

Energean Israel Limited

Unaudited interim condensed consolidated financial statements

30 June 2021

ENERGEAN ISRAEL LIMITED

Unaudited interim condensed consolidated financial statements

AS OF 30 JUNE 2021

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ENERGEAN ISRAEL LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts in thousands US Dollars, unless otherwise stated)

		30 June 2021	31 December 2020
		Unaudited	Audited
		US Dollars in thousands	
	Note		
ASSETS:			
NON-CURRENT ASSETS:			
Property, plant and equipment	3(A)	2,093,951	1,813,523
Intangible assets	3(B)	17,537	13,807
Other accounts receivable		1,039	43
Loan to related party	6(B)	175,884	-
Long term restricted cash	3(C)(3)	100,000	-
Deferred tax asset	5	8,849	7,839
		<u>2,397,260</u>	<u>1,835,212</u>
CURRENT ASSETS:			
Trade and other receivables		8,652	1,304
Short term restricted cash	3(C)(3), 6(C)	166,241	-
Cash and cash equivalents		731,584	37,421
		<u>906,477</u>	<u>38,725</u>
TOTAL ASSETS		<u>3,303,737</u>	<u>1,873,937</u>
EQUITY AND LIABILITIES:			
EQUITY:			
Share capital		1,708	1,708
Share premium		572,539	572,539
Other reserves		-	(5,328)
Accumulated losses		(32,661)	(25,114)
TOTAL EQUITY		<u>541,586</u>	<u>543,805</u>
NON-CURRENT LIABILITIES:			
Secured Senior Notes	3(C)(3)	2,459,910	-
Provisions for decommissioning		34,708	38,399
Trade and other payables	3(E)	90,430	84,360
		<u>2,585,048</u>	<u>122,759</u>
CURRENT LIABILITIES:			
Current borrowings	3(C)(1)	-	1,093,965
Trade and other payables	3(E)	174,698	90,489
Loans from related parties	3(C)(2)	-	16,000
Derivative financial instrument	3(D)	2,405	6,919
		<u>177,103</u>	<u>1,207,373</u>
TOTAL LIABILITIES		<u>2,762,151</u>	<u>1,330,132</u>
TOTAL EQUITY AND LIABILITIES		<u>3,303,737</u>	<u>1,873,937</u>

01 September 2021

Panagiotis Benos
Director

Matthaios Rigas
Director

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

ENERGEAN ISRAEL LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Amounts in thousands US Dollars, unless otherwise stated)

		For the period of six months ended 30 June 2021	For the period of six months ended 30 June 2020
		Unaudited	Unaudited
	Note	US Dollars in thousands	US Dollars in thousands
Administrative expenses	4(A)	(1,735)	(1,887)
Other expenses	4(A)	(28)	(385)
Operating loss		(1,763)	(2,272)
Finance income	4(B)	1,808	169
Finance costs	4(B)	(9,436)	(26)
Foreign exchange gain	4(B)	(727)	242
Loss for the period before taxes		(10,118)	(1,887)
Tax income	5	2,571	413
Net loss for the period		(7,547)	(1,474)
<u>Other comprehensive income (loss):</u>			
Items that may be reclassified subsequently to profit or loss:			
Gain (loss) on Cash flow hedge for the period		2,278	(11,530)
Reclassification adjustment for items included in loss on realisation		4,641	-
Tax relating to items that may be reclassified subsequently to profit or loss		(1,591)	2,652
Other comprehensive income (loss) for the period		5,328	(8,878)
Total comprehensive income (loss) for the period		(2,219)	(10,352)

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

ENERGEAN ISRAEL LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Amounts in thousands US Dollars, unless otherwise stated)

For the period of six months ended 30 June 2021 (Unaudited):

	<u>Share capital</u>	<u>Share Premium</u>	<u>Other reserves</u>	<u>Accumulated losses</u>	<u>Total equity</u>
Balance as of 1 January 2021	1,708	572,539	(5,328)	(25,114)	543,805
Changes during period:					
<u>Comprehensive Income (Loss):</u>					
Loss for the period	-	-	-	(7,547)	(7,547)
Other comprehensive income, net of tax	-	-	5,328	-	5,328
Balance as of 30 June 2021	<u>1,708</u>	<u>572,539</u>	<u>-</u>	<u>(32,661)</u>	<u>541,586</u>

For the period of six months ended 30 June 2020 (Unaudited):

	<u>Share capital</u>	<u>Share Premium</u>	<u>Other reserves</u>	<u>Accumulated losses</u>	<u>Total equity</u>
Balance as of 1 January 2020	1,676	540,071	434	(20,234)	521,947
Changes during period:					
<u>Comprehensive Loss:</u>					
Loss for the period	-	-	-	(1,474)	(1,474)
Other comprehensive loss, net of tax	-	-	(8,878)	-	(8,878)
Total comprehensive loss	<u>-</u>	<u>-</u>	<u>(8,878)</u>	<u>(1,474)</u>	<u>(10,352)</u>
<u>Transactions with shareholders:</u>					
Shares issuance	32	32,468	-	-	32,500
Balance as of 30 June 2020	<u>1,708</u>	<u>572,539</u>	<u>(8,444)</u>	<u>(21,708)</u>	<u>544,095</u>

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

ENERGEAN ISRAEL LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in thousands US Dollars, unless otherwise stated)

	For the period of six months ended 30 June 2021	For the period of six months ended 30 June 2020
	Unaudited	Unaudited
	US Dollars in thousands	
Cash flows from operating activities:		
Loss for the period before tax	(10,118)	(1,887)
Adjustments for:		
Depreciation and amortization	50	149
Loss from disposal on property, plant and equipment	23	-
Increase in provisions for decommissioning	343	-
Other expenses	5	-
Finance income	(1,808)	(169)
Finance expenses	9,093	26
Net foreign exchange gain (loss)	727	(242)
	(1,685)	(2,123)
Changes in working capital:		
Decrease (increase) in other receivables	(183)	327
Increase (decrease) in trade and other payables	(932)	437
	(1,115)	764
Net cash generated used in operating activities	(2,800)	(1,359)
Cash flows from investing activities:		
Payment for purchase of oil & gas leases	(10,850)	(10,850)
Payment for purchase of intangible assets	(3,682)	(7,971)
Payment for purchase of property, plant and equipment	(97,615)	(209,090)
Movement in restricted cash	(266,241)	-
Interest received	123	198
Net cash used in investing activities	(378,265)	(227,713)
Cash flows from financing activities:		
Senior secured notes issuance	2,500,000	-
Transaction cost in relation to senior secured notes issuance	(37,218)	-
Proceeds from shares issuance	-	32,500
Drawdown of borrowings	118,000	200,000
Repayment of borrowings	(1,268,000)	-
Loan to related party	(175,884)	-
Loan repayment from related parties	(16,000)	-
Debt arrangement fees paid	-	(5,050)
Finance cost paid	(41,861)	(28,799)
Finance costs paid for deferred license payments	(3,494)	(3,993)
Repayment of obligations under leases	(169)	(174)
Net cash generated from financing activities	1,075,374	194,484
Net decrease in cash and cash equivalents	694,309	(34,588)
Cash and cash equivalents at the beginning of the period	37,421	110,488
Effect of exchange rate fluctuations on cash held	(146)	(54)
Cash and cash equivalents at the end of the period	731,584	75,846

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

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 1: GENERAL

- A. Energean Israel Limited (the “Company”) was incorporated in Cyprus on 22 July 2014 as a private company with limited liability under the Companies Law, Cap. 113. Its registered office is at Lefkonos 22, 1st Floor, 2064, Nicosia, Cyprus.
- B. The Company and its subsidiaries (the “Group”) has been established with the objective of exploration, production and commercialisation of crude oil and natural gas. The Group’s main activities are performed in Israel by the Company’s Israeli Branch.
- C. The Group’s core assets as of 30 June 2021 are comprised of:

Country	Asset	Working interest	Field phase
Israel	Karish (including Karish North)	100%	Development
Israel	Tanin	100%	Development
Israel	Blocks 12, 21, 23, 31	100%	Exploration
Israel	Four licenses Zone D (1)	80%	Exploration

- (1) The Company holds 80% interests in four licenses, blocks 55, 56, 61 and 62 (together, “Zone D”) in Israel’s Exclusive Economic Zone (“EEZ”).

- D. COVID-19: Despite COVID-related challenges experienced during the period (mainly at the Admiralty Yard in Singapore, where the Karish FPSO is being completed), the Group has made solid progress on its flagship Karish project, offshore Israel. The project expected to deliver first gas in mid-2022. The health and safety of its workers remains of paramount importance to the Company, and it supports all necessary measures to prevent further transmission of COVID-19.

NOTE 2: ACCOUNTING POLICIES AND BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021, have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the European Union (EU). The unaudited interim condensed consolidated financial statements do not include all the information and disclosures that are required for the annual financial statements and must be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2020.

These unaudited interim financial statements have been prepared on a going concern basis.

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 3: FINANCIAL POSITION

A. Property, Plant and Equipment:

1) Composition:

	Petroleum and Gas Assets	Leased Assets	Furniture, fixtures and equipment	Total
	US Dollars in thousands			
Cost:				
At 1 January 2020	1,238,724	469	337	1,239,530
Additions	404,613	365	298	405,276
Disposals	(2,984)	(230)	-	(3,214)
Capitalised borrowing cost	92,170	-	-	92,170
Capitalised depreciation	288	-	-	288
Change in decommissioning provision	38,125	-	-	38,125
Transfers from Exploration and evaluation assets	41,822	-	-	41,822
Total cost at 31 December 2020	1,812,758	604	635	1,813,997
Additions	162,282	57	13	162,352
Disposals	(23)	-	-	(23)
Capitalised borrowing cost	122,175	-	-	122,175
Capitalised depreciation	106	-	-	106
Change in decommissioning provision	(4,034)	-	-	(4,034)
Total cost at 30 June 2021	2,093,264	661	648	2,094,573
Depreciation:				
At 1 January 2020	-	185	63	248
Expensed for the year	-	-	80	80
Disposals	-	(142)	-	(142)
Capitalised to petroleum and gas assets	-	288	-	288
Total Depreciation at 31 December 2020	-	331	143	474
Expensed for the period	-	-	42	42
Capitalised to petroleum and gas assets	-	106	-	106
Total Depreciation at 30 June 2021	-	437	185	622
Net Property, Plant and Equipment at 31 December 2020	1,812,758	273	492	1,813,523
Net Property, Plant and Equipment at 30 June 2021	2,093,264	224	463	2,093,951

- The additions to Petroleum and Gas assets for the period of six months ended 30 June 2021 are mainly due to the development costs of Karish field which relate to the EPCIC contract (FPSO, Sub Sea and On-shore construction cost) at the amount of US\$112.43 million (for the year ended 31 December 2020: US\$280.09 million).
- The borrowing costs capitalised for the period of six months ended 30 June 2021 at the amount of US\$122.18 million (for the year ended 31 December 2020: US\$92.17 million) are mainly due to the Senior Facility Loan for Karish development at the amount of US\$89.96 million (for the year ended 31 December 2020: US\$80.72 million) and due to the secured senior notes at the amount of US\$29.47 million for the period of six months ended 30 June 2021 (Nil for the year ended 31 December 2020). The weighted average interest rates used for the capitalisation of the borrowing cost was 7.33% (31 December 2020: 8.78%).

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 3: FINANCIAL POSITION (Cont.)

2) Cash flow statement reconciliations:

	For the period of six months ended 30 June 2021	For the year ended 31 December 2020
	Dollars in thousands	
Additions to property, plant and equipment	280,576	574,467
<u>Less</u>		
capitalised borrowing costs	(122,175)	(92,170)
Right-of-use asset additions	(57)	(365)
Capitalised share-based payment charge	(65)	(65)
Capitalised depreciation	(106)	(288)
Change in decommissioning provision	4,034	(38,125)
Transfers from Intangible Assets	-	(41,822)
Total	162,207	401,632
Movement in working capital	(53,742)	(17,179)
Cash capital expenditures per the cash flow statement (*)	108,465	384,453

(*)The amount includes payment of US\$10.85 million which has been paid each period in 2021 and 2020 to the sellers of Karish and Tanin leases.

B. Intangible Assets:

1) Composition:

	Exploration and evaluation assets	Software License	Total
	US Dollars in thousands		
Cost:			
At 1 January 2020	49,574	160	49,734
Additions	6,539	95	6,634
Write off of exploration and evaluation costs	(492)	-	(492)
Transfers to property, plant and equipment	(41,822)	-	(41,822)
At 31 December 2020	13,799	255	14,054
Additions	3,738	-	3,738
At 30 June 2021	17,537	255	17,792
Amortisation:			
At 1 January 2020	-	33	33
Expensed for the year	-	214	214
Total Amortisation at 31 December 2020	-	247	247
Expensed for the period	-	8	8
Total Amortisation at 30 June 2021	-	255	255
Net Intangible assets at 31 December 2020	13,799	8	13,807
Net Intangible assets at 30 June 2021	17,537	-	17,537

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 3: FINANCIAL POSITION (Cont.)

- The additions to Intangible assets for the period of six months ended 30 June 2021 are mainly due to the surveys, seismic and related works for the Israeli offshore exploration blocks. (for the year ended 31 December 2020 mainly related to drilling associated costs for Block 12 licenses and Karish North prior classifying it to property, plant and equipment).

2) Cash flow statement reconciliations:

	For the period of six months ended 30 June 2021	For the year ended 31 December 2020
	Dollars in thousands	
Additions to property, plant and equipment	3,738	(35,680)
Less		
Transfers to Fixed Assets	-	41,822
Total	3,738	6,142
Movement in working capital	(56)	1,864
Cash capital expenditures per the cash flow statement	3,682	8,006

C. Borrowings:

1) US\$1.45 billion senior project facility:

On 2 March 2018, the Group entered into a senior secured project finance for its Karish project amounting to US\$1.275 billion and on 16 March 2020, the senior credit facility was increased to US\$1,450 billion, providing an additional US\$175 million of liquidity for the Karish project and certain activities in Israel (the "Project Finance Facility").

Once drawn, interest in respect of the Project Finance Facility was charged at LIBOR + 3.75% over months 1 to 12, LIBOR + 4.00% over months 13 to 24, LIBOR + 4.25% over months 25 to 36 and LIBOR + 4.75% over months 37 to 45. There was a commitment fee of 30% of the applicable margin.

The Project Finance Facility was designated to mature in December 2021 and had a bullet repayment on maturity. On 13 January 2021, the Company agreed with its Project Finance Facility lenders a nine-month extension for the facility maturity date, from December 2021 to September 2022.

As of 29 April 2021, the Group withdrew US\$1,268 million from the Project Finance Facility (31 December 2020: US\$1,150 million) and the amortised carrying value of the loan was US\$1,225 million (including short term accrued interest at the amount of US\$2.02 million as part of trade and other payables).

On 29 April 2021, the Company fully repaid the Project Finance Facility and, as such, the ultimate parent company guarantee ("PCG") granted by Energean PLC in the amount of US\$90 million, in favor of the Project Finance Facility lenders, terminated.

In addition, the Company terminated the standby letter of credit for US\$125 million in favor of the Project Finance Facility lenders, and as such the PCG granted by the parent company Energean E&P Limited at the same amount terminated.

2) Short term loan from ultimate parent company repayment:

On 5 January 2021, the Company paid Energean PLC the short-term loan amounted US\$16 million.

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 3: FINANCIAL POSITION (Cont.)

3) Issuance of US\$2,500,000,000 senior secured notes:

On 24 March 2021 ("Issue Date"), Energean Israel Finance Ltd (a subsidiary of the Company, held 100%) announced on closing of an offering of US\$2,500,000,000 senior secured notes.

The Notes will be issued in four series as follows:

- Notes in an aggregate principal amount of US\$625 million, maturing on 30 March 2024, with a fixed annual interest rate of 4.500%.
- Notes in an aggregate principal amount of US\$625 million, maturing on 30 March 2026, with a fixed annual interest rate of 4.875%.
- Notes in an aggregate principal amount of US\$625 million, maturing on 30 March 2028, with a fixed annual interest rate of 5.375%.
- Notes in an aggregate principal amount of US\$625 million, maturing on 30 March 2031, with a fixed annual interest rate of 5.875%.

The interest on each series of the Notes will be paid semi-annually, on 30 March and on 30 September of each year, beginning on 30 September 2021.

a. Satisfaction of the escrow release conditions and release from escrow of proceeds of the US\$2,500,000,000 senior secured notes offering:

On 29 April 2021 Energean Israel Finance Ltd has satisfied the escrow release conditions in respect of its US\$2.5 billion aggregate principal amount of the Notes offering, completed by it on 24 March 2021. As a result of satisfying the said escrow release conditions, the proceeds of the Offering have been released from escrow.

The Notes are listed for trading on the TACT Institutional of the Tel Aviv Stock Exchange Ltd. (the "TASE").

With regards to the Indenture document, signed on 24 March 2021 with HSBC BANK USA, N.A (the "Trustee"), no Indenture default or Indenture event of default has occurred and is continuing.

b. Collateral:

The Company had undertook to provide the following collateral in favor of the Trustee:

1. First rank Fixed charges over the shares of Energean Israel Limited, Energean Israel Finance Ltd and Energean Israel Transmission Ltd, the Karish & Tanin Leases, the gas sales purchase agreements ("GSPAs"), several bank accounts, Operating Permits (once issued), Insurance policies, the Company exploration licenses (Block 12, Block 21, Block 23, Block 31 and 80% of the licenses under "Zone D") and the INGL Agreement.
2. Floating charge over all of the present and future assets of Energean Israel Limited and Energean Israel Finance Ltd.
3. Energean Power FPSO (subject to using commercially reasonable efforts, including obtaining Israel Petroleum Commissioner approval and any other applicable governmental authority).

c. Reserves accounts:

On 29 April 2021, following the escrow release as stated above, the Company funded its reserves account as follow:

1. US\$163.3 million Interest Payment Account for the accrued interest prior to practical completion, accrued interest until 30 June 2022 (less coupons actually paid) and from 30 June 2022 the Interest Reserve Account will be funded 6 months

forward.

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 3: FINANCIAL POSITION (Cont.)

2. US\$100 million Debt Payment Fund that would be released upon achieving three quarters annualized production of 3.8 BCM/year.
3. Principal Reserve Fund will be funded 50% an upcoming maturity within 12 months for the 3 year and 5 year Notes, and 75% of an upcoming maturity within 18 months for the 7 year and 10 year Notes.

d. Credit rating:

Moody's assigns Ba3 rating the senior secured notes, and S&P Global assigns BB- rating the senior secured notes.

D. Fair value measurements:

The information set out below provides information about how the Group determines the fair values of various financial assets and liabilities.

The fair values of the Group's non-current liabilities measured at amortised cost are considered to approximate their carrying amounts at the reporting date.

The carrying value less any estimated credit adjustments for financial assets and financial liabilities with a maturity of less than one year are assumed to approximate their fair values due to their short term-nature.

The fair value hierarchy of financial assets and financial liabilities that are not measured at fair value (but fair value disclosure is required) is as follows:

Fair value hierarchy as of 30 June 2021				
Dollars in thousands				
	Level 1	Level 2	Level 3	Total
Financial assets				
Trade and other receivables	-	7,337	-	7,337
Loan to related party	-	175,884	-	175,884
Long term restricted cash	100,000	-	-	100,000
Short term restricted cash	166,241	-	-	166,241
Accrued interest income	-	990	-	990
Cash and cash equivalents	731,584	-	-	731,584
Total	997,825	184,211	-	1,182,036
Financial liabilities				
Secured Senior Notes (*)	-	2,494,285	-	2,494,285
Derivative liability	-	2,405	-	2,405
Trade and other payables - long term	-	90,269	-	90,269
Trade and other payables - short term	-	140,319	-	140,319
Total	-	2,727,278	-	2,727,278

- (*) Include short term accrued interest for the Secured Senior Notes in the amount of US\$34,375 thousands as part of trade and other payables.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 3: FINANCIAL POSITION (Cont.)

	Fair value hierarchy as of 31 December 2020			
	Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Financial assets				
Trade and other receivables	-	54	-	54
Cash and cash equivalents	37,421	-	-	37,421
Total	37,421	54	-	37,475
Financial liabilities				
Borrowings (*)	-	1,096,046	-	1,096,046
Derivative liability	-	6,919	-	6,919
Loans from related parties	-	16,000	-	16,000
Trade and other payables - long term	-	84,161	-	84,161
Trade and other payables - short term	-	88,520	-	88,520
Total	-	1,291,646	-	1,291,646

(*) Include short term accrued interest in the amount of US\$2,081 thousands as part of trade and other payables.

Fair values of derivative financial instruments:

During 2019, the Group signed a hedge contract for 50% of the facility notional, to hedge the 3 months LIBOR component of the facility.

The Group held financial instruments at fair value on 30 June 2021 related to interest rate derivatives. All derivatives are recognised at fair value on the balance sheet with valuation changes recognised immediately in the income statement unless the derivatives have been designated as a cash flow hedge. Fair value is the amount for which the asset or liability could be exchanged in an arm's length transaction at the relevant date. Where available, fair values are determined using quoted prices in active markets. To the extent that market prices are not available, fair values are estimated by reference to market-based transactions or using standard valuation techniques for the applicable instruments and commodities involved. Values recorded are as at the balance sheet date and will not necessarily be realised. As of 30 June 2021, the Group recognized derivative liability at the amount of US\$2.4 million.

As of 30 June 2021, the Group's interest rate derivatives are Level 2 (31 December 2020: Level 2). There were no transfers between fair value levels during the year.

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 3: FINANCIAL POSITION (Cont.)

E. Trade and other payables:

	30 June 2021	31 December 2020
	US Dollars in thousands	
Current		
Financial items		
Trade accounts payable (1)	131,519	68,706
Accrued expenses (1)	6,141	1,628
Payables to related parties	2,344	3,381
Deferred license payments due within one year (2)	-	14,344
Interest payable (3)	34,375	2,081
Current lease liabilities	154	262
	<u>174,533</u>	<u>90,402</u>
Non-Financial items		
Social insurance and other taxes	135	87
Income taxes	30	-
	<u>165</u>	<u>87</u>
	174,698	90,489
Non-current		
Financial items		
Accrued Expenses to related parties	161	199
Long term lease liabilities	32	8
Sales consideration received in advance (INGL) (4)	35,525	28,979
Deferred license payments (2)	54,712	55,174
	<u>90,430</u>	<u>84,360</u>
	90,430	84,360

(1) The main balance of the Trade Payables and Accrued Expenses as of 30 June 2021 relates to development costs for a total amount of US\$134.45 million (31 December 2020: US\$68.72 million), US\$130.69 million (31 December 2020: US\$67.59 million) included in trade payable and US\$3.76 million (31 December 2020: US\$1.13 million) at the accrued expenses. The change in trade payables represents mainly timing differences and levels of work activity in Karish project. Trade payables are non-interest bearing.

(2) In December 2016, the Company acquired the Karish and Tanin offshore gas fields for US\$40.0 million closing payment with an obligation to pay additional consideration of US\$108.5 million plus interest inflated at an annual rate of 4.6% in ten equal annual payments. As at 30 June 2021 the total discounted deferred consideration was US\$54.71 million (as at 31 December 2020: US\$69.52 million).

The Sale Purchase Agreement (“SPA”) includes provisions in the event of Force Majeure that prevents or delays the implementation of the development plan as approved under one lease for a period of more than ninety (90) days in any year following the final investment decision (“FID”) date. In the event of Force Majeure, the applicable annual payment of the remaining consideration will be postponed by an equivalent period of time, and no interest will be accrued in that period of time as well.

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 3: FINANCIAL POSITION (Cont.)

Due to the effects of the COVID-19 pandemic which constitute a Force Majeure event, postponing the deferred payment due in March 2022 by the number of days that such Force Majeure event last. As of 30 June 2021, Force Majeure event length has not been finalised as the COVID-19 pandemic continue to affect the progress of the project, and in such the deferred payment due in March 2022 will be made after 1 July 2022.

- (3) As at 30 June 2021 include accrued interest for the senior secured notes in amount of US\$34,375 thousands (as at 31 December 2020 short term accrued interest for the Project Senior Facility Loan in the amount of US\$2,081).
- (4) The sales consideration received in advance is related to the agreement with Israel Natural Gas Lines ("INGL") for the transfer of title (the "hand over") of the near shore and onshore part of the infrastructure that will deliver gas from the Enegran Power FPSO into the Israeli national gas transmission grid. There were no additional proceeds received during the period of six months ended 30 June 2021. On 1 July 2021 the Company received the fourth payment at the amount of 18.39 million ILS (approx. US\$5.64 million) from INGL. It is intended that the hand over to INGL will become effective shortly after the delivery of first gas from the Karish field expected in mid-2022.

NOTE 4: COMPREHENSIVE INCOME

A. Operating loss:

	For the period of six months ended 30 June	
	2021	2020
	US Dollars in thousands	
<u>General & administration expenses</u>		
Payroll costs	719	474
Depreciation and amortisation (Notes 3(A) and 3(B))	50	149
Auditor fees (*)	118	56
Other General & administration expenses	848	1,208
Total administrative expenses	1,735	1,887
<u>Other expenses</u>		
Reversal of prior period provision	5	-
Loss from property, plant and Equipment disposal	23	-
Other expenses	-	385
Total other expenses	28	385

- (*) In addition to the auditor fees included at the administrative expenses, for the period of 6 months ended on 30 June 2021, the Company incurred US\$250 thousands for audit of special purpose and reporting accountant services in relation to the issuance of the senior secured notes.

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 4: COMPREHENSIVE INCOME (Cont.)

B. Net finance income (expenses):

	For the period of six months ended 30 June	
	2021	2020
	US Dollars in thousands	
Interest on bank borrowings (1)	76,890	31,907
Effective interest on secured senior notes (2)	33,791	-
Interest expense on long terms payables (1)	458	3,345
Interest on shareholders loan	9	-
Less amounts included in the cost of qualifying assets (3)	(106,823)	(35,252)
	4,325	-
Finance and arrangement fees	13,074	2,183
Other finance costs and bank charges	29	26
Interest expenses from Hedging	6,988	398
Unwinding of discount on decommissioning liabilities	343	-
Interest on obligations for leases	29	34
Less amounts included in the cost of qualifying assets (3)	(15,352)	(2,615)
Total finance costs	9,436	26
Interest income from time deposits	818	169
Interest income from loans to related parties (4)	990	-
Total finance income	1,808	169
Net foreign exchange gain (losses)	(727)	242
Net finance income (expenses)	(8,355)	385

(1) See also Note 3(C)(1).

(2) See also Note 3(C)(3).

(3) See also Note 3(A).

(4) See also Note 6(B).

NOTE 5: TAXATION

A. Tax income (expense):

	For the period of six months ended 30 June	
	2021	2020
	US Dollars in thousands	
Corporation tax - current year	(30)	-
Corporation tax - prior years	-	(1)
Deferred tax	2,601	414
Total taxation income (expense)	2,571	413

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 5: TAXATION (Cont.)

B. Deferred tax:

The deferred taxes, driven from the activity in Israel by the Israeli Branch of the Company, are computed at the average tax rate of 23%, based on the tax rates that are expected to apply upon reversal. The deferred taxes are presented in the statement of financial position as non-current assets. Below are the items for which deferred taxes were recognised:

	Property, plant and equipment & intangible asset	Right of use asset IFRS 16	Derivative asset	Tax losses	Deffered expenses for tax	Staff leaving indemnities	Accrued expenses and other short-term liabilities and other long-term liabilities	Derivative liability	Provisions for decommissioning	Total
	US Dollars in thousands									
At 1 January 2020	(2,347)	(65)	(130)	2,301	5,647	35	178	-	-	5,619
<u>Increase (decrease) for the year through:</u>										
Profit or loss	(9,793)	-	-	1,014	363	28	115	-	8,769	499
Other comprehensive income	-	-	130	-	-	-	-	1,591	-	1,721
At 31 December 2020	(12,140)	(62)	-	3,315	6,010	63	293	1,591	8,769	7,839
At 1 January 2021	(12,140)	(62)	-	3,315	6,010	63	293	1,591	8,769	7,839
<u>Increase (decrease) for the period through:</u>										
Profit or loss	46	-	-	858	1,908	22	(11)	553	(786)	2,601
Other comprehensive income	-	-	-	-	-	-	-	(1,591)	-	(1,591)
At 30 June 2021	(12,094)	(51)	-	4,173	7,918	85	282	553	7,983	8,849

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 6: SIGNIFICANTS EVENTS AND TRANSACTIONS DURING THE REPORTING PERIOD

A. Company's shareholders transaction completion:

On 29 December 2020, Energean E&P Holdings Limited entered into a conditional sale and purchase agreement to acquire Kerogen Investments No. 38 Limited's entire interest in Energean Israel Limited, which constitutes 30% of the total issued share capital of Energean Israel Limited, and completion took place during February 2021.

B. Loan agreement with Energean E&P Holdings Limited:

On 29 April 2021 (the "Closing Date") and in accordance with the Notes financing documents, the Company and its parent company Energean E&P Holdings Limited entered into a loan agreement which establish that the Company will provide a loan facility of up to US\$ 500 million to Energean E&P Holdings Limited for a period of 24 months from the Closing Date (the "Maturity Date"). The loan and interest will be paid at the maturity date.

Notwithstanding the above, Energean E&P Holdings Limited may, at its discretion, repay the loan, in whole or in part, at any time before 28 April 2023.

As of the reporting date, US\$346 million was loaned to Energean E&P Holdings Limited.

C. Letter of Credit Facility Agreement:

On April 2021, the Company signed with a banking corporation on a 250 million NIS (approx. US\$75 million) facility for issuing bank guarantees for the Company activities and needs in Israel. The facility term is 12 months, till 30 April 2022 and can be extended for additional 12 months. The facility bears 1.5% interest rate per annum and 0.8% commitment fee per annum for the undrawn amount. The banking corporation security is a US\$ 80 million PCG granted by Energean PLC and cash collateral of US\$ 2.96 million.

D. Rig Contract Signed for Drilling Campaign, Offshore Israel:

On June 2021, the Company signed on a contract with Stena Drilling Limited for growth drilling programme offshore Israel during 2022.

The contract is for the drilling of three wells and two optional wells, with the first well expected to spud in the first quarter of 2022. The wells are all expected to be drilled during 2022.

E. Parent Company Guarantees (PCG):

As part of the Company gas sales purchase agreements ("GSPAs"), in order to secure the agreement obligations to the gas buyers, Energean E&P Holdings Limited, the Parent company, granted, during June 2021, a PCG to certain gas buyers in the total amount of US\$38 million. The parent company guarantee will be in force until June 2024.

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 7: SIGNIFICANTS EVENTS AND TRANSACTIONS AFTER THE REPORTING PERIOD

A. Compensation to gas buyers due to late supply:

During August 2021 and in accordance with the GSPAs signed with a group of gas buyers, the Company has agreed to pay compensation to these counterparties due to the fact the gas supply date is taking place beyond a certain date as defined in the GSPAs (being 30 June 2021). The compensation will be paid on a monthly basis starting on August 2021 and is estimated at approx. US\$23 million. The compensation is accounted as variable purchase consideration under IFRS 15 hence recognised once production commences and gas is delivered to the offtakers.

B. Gas buyer request for arbitration:

During August 2021 a gas buyer sent a request for the International Court of Arbitration (“ICC”) asking for arbitration on its rights of termination due to the fact the gas supply date is taking place beyond a certain date which defined in the GSPA. If the agreement it is terminated, the Company has identified multiple alternative routes to monetise those gas volumes (being 0.8 Bcm/yr), including both domestic and international markets, and hence is confident of profitably selling them.