

Energean Israel Limited

Unaudited interim condensed consolidated financial statements
30 September 2021

ENERGEAN ISRAEL LIMITED

Unaudited interim condensed consolidated financial statements

AS OF 30 SEPTEMBER 2021

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ENERGEAN ISRAEL LIMITED**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(Amounts in thousands US Dollars, unless otherwise stated)

		30 September 2021	31 December 2020
		Unaudited	Audited
	Note	US Dollars in thousands	
ASSETS:			
NON-CURRENT ASSETS:			
Property, plant and equipment	3(A)	2,162,445	1,813,523
Intangible assets	3(B)	18,872	13,807
Other accounts receivable		3,608	43
Loan to related party	6(B)	346,000	-
Restricted cash	3(C)(3)	100,000	-
Deferred expenses	6(F)	22,958	-
Deferred tax asset	5	10,350	7,839
		<u>2,664,233</u>	<u>1,835,212</u>
CURRENT ASSETS:			
Trade and other receivables		4,547	1,304
Restricted cash	3(C)(3), 6(C)	99,738	-
Cash and cash equivalents		393,374	37,421
		<u>497,659</u>	<u>38,725</u>
TOTAL ASSETS		<u>3,161,892</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		(34,951)	(25,114)
TOTAL EQUITY		<u>539,296</u>	<u>543,805</u>
NON-CURRENT LIABILITIES:			
Senior secured notes	3(C)(3)	2,461,942	-
Provisions for decommissioning		34,881	38,399
Trade and other payables	3(E)	95,004	84,360
		<u>2,591,827</u>	<u>122,759</u>
CURRENT LIABILITIES:			
Current borrowings	3(C)(1)	-	1,093,965
Trade and other payables	3(E)	30,769	90,489
Loans from related parties	3(C)(2)	-	16,000
Derivative financial instrument	3(D)	-	6,919
		<u>30,769</u>	<u>1,207,373</u>
TOTAL LIABILITIES		<u>2,622,596</u>	<u>1,330,132</u>
TOTAL EQUITY AND LIABILITIES		<u>3,161,892</u>	<u>1,873,937</u>

08 December 2021

Panagiotis Benos
DirectorMatthaios 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 nine months ended 30 September 2021	For the period of nine months ended 30 September 2020
		Unaudited	Unaudited
	Note	US Dollars in thousands	
Administrative expenses	4(A)	(2,717)	(2,872)
Exploration and evaluation expenses	4(A)	-	(10)
Other expenses	4(A)	(28)	(392)
Other income	4(A)	3	-
Operating loss		(2,742)	(3,274)
Finance income	4(B)	4,524	185
Finance expenses	4(B)	(14,388)	(176)
Foreign exchange gain (loss)	4(B)	(1,140)	547
Loss for the period before tax		(13,746)	(2,718)
Tax income	5	3,909	502
Net loss for the period		(9,837)	(2,216)
<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	(9,625)
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)	2,214
Other comprehensive income (loss) for the period		5,328	(7,411)
Total comprehensive loss for the period		(4,509)	(9,627)

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 nine months ended 30 September 2021 (Unaudited):

	Share capital	Share premium	Other reserves	Accumulated losses	Total equity
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	-	-	-	(9,837)	(9,837)
Other comprehensive income, net of tax	-	-	5,328	-	5,328
Total comprehensive income (loss)	-	-	5,328	(9,837)	(4,509)
 Balance as of 30 September 2021	 <u>1,708</u>	 <u>572,539</u>	 <u>-</u>	 <u>(34,951)</u>	 <u>539,296</u>

For the period of nine months ended 30 September 2020 (Unaudited):

	Share capital	Share premium	Other reserves	Accumulated losses	Total equity
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	-	-	-	(2,216)	(2,216)
Other comprehensive loss, net of tax	-	-	(7,411)	-	(7,411)
Total comprehensive loss	-	-	(7,411)	(2,216)	(9,627)
 <u>Transactions with shareholders:</u>					
Shares issuance	32	32,468	-	-	32,500
Balance as of 30 September 2020	<u>1,708</u>	<u>572,539</u>	<u>(6,977)</u>	<u>(22,450)</u>	<u>544,820</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 nine months ended 30 September 2021 Unaudited	For the period of nine months ended 30 September 2020 Unaudited
	US Dollars in thousands	
Cash flows from operating activities:		
Loss for the period before tax	(13,746)	(2,718)
Adjustments for:		
Depreciation and amortization	71	237
Loss from disposal on property, plant and equipment	23	-
Increase in provisions for decommissioning	516	-
Other expenses	5	-
Other income	(3)	-
Finance income	(4,524)	(185)
Finance expenses	13,872	176
Net foreign exchange gain (loss)	1,140	(547)
	(2,646)	(3,037)
Changes in working capital:		
Increase in other receivables	(29)	(75)
Decrease in trade and other payables	(660)	(120)
	(689)	(195)
Income taxes paid	(32)	-
Net cash used in operating activities	(3,367)	(3,232)
Cash flows from investing activities:		
Payment for purchase of oil & gas leases	(10,850)	(10,850)
Payment for purchase of intangible assets	(3,972)	(6,835)
Payments for buyers compensation	(13,271)	-
Payment for purchase of property, plant and equipment	(253,775)	(296,295)
Movement in restricted cash	(199,738)	-
Interest received	264	220
Net cash used in investing activities	(481,342)	(313,760)
Cash flows from financing activities:		
Senior secured notes issuance	2,500,000	-
Transaction cost in relation to senior secured notes issuance	(37,931)	-
Senior secured notes - interest paid	(66,600)	-
Proceeds from shares issuance	-	32,500
Drawdown of borrowings	118,000	320,000
Repayment of borrowings	(1,268,000)	-
Loan granted to related party	(346,000)	-
Repayment of loan from related parties	(16,000)	-
Debt arrangement fees paid	-	(5,050)
Finance cost paid	(43,854)	(44,601)
Finance costs paid for deferred license payments	(3,494)	(3,993)
Advance payment from future sale of property, plant and equipment (INGL)	5,673	5,470
Repayment of obligations under leases	(366)	(268)
Net cash generated from financing activities	841,428	304,058
Net increase (decrease) in cash and cash equivalents	356,719	(12,934)
Cash and cash equivalents at the beginning of the period	37,421	110,488
Effect of exchange rate fluctuations on cash held	(766)	(154)
Cash and cash equivalents at the end of the period	393,374	97,400

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 natural gas and crude oil. The Group’s main activities are performed in Israel by the Company’s Israeli Branch.
- C. The Group’s core assets as of 30 September 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 nine months ended 30 September 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	194,850	3,258	13	198,121
Disposals	(23)	-	-	(23)
Capitalised borrowing cost	154,921	-	-	154,921
Capitalised depreciation	197	-	-	197
Change in decommissioning provision	(4,034)	-	-	(4,034)
Total cost at 30 September 2021	2,158,669	3,862	648	2,163,179
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	-	-	63	63
Capitalised to petroleum and gas assets	-	197	-	197
Total Depreciation at 30 September 2021	-	528	206	734
Net property, plant and equipment at 31 December 2020	1,812,758	273	492	1,813,523
Net property, plant and equipment at 30 September 2021	2,158,669	3,334	442	2,162,445

- The additions to Petroleum and Gas assets for the period of nine months ended 30 September 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 approx. US\$122 million (for the year ended 31 December 2020: approx. US\$280 million).
- The borrowing costs capitalised for the period of nine months ended 30 September 2021 at the amount of approx. US\$155 million (for the year ended 31 December 2020: approx. US\$92 million) are mainly due to the Senior Facility Loan for Karish development at the amount of approx. US\$90 million (for the year ended 31 December 2020: approx. US\$81 million) and due to the secured senior notes at the amount of approx. US\$59 million for the period of nine months ended 30 September 2021 (Nil for the year ended 31 December 2020). The weighted average interest rates used for the capitalisation of the borrowing cost was 6.27% (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 nine months ended 30 September 2021	For the year ended 31 December 2020
	US Dollars in thousands	
Additions to property, plant and equipment	349,182	574,467
<u>Less</u>		
capitalised borrowing costs	(154,921)	(92,170)
Right-of-use asset additions	(3,258)	(365)
Capitalised share-based payment charge	(156)	(65)
Capitalised depreciation	(197)	(288)
Change in decommissioning provision	4,034	(38,125)
Transfers from intangible assets	-	(41,822)
Total	194,684	401,632
Movement in working capital	69,941	(17,179)
Cash capital expenditures per the cash flow statement (*)	264,625	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	5,073	-	5,073
At 30 September 2021	18,872	255	19,127
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 September 2021	-	255	255
Net intangible assets at 31 December 2020	13,799	8	13,807
Net intangible assets at 30 September 2021	18,872	-	18,872

ENERGEAN ISRAEL LIMITED

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 nine months ended 30 September 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 nine months ended 30 September 2021	For the year ended 31 December 2020
	US Dollars in thousands	
Additions to intangible assets	5,073	(35,680)
Less		
Transfers to property, plant and equipment	-	41,822
Total	5,073	6,142
Movement in working capital	(1,101)	1,864
Cash capital expenditures per the cash flow statement	3,972	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 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 provided 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 (The company had undertaken to use commercially reasonable efforts, including obtaining Israel Petroleum Commissioner approval and any other applicable governmental authority, in order to provide this).

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 3: FINANCIAL POSITION (Cont.)

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 six months forward. On 24 September 2021, the Company released US\$66.6 million from its interest reserve account due to coupons payment at amount of US\$66.6 million. As of 30 September 2021, the Interest Reserve Account balance is US\$96.8 million.
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 September 2021			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Financial assets				
Long term trade and other receivables	-	3,559	-	3,559
Loan to related party	-	346,000	-	346,000
Long term restricted cash	100,000	-	-	100,000
Short term restricted cash	99,738	-	-	99,738
Short term trade and other receivables	-	742	-	742
Cash and cash equivalents	393,374	-	-	393,374
Total	593,112	350,301	-	943,413
Financial liabilities				
Senior secured notes	-	2,461,942	-	2,461,942
Trade and other payables - long term	-	58,359	-	58,359
Trade and other payables - short term	-	30,733	-	30,733

Total	<u>-</u>	<u>2,551,034</u>	<u>-</u>	<u>2,551,034</u>
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ENERGEAN ISRAEL LIMITED

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			
	US Dollars in thousands			
	Level 1	Level 2	Level 3	Total
Financial assets				
Short term trade and other receivables	-	54	-	54
Cash and cash equivalents	37,421	-	-	37,421
Total	37,421	54	-	37,475
Financial liabilities				
Trade and other payables - long term	-	55,182	-	55,182
Borrowings (*)	-	1,096,046	-	1,096,046
Trade and other payables - short term	-	88,520	-	88,520
Loans from related parties	-	16,000	-	16,000
Derivative liability	-	6,919	-	6,919
Total	-	1,262,667	-	1,262,667

(*) 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 hedging contract was terminated during September 2021.

All derivatives 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. There were no transfers between fair value levels during the period.

E. Trade and other payables:

	30 September 2021	31 December 2020
	US Dollars in thousands	
Current		
Financial items		
Trade accounts payable (1)	16,582	68,706
Accrued expenses (1)	8,304	1,628
Payables to related parties	4,718	3,381
Deferred license payments (2)	-	14,344
Interest payable	-	2,081
Current lease liabilities	901	262
	<u>30,505</u>	<u>90,402</u>
Non-Financial items		
Social insurance and other taxes	114	87
Income taxes	150	-
	<u>264</u>	<u>87</u>
	30,769	90,489

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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.)

	30 September 2021	31 December 2020
	US Dollars in thousands	
Non-current		
Financial items		
Accrued expenses to related parties	228	199
Long term lease liabilities	2,388	8
Deferred license payments (2)	55,971	55,174
	58,587	55,381
Non-Financial items		
Sales consideration received in advance (INGL) (3)	36,417	28,979
	36,417	28,979
	95,004	84,360

(1) The main balance of the Trade payables and Accrued expenses as of 30 September 2021 relates to development costs for a total amount of approx. US\$16 million (31 December 2020: approx. US\$69 million), approx. US\$12 million (31 December 2020: approx. US\$68 million) included in trade payable and approx. US\$4 million (31 December 2020: approx. US\$1 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 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 September 2021 the total discounted deferred consideration was approx. US\$56 million (as at 31 December 2020: approx. US\$70 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.

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 September 2021, Force Majeure event length has not been finalised as the COVID-19 pandemic continue to affect the progress of the project, and as such, the deferred payment due in March 2022 will be postponed accordingly.

(3) 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 Energean Power FPSO into the Israeli national gas transmission grid. On 1 July 2021 the Company received the amount of 18.39 million ILS (approx. US\$5.6 million) from INGL. It is intended that the hand over to INGL will become effective at least 90 days after the delivery of first gas from the Karish

field which expected in mid-2022.

ENERGEAN ISRAEL LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands US Dollars, unless otherwise stated)

NOTE 4: COMPREHENSIVE INCOME

A. Operating loss:

	For the period of nine months ended 30 September	
	2021	2020
	US Dollars in thousands	
<u>General & administration expenses</u>		
Payroll costs	946	646
Share-based payment charge included in administrative expenses	129	60
Depreciation and amortisation (Notes 3(A) and 3(B))	71	237
Auditor fees (*)	156	79
Other general & administration expenses	1,415	1,850
Total administrative expenses	2,717	2,872
<u>Exploration and evaluation expenses</u>		
Other exploration and evaluation expenses	-	10
Total exploration and evaluation expenses	-	10
<u>Other expenses</u>		
Reversal of prior period provision	5	-
Loss from property, plant and equipment disposal	23	-
Other expenses	-	392
Total other expenses	28	392
<u>Other income</u>		
Profit from disposal of inventory	3	-
Total other income	3	-

- (*) In addition to the auditor fees included at the administrative expenses, for the period of nine months ended on 30 September 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 nine months ended 30 September	
	2021	2020
	US Dollars in thousands	
Interest on bank borrowings (1)	76,890	54,298
Effective interest on senior secured notes (2)	68,047	-
Interest expense on long terms payables	2,267	4,996
Interest on shareholders loan	9	-
Less amounts included in the cost of qualifying assets (3)	(138,147)	(59,294)
	9,066	-
Finance and arrangement fees	14,383	2,941
Other finance costs and bank charges	53	39
Interest expenses from Hedging	7,002	2,382
Unwinding of discount on decommissioning liabilities	516	137
Interest on obligations for leases	142	37
Less amounts included in the cost of qualifying assets (3)	(16,774)	(5,360)
	5,322	176
Total finance costs	14,388	176
Interest income from time deposits	965	185
Interest income from loans to related parties (4)	3,559	-
Total finance income	4,524	185
Net foreign exchange gain (loss)	(1,140)	547
Net finance income (expenses)	(11,004)	556

(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 nine months ended 30 September	
	2021	2020
	US Dollars in thousands	
Corporation tax - current year	(193)	-
Corporation tax - prior years	-	(1)
Deferred tax	4,102	503
Total taxation income	3,909	502

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	Deferred 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)	3	-	1,014	363	28	115	-	8,769	499
Other comprehensive income (loss)	-	-	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	(178)	(704)	-	1,165	3,946	22	597	-	(746)	4,102
Other comprehensive income (loss)	-	-	-	-	-	-	-	(1,591)	-	(1,591)
At 30 September 2021	(12,318)	(766)	-	4,480	9,956	85	890	-	8,023	10,350

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) to gas buyers:

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 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.

F. Compensation to gas buyers due to late supply:

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 fully paid as of the reporting date at the amount of approx. US\$23 million. The compensation presented under long term deferred expenses and accounted as variable purchase consideration under IFRS 15 hence recognised once production commences and gas is delivered to the offtakers.

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 (Cont.)

G. Gas buyer request for arbitration and termination notice issuance:

During August 2021 a gas buyer sent a request for the International Court of Arbitration 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.

On November 2021, the gas buyer served a notice upon the Company purporting to terminate the GSPA, which the Company is disputing as invalid and in breach of the relevant contract.

NOTE 7: SIGNIFICANTS EVENTS AND TRANSACTIONS AFTER THE REPORTING PERIOD

A. Settlement agreement with Hof HaCarmel Regional Council:

During October 2021 the Company signed a settlement agreement with Hof HaCarmel Regional Council ("Hof HaCarmel") regarding road construction and drainage fees. According to the settlement the Company is required to pay to Hof HaCarmel an amount of 600 thousand NIS, instead of Hof HaCarmel's original demand of 10.28 million NIS. The settlement amount paid during October 2021.

B. Exploration Blocks License Extension:

On 19 October 2021, the Ministry of Energy in Israel extended License "12"/407 (Block 12) by two (2) years until 14 January 2024. A bank guarantee in the amount of 5 Million USD has been provided to the MOE in respect of the drilling activity which is expected to be performed within Block 12. In addition, the Ministry of Energy in Israel extended the Licenses "21"/408, "23"/410, and "31"/411 (Blocks 21, 23 and 31) by four (4) months until 14 May 2022.