading, while declaring to the tax authorities (customs) that the Haifa Port is the "port of unloading", even though the unloaded cargoes did not actually pass through Haifa Port. It was also alleged that Chevron did not pay the port the infrastructure and handling fees for these cargoes, even though it was obligated to do so. According to the port, these fees constitute the amount of the claim.

The complaint does not distinguish, with regard to the amount of the claim, between the infrastructure fees and the handling fees. The claim against the Additional Defendants is that they acted, at the relevant times, as the vessel agents for Chevron, a matter that establishes for them, according to Haifa Port, an obligation to pay the handling fees on behalf of Chevron. Answers and a replication were filed on behalf of the parties.

Concurrently with the answer, a counterclaim was also filed on behalf of Chevron, against the Haifa Port, in the amount of approx. ILS 4.4 million. The counterclaim concerns two main arguments: (1) a claim in the amount of ILS 715 thousand for handling fees and infrastructure fees which were actually unlawfully charged by the Haifa Port (in fact, an argument similar to the one argued in the answer to the Port's claim); (2) a claim in the amount of approx. ILS 3,690 thousand for a mooring fee in which Chevron was charged and with no 30% reduction made therein, contrary to the law, for cases of self-routing of ships passing through the port area. On 1 December 2021, Haifa Port filed its answer to the counterclaim.

Despite the parties' attempt to reach agreements on completion of the preliminary proceedings as determined in the pretrial held on 11 September 2022, the parties filed mutual motions regarding the preliminary proceedings.

On 27 November 2022, the complaint was amended. In the amendment, a separate claim amount was attributed to each one of the defendants. However, the total sum of the claim did not change. Counsel representing Chevron believe that this change does not affect Chevron's exposure.

On 3 April 2023 Haifa Port filed a motion for summary dismissal of the counterclaim. Haifa Port claims that there is no rivalry between Haifa Port and Chevron, since the invoices and mooring fee were paid by the shipping agent. Chevron filed an answer to the motion for summary dismissal, rejecting the arguments made therein. On 21 June 2023 the court denied the motion for summary dismissal and ruled that the hearing of the claim will continue. The court further awarded costs against Haifa Port for filing the motion. Despite the attempt to reach understandings, the parties filed mutual motions regarding the preliminary proceedings.

The parties filed answers to these motions, which were heard in the pretrial hearing of June 2023.

In July 2023, the court denied the motions filed by the parties and ruled that no party was required to make any supplementations in the context of the preliminary proceedings. A date was scheduled for a last pretrial session on 4 June 2024, after the filing of affidavits of testimony in lieu of direct testimony.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

At this preliminary stage, the counsel representing Chevron cannot estimate the chances of the claim and the counterclaim. However, according to the counsel representing Chevron, it is more likely that the primary claim be denied rather than accepted.

- c) On 30 October 2022, Haifa Port filed an administrative petition with the Court of Administrative Affairs in Jerusalem, under Section 17 of the Freedom of Information Law, against the Tax Authority and against Chevron.

The petition was filed after the Tax Authority denied Haifa Port's request for information pertaining primarily to the contacts between Chevron and the Tax Authority regarding the coordination of the unloading of cargo directly at the platform, approvals given by the Tax Authority for the unloading of goods other than in an authorized port, and the procedures and directives under which the said approvals had been given.

Since the requested information includes details about Chevron, Chevron was joined as an additional respondent to the petition .

On 26 December 2022, the Tax Authority and Chevron filed preliminary answers to the petition, claiming that the petition should be denied, primarily in view of the confidentiality provision set forth in the Customs Ordinance.

The petition was denied on 28 September 2023, with an award against the port for the costs of the Operator and the State in the sum of ILS 20,000 each. The judgement states that the information sought by Haifa Port is "information which is not to be disclosed under any law", and which is subject to strict confidence. It does not fall within the "filters" set forth in the law, and the court has no discretion to order the disclosure thereof.

On 29 January 2024 Haifa Port appealed the judgement before the Supreme court. At this stage, no instructions have yet been issued by the Supreme Court on the continued conduct of the proceeding.

Administrative financial penalties

- d) In May 2020, the Operator received notice from the Ministry of Environmental Protection regarding its intention to impose an administrative financial penalty due to alleged violations of the emission permit given to the Leviathan platform and the Clean Air Law and the Commissioner's directive issued by virtue thereof with respect to the connection of the continuous monitoring data in the Leviathan platform. The notice of the intention of the Ministry of Environmental Protection to impose the administrative penalty, imputes three alleged violations to Chevron, the amount of the penalty for which was determined after a 20% reduction with respect to one of the breaches. Chevron submitted a request to receive information by virtue of the Freedom of Information Law, which is required therefor in order to formulize its arguments in the penalty notice. In view thereof, the Ministry of Environmental Protection authorized to postpone the date of submission of arguments by 30 days after receipt of the information. As of the date of approval of the Financial Statements, the information requested by Chevron has not yet been received and therefore the count of days for reply to the notice has not yet started.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

Counsel for Chevron believe that due to the long period that has passed since the process began, with no response from the Ministry of Environmental Protection to the freedom of information request, it cannot be ruled out that this process will be promoted no further and has, in practice, been set aside. However, as long as no written notice has been received that the administrative financial penalty has been cancelled, the process is still officially pending, although under suspended status.

- e) In November 2021, the Operator received from the Ministry of Environmental Protection a caution letter and a summons to a hearing due to non-compliance with the terms and conditions of the marine discharge permit and breach of the Prevention of Sea Pollution Law, claiming that Chevron had deviated from the criteria determined for marine discharge from the open system. In January 2022, the hearing was held, and in June 2022, Chevron received a letter demanding receipt of details regarding the annual sales turnover pursuant to Section 5(c)(b)(2).

In December 2023, Chevron received a notice from the Ministry of Environmental Protection of an intention to impose an administrative financial penalty in the sum of approx. ILS 2.9 million due to the alleged violation (approx. \$0.8 million) (100%, the Partnership's share is approx. ILS 0.4 million (approx. \$0.1 million)). Payment for this administrative penalty in the foregoing amount was transferred to the Ministry on 26 December 2023.

Hearings

- g) On 6 August 2023, the Operator received letters of notice and an invitation to a hearing before the Ministry of Environmental Protection for non-compliance with the conditions of the marine discharge permit issued for the Leviathan platform and breach of the Prevention of Sea Pollution Law (the invitation to the hearing claims that the Operator discharged prohibited wastewater into the sea), and for non-compliance with the conditions of the poisons permit issued for the Leviathan platform and breach of the Hazardous Substances Law, 5753-1993 (the invitation to the hearing claims that the Operator had stored the diesel oil refueling hose contrary to the conditions of the poisons permit).

In January 2024, the hearing was held and summations received stating, *inter alia*, that Chevron is required to take any and all action to prevent deviations from the marine discharge permit, and that in the event of recurring breaches, the Ministry of Environmental Protection will consider exercising its full lawful powers, including a possible recommendation of an administrative financial penalty according to the law.

In the estimation of Chevron's legal counsel, it is not possible to assess at this time whether administrative financial penalties will be imposed on the Operator following the hearing.

E. Pledges and collateral

- 1) In September 2014, the Commissioner released, pursuant to Section 57 of the Petroleum Law, directives for the provision of collateral in connection with petroleum interests. To secure compliance with the provisions of the Leviathan Lease deeds, the Leviathan Partners provided guarantees in the sum total of \$100 million (the Partnership's share is \$15 million).

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

The guarantee shall be valid throughout the lease period and shall remain valid also after expiration of the lease, so long as the Commissioner shall not have announced that it is not needed and subject to Section 57(c) of the Petroleum Law.

- 2) A guarantee to the Israel Land Authority due to the land of the Hagit plant which is used for storage of condensate, roads of access and areas for logistical arrangement and the pipeline infrastructure (condensate pipeline) in the amount of approx. ILS 750 thousand. The Partnership made a deposit of approx. \$240 thousand against the provision of the Israel Land Authority guarantees. The deposit is presented under 'restricted deposits' item in the statement of financial position, see also Note 10.
- 3) In January 2021, in accordance with the Committee's Decision, as specified in Section C5 above, guarantees were provided in the total amount of approx. ILS 47 million in connection with the pipeline to INGL to guarantee INGL's share in the cost of construction of the infrastructure of the national transmission system, and coverage of Chevron's undertakings to pay the capacity and transmission fees. In January 2024, the guarantee in the total sum of approx. ILS 50 million, was renewed. The Partnership made a deposit of \$3.7 million against the provision of the aforesaid guarantees. The deposit is presented under 'restricted deposits' item in the statement of financial position, see also Note 10.
- 4) In December 2023, in accordance with the requirement of the Ministry of Energy in connection with the process of the granting of Zone G licenses, guarantees in the sum total of approx. \$0.5 million were provided (the Partnership's share).
- 5) The interest safety cushions for the Series C and D Bonds. See also Note 11B5(d)(2).
- 6) A long-term pledged deposit as of 31 December 2023 in the sum of approx. \$24 million used for debt service in respect of a loan from banking corporations. See also Note 11A.

F. Permits and licenses for the Leviathan Project

In the context of the development plan for Phase I – First Stage of the Leviathan Project, the Leviathan Partners received approval to build a permanent platform for the production of oil and natural gas, as well as approval to operate a system for the production of natural gas and condensate from the Leviathan Project, under which the Leviathan Partners were obligated, *inter alia*, to submit guarantees as stated in Section E above.

In February 2017 the Minister of Energy granted an SPC owned by the Leviathan Partners, Leviathan Transmission System Ltd., a license to build and operate the transmission system that would be used for the transmission of natural gas of the Leviathan Partners sourced at the Leviathan Leases, or of other natural gas suppliers, upon fulfillment of certain conditions, and all subject to the terms and conditions of the license.

Note 25 – Engagements and Contingent Liabilities (Cont.):

G. Regulation

1) Projects for export via the national transmission system:

On 23 June 2020, the Director of the Natural Gas Authority announced that he was estimating the cost of the combined section, intended for the transmission of natural gas from the Leviathan and Tamar reservoirs to the EMG terminal in Ashkelon for the transmission of gas to Egypt according to the export agreements (as of the date of signing of the transmission agreement) in the sum total of ILS 738 million, to be updated according to the mechanism for updating and accounting between the parties, as determined in the transmission agreement with INGL. On 2 May 2022 INGL updated the project budget to approx. ILS 796 million.

According to the notice of the Director of the Gas Authority, 43.5% of the cost of the section, as determined according to the aforesaid, shall be paid by the holder of the transmission license (INLG), and 56.5% of the cost of the section shall be paid by the exporter, according to the milestones determined in the transmission agreement. In addition, the exporter shall pay the transmission license holder ILS 27 million (Partnership's share – ILS 2.8 million) for its share in the cost arising from the bringing forward of the doubling of the sections Dor-Hagit and Soreq-Nesher (estimated at approx. ILS 48 million). The exporter shall further provide the transmission license holder with an independent financial guarantee by an Israeli bank, in the sum of 110% of the aggregate amount of the said cost (the transmission license holder's share in the cost of bringing forward the doubling of the sections plus 10%), plus ILS 21 million (the transmission license holder's share in the cost of bringing forward the doubling of the sections Dor-Hagit and Soreq-Nesher), decreasing as stated in the addendum to the decision.

The Authority Director's notice further states that so long as the exporter exports to Egypt, the quantity of natural gas set forth in the transmission agreement shall be piped through the transmission system of the transmission license holder, and not through a section outside the Israeli transmission system, and that if the exporter stops exporting to Egypt, it shall be required to pay the transmission license holder the difference, if any, between 110% of the cumulative amount of the total cost of the section plus ILS 48 million (the cost arising from the bringing forward of the doubling of the sections Dor-Hagit and Soreq-Nesher) and the aggregate piping and capacity fees that the exporter paid to the transmission license holder from the date of completion of the combined section, and the payments which the exporter paid the license holder according to the aforesaid. On Chevron's engagement with INLG in a transmission agreement on a firm basis for the piping of natural gas from the Tamar reservoir and from the Leviathan Reservoir to the EMG terminal in Ashkelon, for transmission thereof to Egypt, see Section C5 above.

2) The Natural Gas Commission's decision regarding arrangement of criteria and tariffs with respect to the operation of the transmission system: The Natural Gas Commission periodically adopts decisions that update the tariffs for the various transmission services.

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

Note 25 – Engagements and Contingent Liabilities (Cont.):

According to the Natural Gas Commission’s decision of 3 January 2021 regarding criteria and tariffs with respect to operation of the transmission system in a flow control regime, the Commission determined that the costs in respect of the measurement gaps in the transmission system that derive from reasons that cannot be ascribed to faulty operation of the transmission system, but rather to factors that cannot be prevented or controlled, such as measurement timing, pressure differences and temperature differences, shall be imposed on the gas suppliers. The decision further determines that a measurement gap that is deemed to be within a reasonable range is a gap ranging between 0% and 0.5% (positive or negative). The costs in respect of a reasonable measurement gap will be divided equally between the gas suppliers and the gas consumers.

- 3) On 2 May 2023, the Ministry of Energy published for public comment a draft policy document on the 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 respect to the decommissioning of offshore oil and natural gas exploration and production infrastructures, without derogating from the provisions of law that apply in this regard or from the provisions of the lease deeds and the operation approvals. The Draft Policy proposes, *inter alia*, rules, criteria, and timeframes for the decommissioning of wells and production facilities, as well as abandonment of subsea infrastructures and pipelines which are of no further use, *inter alia* according to the location of the said facilities at sea depth – on or below the seabed. The Leviathan Partners forwarded to the Ministry of Energy their response to the Draft Policy. Insofar as the requirements in the Draft Policy are approved, this is expected to increase the costs of decommissioning of the Partnership’s assets.

Note 26 – Subsequent Events

A. Approval by the general meeting of the participation unit holders to replace the General Partner by a new general partner

For subsequent developments, see Note 1C.

B. Iron Swords War

For subsequent developments, see Note 1E.

C. Performance of front-end engineering and design for Phase 1 – Second Stage in the development of the Leviathan Reservoir

For subsequent developments, see Note 8C6 .

D. Reserves and contingent resources report for the Leviathan Reservoir leases

For subsequent developments, see Note 8C7.

E. Removal of the pledge over the royalty for Series C Bonds

For subsequent developments, see Note 11B5D1.

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

Note 26 – Subsequent Events (Cont.)

F. Distribution of profits

For subsequent developments, see Note 15F4.

G. Rate of advances of royalties to the State

For subsequent developments, see Note 18.

H. Postponing the laying of the pipeline for the export of gas to Egypt

For subsequent developments, see Note 25C5A4.

I. Quantity reduction of condensate supplied to PAR

For subsequent developments, see Note 25C6.

J. Commencement of transportation of condensate to ARF

For subsequent developments, see Note 25C8.

K. D.S. 29330-02-22 Nof v. Rotlevy - Motion for certification of a derivative suit

For subsequent developments, see Note 25D6.

L. Proceedings against the Operator - Motion for class certification filed by a resident of Dor Beach

For subsequent developments, see Note 25D7A.

M. Proceedings against the Operator - an administrative petition against the Tax Authority and against Chevron

For subsequent developments, see Note 25D7C.

N. Proceedings against the Operator - notice and summons to a hearing before the Ministry of Environmental Protection for non-compliance with the conditions of the marine discharge permit given to the Leviathan platform

For subsequent developments, see Note 25D7F.

O. Renewal of guarantees

For subsequent developments, see Note 25E3.

