# ENERGEAN ISRAEL LIMITED

# CONSOLIDATED FINANCIAL STATEMENTS

# 31 DECEMBER 2021

**ENERGEAN ISRAEL LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF 31 DECEMBER 2021**

**INDEX**



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# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Energean Israel Limited**

**Report on the audit of the consolidated financial statements**

## Opinion

We have audited the consolidated financial statements of Energean Israel Limited and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at 31 December 2021 and 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years in the period then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## Basis for opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.
We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

*Karish / Tanin development project spend*

Key audit matter description

Karish / Tanin development costs incurred during the year ended 31 December 2021 and capitalised within Oil and Gas properties (including capitalised borrowing costs): $432 million (2020: $497 million) Refer to Accounting policies (page 12-27); and Notes 3e, 3t and 5 of the Consolidated Financial Statements. The Karish / Tanin development attained Final Investment Decision (FID) in March 2018 and consequently there has been significant project-related expenditure since this date. The main contractor is TechnipFMC through a lump sum EPCIC contract to deliver the FPSO and related subsea infrastructure. We focused on the risks of inappropriate capitalisation of costs in accordance with IAS 16: Property, Plant and Equipment (IAS 16) and the completeness of project cost accruals recorded as at 31 December 2021.

Our response to the risk

We performed audit procedures focused on capitalisation criteria and the completeness of accruals for the key elements of costs incurred for the Karish / Tanin (including Karish North) development.

These procedures included:

- Understanding the criteria used by management to assess whether costs should be capitalised or expensed;
- Verifying that the capitalisation criteria were met for costs that we selected on a sample basis as part of our audit procedures relating to the project costs;
- Reviewing the agreements with the major project contractors, including the agreements with TechnipFMC which accounted for approximately 36% of the development costs incurred in the year, to understand the nature of services to be provided and the associated milestones;
- Obtaining a listing of project cost accruals at 31 December 2021, validating a sample of costs to supporting documents and comparing to the contractual milestones for the development project work;
- Performing a search for unrecorded liabilities through reviewing invoices received and cash payments made after the reporting date. We compared these to the project costs accrued by management and assessed whether there were any material omissions.

**Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

| | |
|---|---|
| Tel-Aviv, Israel | KOST FORER GABBAY & KASIERER |
| 23 March, 2022 | A Member of Ernst & Young Global |

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**(US Dollars in thousands, unless otherwise stated)**

| | Note | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| | | US Dollars in thousands | |
| **ASSETS:** | | | |
| **NON-CURRENT ASSETS:** | | | |
| Property, plant and equipment | 5 | 2,245,267 | 1,813,523 |
| Intangible assets | 6 | 20,141 | 13,807 |
| Other accounts receivable | 7 | 6,463 | 43 |
| Loan to related party | 19(E)(10) | 346,000 | - |
| Restricted cash | 9(C)(3) | 100,000 | - |
| Deferred expenses | 18(D) | 22,958 | - |
| Deferred tax asset | 13(C) | 11,575 | 7,839 |
| | | 2,752,404 | 1,835,212 |
| **CURRENT ASSETS:** | | | |
| Trade and other receivables | 7 | 22,769 | 1,304 |
| Restricted cash | 9(C)(3) | 99,729 | - |
| Cash and cash equivalents | 8 | 349,827 | 37,421 |
| | | 472,325 | 38,725 |
| **TOTAL ASSETS** | | **3,224,729** | **1,873,937** |
| **EQUITY AND LIABILITIES:** | | | |
| **EQUITY:** | | | |
| Share capital | 12(A) | 1,708 | 1,708 |
| Share Premium | | 572,539 | 572,539 |
| Other reserves | 12(D) | - | (5,328) |
| Accumulated deficit | | (35,946) | (25,114) |
| **TOTAL EQUITY** | | 538,301 | 543,805 |
| **NON-CURRENT LIABILITIES:** | | | |
| Senior secured notes | 9(C) | 2,463,524 | - |
| Provision for decommissioning | 10 | 35,525 | 38,399 |
| Trade and other payables | 11 | 113,264 | 84,360 |
| | | 2,612,313 | 122,759 |
| **CURRENT LIABILITIES:** | | | |
| Borrowings | 9(A) | - | 1,093,965 |
| Trade and other payables | 11 | 74,115 | 90,489 |
| Loans from related parties | 19(E)(9) | - | 16,000 |
| Derivative financial instrument | 12(D) | - | 6,919 |
| | | 74,115 | 1,207,373 |
| **TOTAL LIABILITIES** | | **2,686,428** | **1,330,132** |
| **TOTAL EQUITY AND LIABILITIES** | | **3,224,729** | **1,873,937** |

| 23 March 2022 | | |
|---|---|---|
| Date of approval of the consolidated financial statements | Panagiotis Benos<br>Director | Matthaios Rigas<br>Director |

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



**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(US Dollars in thousands, unless otherwise stated)**

| | Note | Year ended 31 December 2021 | Year ended 31 December 2020 |
|---|---|---|---|
| | | US Dollars in thousands | |
| Administrative expenses | 14 | (5,200) | (3,909) |
| Exploration and evaluation expenses | 14 | (50) | (502) |
| Other expenses | 14 | (461) | (2,701) |
| Other income | 14 | 19 | - |
| Operating loss | | (5,692) | (7,112) |
| Financial income | 15 | 7,849 | 201 |
| Financial expenses | 15 | (18,526) | (326) |
| Foreign exchange gain | 15 | 520 | 1,862 |
| **Loss for the year before tax** | | **(15,849)** | **(5,375)** |
| Income tax | 13 | 5,017 | 495 |
| **Net loss for the year** | | **(10,832)** | **(4,880)** |
| Other comprehensive income (loss): | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Gain (loss) on cash flow hedge for the year | | 2,278 | (7,483) |
| Reclassification to profit/(loss) upon realisation | | 4,641 | - |
| Income tax relating to items that may be reclassified subsequently to profit/(loss) | 13 | (1,591) | 1,721 |
| **Other comprehensive income (loss) for the year** | | **5,328** | **(5,762)** |
| **Total comprehensive loss for the year** | | **(5,504)** | **(10,642)** |

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**(US Dollars in thousands, unless otherwise stated)**

**For the year ended 31 December 2021:**

| | Share capital | Share Premium | Other reserves | Accumulated losses | Total equity |
|---|---|---|---|---|---|
| | US Dollars in thousands | | | | |
| **Balance as of 1 January 2021** | **1,708** | **572,539** | **(5,328)** | **(25,114)** | **543,805** |
| **Changes during Year 2021:** | | | | | |
| **Comprehensive income (loss):** | | | | | |
| Loss for the year | - | - | - | (10,832) | (10,832) |
| Other comprehensive income, net of tax | - | - | 5,328 | - | 5,328 |
| **Total comprehensive income (loss)** | **-** | **-** | **5,328** | **(10,832)** | **(5,504)** |
| **Balance as of 31 December 2021** | **1,708** | **572,539** | **-** | **(35,946)** | **538,301** |

**For the year ended 31 December 2020:**

| | Share capital | Share Premium | Other reserves | Accumulated losses | Total equity |
|---|---|---|---|---|---|
| | US Dollars in thousands | | | | |
| **Balance as of 1 January 2020** | **1,676** | **540,071** | **434** | **(20,234)** | **521,947** |
| **Changes during Year 2020:** | | | | | |
| **Comprehensive loss:** | | | | | |
| Loss for the year | - | - | - | (4,880) | (4,880) |
| Other comprehensive loss, net of tax | - | - | (5,762) | - | (5,762) |
| **Total comprehensive loss** | **-** | **-** | **(5,762)** | **(4,880)** | **(10,642)** |
| **Transactions with shareholders:** | | | | | |
| Shares issuance | 32 | 32,468 | - | - | 32,500 |
| **Balance as of 31 December 2020** | **1,708** | **572,539** | **(5,328)** | **(25,114)** | **543,805** |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## (US Dollars in thousands, unless otherwise stated)

| | Note | Year ended 31 December 2021 | 2020 |
|---|---|---|---|
| | | US Dollars in thousands | |
| Cash flows from operating activities: | | | |
| **Loss for the year before tax** | | **(15,849)** | **(5,375)** |
| Adjustments for: | | | |
| Depreciation and amortisation | 14 | 93 | 294 |
| Loss from disposal on property, plant and equipment | 14 | 23 | 2,452 |
| Payments for buyers compensation | 18(D) | (22,958) | - |
| Unwinding of discount on provision for decommissioning | 15 | 675 | - |
| Other expenses | 14 | 438 | - |
| Finance Income | 15 | (7,849) | (201) |
| Finance expenses | 15 | 17,851 | 326 |
| Exploration costs written off | 14 | 50 | 492 |
| Net foreign exchange gain | 15 | (520) | (1,862) |
| | | (28,046) | (3,874) |
| **Changes in working capital:** | | | |
| Decrease (increase) in other receivables | | (119) | 2,027 |
| Decrease in other payables | | (528) | (622) |
| | | (647) | 1,405 |
| Income taxes paid | | (72) | - |
| **Net cash used in operating activities** | | **(28,765)** | **(2,469)** |
| Cash flows from investing activities: | | | |
| Payment for purchase of oil & gas leases | 5(C), 5(F) | (10,850) | (10,850) |
| Payment for purchase of intangible assets | 6(B) | (5,152) | (8,006) |
| Loan granted to related party | 19(E)(10) | (346,000) | - |
| Advance payment from future sale of property, plant and equipment (INGL)* | 5(H) | 5,673 | 22,229 |
| Payment for purchase of property, plant and equipment | 5(C) | (280,910) | (374,135) |
| Proceeds from disposal of property, plant and equipment | 5(C) | - | 532 |
| Movement in restricted cash | 9(C)(3) | (199,729) | - |
| Interest received | | 587 | 223 |
| **Net cash used in investing activities** | | **(836,381)** | **(370,007)** |
| Cash flows from financing activities: | | | |
| Senior secured notes issuance | 9(C) | 2,500,000 | - |
| Transaction cost in relation to senior secured notes issuance | 9(C) | (39,506) | - |
| Senior secured notes - interest paid | 9(C) | (66,600) | - |
| Proceeds from shares issuance | 12(B) | - | 32,500 |
| Drawdown of borrowings | 9(A) | 118,000 | 320,000 |
| Repayment of borrowings | 9(A) | (1,268,000) | - |
| Loan from related parties | 19(E)(9) | - | 16,000 |
| Repayment of loan from related parties | 19(E)(9) | (16,000) | - |
| Debt arrangement fees paid | | - | (5,050) |
| Finance cost paid | 9 | (46,138) | (61,102) |
| Finance costs paid for deferred license payments | 5(F) | (3,494) | (3,993) |
| Repayment of obligations under leases | 9 | (585) | (368) |
| **Net cash generated from financing activities** | | **1,191,677** | **297,987** |
| **Net increase (decrease) in cash and cash equivalents** | | **312,531** | **(74,489)** |
| Cash and cash equivalents at beginning of year | | 37,421 | 110,488 |
| Effect of exchange rate fluctuations on cash held | | (125) | 1,422 |
| **Cash and cash equivalents at end of year** | 8 | **349,827** | **37,421** |

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

* Regarding classification of the amounts received from INGL from financing activities to investing activities. Refer to Note 3(W)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, 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, Strovolos, 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 its Israeli Branch.

c. As of 31 December 2021, the Company had investments in the following subsidiaries:

| Name of subsidiary | Country of incorporation / registered office | Principal activities | Shareholding At 31 December 2021 (%) | Shareholding At 31 December 2020 (%) |
|---|---|---|---|---|
| Energean Israel Finance SARL* | 560A rue de Neudorf, L-2220, Luxembourg | Financing activities | 0 | 100 |
| Energean Israel Transmission LTD | 121, Menachem Begin St. Azrieli Sarona Tower, POB 24, Tel Aviv 67012039 Israel | Gas transportation license holder | 100 | 100 |
| Energean Israel Finance LTD | 121, Menachem Begin St. Azrieli Sarona Tower, POB 24, Tel Aviv 67012039 Israel | Financing activities | 100 | 100 |

* The company was liquidated during December 2021 due to full repayment of the senior facility loan in April 2021.

d. The Group's core assets as of 31 December 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 licences Zone D (1) | 80% | Exploration |

(1) The Company holds 80% interests in four licences, blocks 55, 56, 61 and 62 (together, "Zone D") in Israel's Exclusive Economic Zone ("EEZ").

## NOTE 2: - BASIS OF PREPARATION

The following accounting policies have been applied consistently in the consolidated financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation of the financial statements:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).
These consolidated financial statements have not been prepared in accordance with the requirements of the Cyprus Companies Law, Cap.113 and are not intended for statutory filing in Cyprus.
These consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments that have been measured at fair value using the significant accounting policies and measurement bases summarised in Note 3.

The group has prepared the financial statements on the basis that it will continue to operate as a going concern,as explained below.

b. The financial statements are presented in U.S. Dollars and all values are rounded to the nearest thousand US Dollars except where otherwise indicated.

c. New and amended accounting standards and interpretations:

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

New standards and interpretations that are in issue but not yet effective are listed below:

- Annual improvements to IFRS 2018-2020 - 1 January 2022
- Property, Plant and Equipment: Proceeds before intended use (Amendments to IAS 16) - 1 January 2022
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) – 1 January 2022
- Reference to the Conceptual Framework (Amendments to IFRS 3) – 1 January 2022
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) – 1 January 2023
- Definition of Accounting Estimates (Amendments to IAS 8) - 1 January 2023
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) – 1 January 2023
- Classification of

Liabilities as Current or Non-current (Amendments to IAS 1) and Deferral of Effective Date of Amendment - 1 January 2024

The adoption of the above standard and interpretations is not expected to lead to any material changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.



**NOTE 2: - BASIS OF PREPARATION (Cont.)**

d. Basis of consolidation:

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) as detailed in Note 1 above. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect the amount of the investor's returns

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

e. Going Concern:

The Group carefully manages the risk of a shortage of funds by closely monitoring its funding position and its liquidity risk. The Going Concern assessment covers the period up to 31 March 2023 'the Forecast Period'. Cash forecasts are regularly produced based on, inter alia, the Group's latest life of field production, budgeted expenditure forecasts, price estimates based on signed GSPAs, liquids production and headroom under its debt facilities. In addition, on a regular basis, the Group performs sensitivity tests of its liquidity position to evaluate adverse impacts that may result from changes to the macro economic environment.

In March 2021 the Group raised $2.5billion through the issuance of senior secured notes mainly to refinance its $1.45bn Project Finance Facility and to fund capital and exploration expenditure, including Karish and Karish North. The Senior Secured Notes do not have any maintenance covenants, the first principle repayment is not expected before 2024 and the Notes achieved blended fixed rate of 5.2%, removing exposure to floating rates.
First gas remains on track for Q3 2022.
The Group also identifies risks to liquidity to formulate appropriate and timely mitigation strategies in order to manage the risk of funds shortfalls and to ensure the Group's ability

to continue as a going concern.

After careful consideration, the Directors are satisfied that the Group has sufficient financial resources to continue in operation for the foreseeable future, for the Forecast Period to 31 March 2023. As such, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.



**NOTE 3: - SIGNIFICANT ACCOUNTING POLICIES**

a. Accounting Policies:

The principal accounting policies and measurement bases used in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all periods presented in the consolidated financial statements unless otherwise stated.

b. Functional and presentation currency and foreign currency:

1. Functional and presentation currency:

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ("the functional currency").
For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.
The functional currency of the Company is U.S. Dollars (US$). The U.S. Dollar is the currency that influences future sales prices, revenue estimates and also highly affect its operations.
The presentation currency of the consolidated financial statements is US dollar.

2. Transactions and balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. Such monetary assets and liabilities are translated the functional currency exchange rates at the reporting date. Non-monetary items that are measured in terms of historical cost denominated in a foreign currency are translated at the exchange rates prevailing at the date of the transaction and are not subsequently remeasured.

c. Intangible assets - Exploration and evaluation expenditures:

The Group adopts the successful efforts method of accounting for exploration and evaluation costs. Pre-licence costs are expensed in the period in which they are incurred. All licence acquisition, exploration and evaluation costs and directly attributable administration costs are initially capitalised as intangible assets by field or exploration area, as appropriate. All such capitalised costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through the statement of comprehensive income (loss). When proved reserves of oil and gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties.



**NOTE 3: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

d. Commercial reserves:

Commercial reserves are proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 per cent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50 per cent statistical probability that it will be less.

e. Oil and gas properties – assets in development:

Expenditure is transferred from 'Exploration and evaluation assets' to 'Assets in development' which is a subcategory of 'Oil and gas properties' once the work completed to date supports the future development of the asset and such development receives appropriate approvals. After transfer of the exploration and evaluation assets, all subsequent expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within 'Assets in development'.

Any costs incurred in testing the assets to determine whether they are functioning as intended, are capitalised, net of any proceeds received from selling any product produced while testing. Where these proceeds exceed the cost of testing, any excess is recognised in the statement of comprehensive income. When a development project moves into the production stage, all assets included in 'Assets in development' are then transferred to 'Producing assets' which is also a sub-category of 'Oil and gas properties. The capitalisation of certain construction/development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to 'Oil and gas properties' asset additions, improvements or new developments.

f. Depletion and amortisation:

All expenditure carried within each field will be amortised from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, generally on a field-by-field basis or by a group of fields which are reliant on common infrastructure.

g. Impairments of oil & gas properties:

The Group assesses assets or groups of assets, called cash-generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable; for example, changes in the Group's assumptions about commodity prices, low field utilisation, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the Group makes an estimate of the asset's or CGU's recoverable amount.



**NOTE 3: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Where there is evidence of economic interdependency between fields, such as common infrastructure, the fields are grouped as a single CGU for impairment purposes. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount.

Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the Group and not applicable to entities in general.

For discount the future cash flows the Group calculates CGU-specific discount rates. The discount rates are based on an assessment of a relevant peer group's pre-tax Weighted Average Cost of Capital (WACC). The Group then adds any exploration risk premium which is implicit within a peer group's WACC and subsequently applies additional country risk premium for CGUs. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any amortisation that would have been charged since the impairment.
The revesal is limited such that the carrying amount of the asset exceeds neither its recoverable amount, nor the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

h. Other property, plant and equipment:

Other property, plant and equipment comprise of furniture, fixtures and equipment.

Initial recognition:
The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Depreciation:

1. Depreciation of other property, plant and equipment is calculated on the straight-line method so as to write-off the cost amount of each asset to its residual value, over its estimated useful life. The useful life of each class is estimated as

follows:

| | Years |
|---|---|
| Property leases and leasehold improvements | 3 - 10 |
| Furniture, fixtures and equipment | 5 - 7 |

2. Depreciation of the assets in the course of construction commences when the assets are ready for their intended use, on the same basis as other assets of the same class.

3. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected



from its use or disposal. Any gain or loss arising on derecognition of the asset (Calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

4. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Repairs, maintenance, and renovations:

Expenditure for routine repairs and maintenance of property, plant and equipment is charged to the profit or loss in the year in which it is incurred. The cost of major improvements and renovations and other subsequent expenditure are included in the carrying amount of the asset when the recognition criteria of IAS 16 'Property, Plant and Equipment' are met. Major improvements and renovations capitalised are depreciated over the remaining useful life of the related asset.

i. Other intangible assets:

Computer software:

Costs that are directly associated with identifiable and unique computer software products controlled by the Group and that will generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software is carried at cost less any accumulated amortisation and any accumulated impairment losses.
Costs associated with maintenance of computer software programmes are recognised as an expense when incurred.
Computer software costs are amortised using the straight-line method over their useful live, of between three and five years, which commences when the computer software is available for use.

j. Impairment of non-financial assets:

At each reporting date, the Group reviews the carrying amounts of its depreciable property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Impairment is assessed at the level of cash-generating units (CGUs) which, in accordance with IAS 36 'Impairment of Assets', are identified as the smallest identifiable group of assets that generates cash inflows, which are largely independent of the cash inflows from other assets. This is usually at the individual royalty, stream, oil and gas or working interest level for each property from which cash inflows are generated.

An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount, which is the higher of fair value less costs of disposal (FVLCD) and value-in-use (VIU). The future cash flow expected is derived using estimates of proven and probable reserves, a portion of resources that is expected to be converted into reserves and information regarding the mineral, stream and oil & gas properties, respectively, that could affect the future recoverability of the Group's interests. Discount



**NOTE 3: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

factors are determined individually for each asset and reflect their respective risk profiles.

Assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the conditions that gave rise to the recognition of an impairment loss are subsequently reversed and the asset's recoverable amount exceeds its carrying amount. Impairment losses can be reversed only to the extent that the recoverable amount does not exceed the carrying value that would have been determined had no impairment been recognised previously.

Exploration and evaluation assets are tested for impairment when there is an indication that a particular exploration and evaluation project may be impaired. Examples of indicators of impairment include a significant price decline over an extended period, the decision to delay or no longer pursue the exploration and evaluation project, or an expiration of rights to explore an area. In addition, exploration and evaluation assets are assessed for impairment upon their reclassification to producing assets (oil and gas interest in property, plant and equipment).

In assessing the impairment of exploration and evaluation assets, the carrying value of the asset would be compared to the estimated recoverable amount and any impairment loss is recognised immediately in profit or loss.

k. Leases:

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed to determine whether fulfilment is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement. The Group is not a lessor in any transactions, it is only a lessee.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

1. Right-of-use assets:

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.



Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Property leases 2 to 5 years
- Motor vehicles and other equipment 1 to 3 years
- Fiber Optic 14 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.
The right-of-use assets are also subject to impairment.

2. Lease liabilities:

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease
payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

3. Short-term leases and leases of low-value assets:

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

4. Other leases outside the scope of IFRS 16

Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources are outside the scope of IFRS 16 and are recognised as exploration and



evaluation costs or as oil and gas assets, as appropriate.

l. Financial instruments - initial recognition and subsequent measurement:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

1. Financial assets:

Initial recognition and measurement:

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement:

For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through profit or loss – The Group does not hold such financial assets as of December 31, 2021



**NOTE 3: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Financial assets at amortised cost:

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment under the expected credit loss model. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables.

Derecognition:

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when the rights to receive cash flows from the asset have expired.

Impairment of financial assets:

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.



**NOTE 3: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

,
The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2. Financial liabilities:

Initial recognition and measurement:

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans, , derivative financial instruments and borrowings.

Subsequent measurement:

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, modified and through the EIR amortisation process.
Amortised cost is calculated by taking into account any discount or premium on

acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.
This category generally applies to interest-bearing loans and borrowings.

Derecognition:

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.



**NOTE 3: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

3. Offsetting of financial instruments:

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

m. Derivative financial instruments and hedge accounting:

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges which applicable to the Group are classified as Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the



cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item attributable to the hedged risk.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction.

n. Equity instruments:

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Ordinary shares

Ordinary shares are classified as equity and measured at their nominal value. Any premiums received on issue of share capital above its nominal value, are recognised as share premium within equity. Associated issue costs are deducted from share premium.

Other components of equity include the following:

Retained losses includes all current and prior period retained losses.

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve.

o. Share-based payments:

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments issued and charge upon vesting by the Ultimate Parent Company (Energean plc).

**NOTE 3: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Equity-settled transactions:

The fair value of the equity settled awards has been determined at the date of grant of the award allowing for the effect of any market-based performance conditions.

That cost is recognised in employee benefits expense, together with a corresponding increase in trade payables since the awards upon vesting is being charged by the Ultimate Parent Company, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Ultimate Parent Company's (Energean plc) best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Ultimate Parent Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

p. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

**NOTE 3: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities, for which fair value is measured or disclosed in the financial statements, are categorised within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

q. Cash and cash equivalents and restricted cash:

Cash and cash equivalents comprise of cash in hand, demand deposits and also deposits, with a maturity of three months or less, that are subject to an insignificant risk of changes in their fair value.

The cash reserves retained as a bank security pledge in respect of bank guarantees are defined as restricted cash and held in designated bank deposits accounts to be used only for the purposes of the capital commitments.
Release of cash from the accounts can only be made with the approval of the lender when specified expenditure milestones are met. The current and non-current classification of the bank security pledges is determined by the forecast expenditure of the capital commitments.
Restricted cash comprises balances retained in respect of the Group’s Senior Secured Notes and cash collateral provided under a letter of credit facility for issuing bank guarantees for Group's activities in Israel (see Note 18). The nature of the restrictions on these balances mean that they do not qualify for classification as cash equivalents.
The cash reserves retained as a bank security pledge in respect of bank guarantees are defined as restricted cash and held in designated bank deposits accounts to be used only for the purposes of the capital commitments.
Release of cash from the accounts can only be made with the approval of the lender when specified expenditure milestones are met. The current and non-current classification of the bank security pledges is determined by the forecast expenditure of the capital commitments.
Restricted cash comprises balances retained in respect of the Group’s Senior Secured Notes and cash collateral provided under a letter of credit facility for issuing bank guarantees for Group's activities in Israel (see Note 18). The nature of the restrictions on these balances mean that they do not qualify for classification as cash equivalents.

**NOTE 3: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

r. Provisions:

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risk and uncertainties surrounding the obligation. The expense relating to a provision is presented

in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Decommissioning provision:

Provision for decommissioning is recognised in full when the related facilities are installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment.
The amount recognised is the estimated cost of decommissioning, discounted to its net present value at a risk-free discount rate, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is included as a finance cost

s. Retirement benefit costs regarding the employees by the directly owned Branch in Israel:

The Israeli Branch has defined contribution plans pursuant to section 14 to the Severance Pay in Israel Law under which the Israeli Branch pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.
Contributions to the defined contribution plan in respect of severance or retirement pay are recognised as an expense when contributed concurrently with performance of the employee's services.

t. Borrowing costs:

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.



**NOTE 3: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Excluded from the above capitalisation policy are any qualifying assets that are inventories that are produced, in large quantities on a repetitive basis.

Borrowing costs include interest expense on loans, and bank overdrafts on an effective rate basis as well as other bank charges and are included in the statement of profit or loss.

u. Tax:

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the financial statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Current and deferred tax assets and corresponding liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

The Group recognises tax provision liabilities for anticipated tax issues based on if it is probable, defined as more likely than not, that additional taxes will be due. This assessment is based on all available evidence and, where appropriate, in the light of external advice. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax liability in the period in which such determination is made.

v. Levies:

Levies imposed on the Company by government entities through legislation, are accounted for pursuant to IFRIC 21 according to which the liability for the levy is recognized only when the activity that triggers payment occurs.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, unless otherwise stated)**

**NOTE 3: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

w. Restatement of comparatives in Consolidated Cash Flow Statement

The Company has changed the classification of the amounts received from INGL from financing activities to investing activities. These cash inflows represent the contribution received from INGL in relation to the onshore section of the Karish and Tanin infrastructure and the near shore section of pipeline extending to approximately 10km offshore. For further information on the INGL transaction refer to note 11(5).

The Company previously presented the contributions from INGL as financing activities as this was reflective of the length of time between their receipt from INGL and when Energean is expected to complete the construction of this infrastructure. The Company has reconsidered the treatment and considers that the cash inflows from INGL should be classified as investing activities in accordance with IAS 7 as they do not meet the definition of a financing activity, which is 'activities that result in changes in the size and contribution of the contributed equity and borrowings of the entity'. Comparative figures for the 2020 financial year have been restated as follows.

| | **As previously Stated ($'000)** | **Reclassification of prepayments from INGL ($'000)** | **Restated ($'000)** |
|---|---|---|---|
| Advance payment from future sale of property, plant and equipment (INGL) | - | 22,229 | 22,229 |
| Net Cash used in Investing activities | **(392,236)** | **22,229** | **(370,007)** |
| Advance payment from future sale of property, plant and equipment (INGL) | 22,229 | (22,229) | - |
| Net cash inflow from financing Activities | **320,216** | **(22,229)** | **297,987** |

**NOTE 4: - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of these consolidated financial statements in conformity with IFRS requires the use of accounting estimates and assumptions, and also requires management to exercise its judgement, in the process of applying the Group's accounting policies.

Estimates, assumptions and judgement applied are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates, assumptions and judgement are based on management's best knowledge of current events and actions, actual results may ultimately differ.

1. Critical judgements in applying the Group's accounting policies:

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements:

Carrying value of intangible exploration and evaluation assets:

Amounts carried under intangible exploration and evaluation assets represent active exploration projects. Capitalised costs will be written off to the income statement as exploration costs unless commercial reserves are established, or the determination process is not completed and there are no indications of impairment in accordance with the Group's accounting policy. The process of determining whether there is an indicator for impairment or calculating the impairment requires critical judgement. The key areas in which management has applied judgement and estimation are as follows: the Group's intention to proceed with a future work programme; the likelihood of licence renewal or extension; the assessment of whether sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale; and the success of a well result or geological or geophysical survey.

2. Estimation uncertainty:

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities, are discussed below:

Carrying value of property, plant and equipment:

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an indicator of impairment exists, the recoverable amount (which is the higher of fair value less costs to sell and value in use) of the cash-generating unit to which the assets belong is then estimated based on the present value of future discounted cash flows.

For oil and gas assets, the expected future cash flow estimation is based on a number of factors, variables and assumptions, the most important of which are estimates of reserves, future production profiles, oil prices and costs. In most cases, the present value of future cash flows is most sensitive to estimates of future oil price, estimates of reserves, estimates of development costs and discount rates.

## NOTE 4: - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont.)

A change in the assumptions could materially change the recoverable amount. In the event that future circumstances vary from these assumptions, the recoverable amount of the Group's development and production assets could change materially and result in impairment losses or the reversal of previous impairment losses.

Hydrocarbon reserve and resource estimates:

The Company's oil and gas development and production properties are depreciated on a unit of production basis at a rate calculated by reference to developed and undeveloped proved and probable commercial reserves (2P developed and undeveloped) which are estimated to be recoverable with existing and future developed facilities using current operating methods, determined in accordance with the Petroleum Resources Management System published by the Society of Petroleum Engineers, the World Petroleum Congress and the American Association of Petroleum Geologists.
Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future oil prices. The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Company's oil and gas properties has been impaired. As the economic assumptions used may change and as additional geological information is produced during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Company's reported financial position and results which include:

- Depreciation and amortisation charges in profit or loss may change where such charges are determined using the units of production method, or where the useful life of the related assets change
- Impairment charges in profit or loss
- Provisions for decommissioning may change - where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities
- The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets

Decommissioning costs:

There is uncertainty around the cost of decommissioning as cost estimates can vary in response to many factors, including from changes to market rates for goods and services, to the relevant legal requirements, the emergence of new technology or experience at other assets. The expected timing, work scope, amount of expenditure, discount and inflation rates may also change. Therefore significant estimates and assumptions are made in determining the provision for decommissioning.
The estimated decommissioning costs are reviewed annually by management and the results of this review are then assessed alongside estimates from operators. Provision for environmental cleanup and remediation costs is based on current legal and contractual requirements, technology and price levels.

**NOTE 4: - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont.)**

Deferred taxes:

The Group has recognised deferred tax assets in respect of losses and other temporary differences to the extent that it is probable that there will be future taxable profits against which the losses and other temporary differences can be utilised. The Group has considered their carrying value at each balance sheet date and concluded that based on management's estimates, sufficient taxable profits will be generated in future years to recover such recognised deferred tax assets.

These estimates are based on forecast performance and where tax losses are subject to expiration, the estimates take into account the expected reversal patterns of taxable temporary differences compared to the future reversal of deductible temporary differences.
For additional details, see also Note 13(C).

The management regard the deferred tax asset in relation to tax losses and other temporary differences as recoverable, despite the loss-making situation that currently exists, based on its best estimate of future sources of taxable income.

## NOTE 5: - PROPERTY, PLANT AND EQUIPMENT

a. Composition:

| | Oil 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 (1) | 404,613 | 365 | 298 | 405,276 |
| Disposals | (2,984) | (230) | - | (3,214) |
| Capitalised borrowing cost (3) | 92,170 | - | - | 92,170 |
| Capitalised depreciation | 288 | - | - | 288 |
| Change in decommissioning provision | 38,125 | - | - | 38,125 |
| Transfers from Exploration and evaluation assets (2) | 41,822 | - | - | 41,822 |
| **Total cost at 31 December 2020** | **1,812,758** | **604** | **635** | **1,813,997** |
| Additions (1) | 243,346 | 3,405 | 194 | 246,945 |
| Disposals | (23) | - | - | (23) |
| Capitalised borrowing cost (3) | 188,889 | - | - | 188,889 |
| Capitalised depreciation | 362 | - | - | 362 |
| Change in decommissioning provision | (3,549) | - | - | (3,549) |
| **Total cost at 31 December 2021** | **2,241,783** | **4,009** | **829** | **2,246,621** |
| **Depreciation:** | | | | |
| At 1 January 2020 | **-** | **185** | **63** | **248** |
| Charge for the year (Note 14) | - | - | 80 | 80 |
| Disposals | - | (142) | - | (142) |
| Capitalised to petroleum and gas assets | - | 288 | - | 288 |
| **Total Depreciation at 31 December 2020** | **-** | **331** | **143** | **474** |
| Charge for the year (Note 14) | - | - | 85 | 85 |
| Capitalised to petroleum and gas assets | - | 362 | - | 362 |
| Write down of the assets | 433 | - | - | 433 |
| **Total Depreciation at 31 December 2021** | **433** | **693** | **228** | **1,354** |
| **Net Property, Plant and Equipment at 31 December 2020** | **1,812,758** | **273** | **492** | **1,813,523** |
| **Net Property, Plant and Equipment at 31 December 2021** | **2,241,350** | **3,316** | **601** | **2,245,267** |

(1) The additions to Oil and Gas assets for the year ended 31 December 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$124 million (31 December 2020: approx. US$280 million) and development costs of Karish North at the amount of approx. US$31 million. (31 December 2020: approx. US$49 million).

(2) The Company's Board of Directors has approved on December 2020 the Final Investment Decision ("FID") to proceed with the Karish North Development Project, offshore Israel. As a result all amounts related Karish North field that were classified under Intangible assets reclassified as Property, Plant and Equipment, in line with the Group's accounting policy (Note 6).

**NOTE 5: - PROPERTY, PLANT AND EQUIPMENT (Cont.)**

(3) The borrowing costs capitalised for the year ended 31 December 2021 at the amount of approx. US$189 million (31 December 2020: approx. US$92 million) are mainly due to the Senior Facility Loan for Karish development at the amount of approx. US$93 million (31 December 2020: approx. US$81 million) that was fully repaid in April 2021 and due to the senior secured notes issued during 2021 at the amount of approx. US$89 million for the year ended 31 December 2021. The weighted average interest rates used for the capitalisation of the borrowing cost was 6.38% (31 December 2020: 8.78%). See also Note 9.

b. Depreciation expense for the year has been recognised as follows:

| | 31 December | |
|---|---|---|
| | 2021 | 2020 |
| | US Dollars in thousands | |
| Administration expenses (Note 14) | 85 | 80 |
| Capitalised depreciation in oil & gas assets | 362 | 288 |
| Total | **447** | **368** |

c. Cash flow statement reconciliations:

| | 31 December | |
|---|---|---|
| | 2021 | 2020 |
| | US Dollars in thousands | |
| **Additions to property, plant and equipment** | **432,624** | **574,467** |
| Less | | |
| Capitalised borrowing costs | (188,889) | (92,170) |
| Right-of-use asset additions | (3,405) | (365) |
| Capitalised share-based payment charge | (203) | (65) |
| Capitalised depreciation | (362) | (288) |
| Change in decommissioning provision | 3,549 | (38,125) |
| Transfers from intangible assets | - | (41,822) |
| **Total** | **243,314** | **401,632** |
| Movement in working capital | 48,446 | (17,179) |
| **Cash capital expenditures per the cash flow statement (*)** | **291,760** | **384,453** |

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

d. Details of the Group's rights in the petroleum and gas assets:

| Right | Type of right | Valid date of the right | Group's share |
|---|---|---|---|
| Karish I/17 | Lease | 10 August 2044 | 100% |
| Tanin I/16 | Lease | 10 August 2044 | 100% |

e. Karish North Final Development Plan ("FDP") approval:

The FDP of Karish North was approved by the Israeli Petroleum Commissioner in

August 2020.

**NOTE 5: - PROPERTY, PLANT AND EQUIPMENT (Cont.)**

f. Technip EPCIC Contract:

On 2 March 2018, the Group entered into a lump-sum turnkey engineering, procurement, construction, installation and commissioning contract with Technip UK Limited, Technip France SA and the Israeli branch of Technip Ships One Limited (together, "Technip") in respect of the development of the Karish field (the "Technip EPCIC Contract").

As at 31 December 2021, the completion of the project as defined in the EPCIC (Practical Completion Date) is estimated to occur on Q3 2022. Technip undertakes to remedy any defects in the work noticed within 21 months of completion, to be extended up to 33 months for defects in modifications and repairs. The Technip EPCIC Contract provides for daily liquidated damages for delays of more than 22 days from the target completion date of 31 March 2021 subject to *Force Majeure* events as defined in the EPCIC contract. Technip provided a performance bond equal to 10% of the contract price for up to six months beyond the completion date, reducing thereafter to 5% until no earlier than the end of the defects liability period.

Pursuant to the Technip EPCIC Contract, Energean Israel has agreed to pay Technip approximately US$1.4 billion (multi-currency), with an option to hedge all non-US Dollar amounts. The contract price is payable in accordance with defined milestones, subject to satisfaction of Energean Israel. Energean Israel is entitled to set off amounts owed to Technip against amounts due from Technip (including any liquidated damages), and to withhold payment for defective work and disputed amounts in any invoice.

The Technip EPCIC Contract also contains provisions typical for a contract of this kind regarding variation, intellectual property, force majeure, dispute resolution, sanctions, the duty to cooperate and reporting, including regarding monthly reports and documentation of milestone payment claims.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, unless otherwise stated)**

## NOTE 6: - INTANGIBLE ASSETS

a. Composition:

| | Exploration and evaluation assets | Software Licence | Total |
|---|---|---|---|
| | US Dollars in thousands | | |
| **Cost:** | | | |
| At 1 January 2020 | **49,574** | **160** | **49,734** |
| Additions (1) | 6,539 | 95 | 6,634 |
| Write off of exploration and evaluation costs (Note 14) | (492) | - | (492) |
| Transfers to property, plant and equipment (2) | (41,822) | - | (41,822) |
| **At 31 December 2020** | **13,799** | **255** | **14,054** |
| Additions (1) | 6,342 | - | 6,342 |
| **At 31 December 2021** | **20,141** | **255** | **20,396** |
| **Amortisation:** | | | |
| At 1 January 2020 | - | 33 | 33 |
| Charge for the year (Note 14) | - | 214 | 214 |
| **Total Amortisation at 31 December 2020** | **-** | **247** | **247** |
| Charge for the year (Note 14) | - | 8 | 8 |
| **Total Amortisation at 31 December 2021** | **-** | **255** | **255** |
| **Net Intangible assets at 31 December 2020** | **13,799** | **8** | **13,807** |
| **Net Intangible assets at 31 December 2021** | **20,141** | **-** | **20,141** |

(1) The additions to Intangible assets for the year ended 31 December 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 licence and Karish North prior classifying it to property, plant and equipment).

(2) See Note 5(A)(2).

b. Cash flow statement reconciliations:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| | US Dollars in thousands | |
| **Additions to intangible assets** | **6,342** | **(35,680)** |
| <u>Less</u> | | |
| Transfers to property, plant and equipment | - | 41,822 |
| **Total** | 6,342 | 6,142 |
| Movement in working capital | (1,190) | 1,864 |
| **Cash capital expenditure per the cash flow statement** | **5,152** | **8,006** |

**(US Dollars in thousands, unless otherwise stated)**

**NOTE 6: - INTANGIBLE ASSETS (Cont.)**

c. Details on the Group's rights in the intangible assets:

| Right | Type of right | Valid date of the right | Group's interest |
|---|---|---|---|
| Block 12 | Licence | 14 January 2024 | 100% |
| Block 21 | Licence | 14 January 2024 | 100% |
| Block 22* | Licence | 14 January 2021 | 100% |
| Block 23 | Licence | 14 January 2024 | 100% |
| Block 31 | Licence | 14 January 2024 | 100% |
| Block 55 (Zone D) | Licence | 27 October 2022 | 80% |
| Block 56 (Zone D) | Licence | 27 October 2022 | 80% |
| Block 61 (Zone D) | Licence | 27 October 2022 | 80% |
| Block 62 (Zone D) | Licence | 27 October 2022 | 80% |

* Relinquished

d. Additional information regarding the Exploration and Evaluation assets:

1. In December 2017, the Group was granted five licences to search for gas and oil in Block 12, Block 21, Block 22, Block 23 and Block 31, which are located in the economic waters of the State of Israel. The licences were granted for a period of 3 years, from 15 January 2018 to 14 January 2021 (hereinafter: the "Original Period").
   On 19 October 2021, the Ministry of Energy in Israel (“MOE") extended Licence “12”/407 (Block 12) by two (2) years until 14 January 2024. In addition, the Ministry of Energy in Israel extended the Licences “21”/408, “23”/410, and “31”/411 (Blocks 21, 23 and 31) by four (4) months until 14 January 2024.
   The licences period may be extended for another four years, two periods of two years each, subject to compliance with the provisions of the licences.
   Block 22 licence expired in January 2021, see also Note 14.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, unless otherwise stated)**

## NOTE 7: - OTHER RECEIVABLES

| | 31 December | |
|---|---|---|
| | 2021 | 2020 |
| | US Dollars in thousands | |
| **Current** | | |
| **Financial items** | | |
| Other receivables (*) | 21,275 | 13 |
| Accrued interest income | 901 | 41 |
| | **22,176** | **54** |
| **Non-financial items** | | |
| Deposits and prepayments | 590 | 447 |
| Deferred Insurance expenses | - | 443 |
| Refundable VAT | 3 | 360 |
| | **593** | **1,250** |
| | **22,769** | **1,304** |
| **Non-current** | | |
| **Financial items** | | |
| Accrued interest income from related parties (**) | 6,402 | - |
| | **6,402** | **-** |
| **Non-financial items** | | |
| Deposits and prepayments | 61 | 43 |
| | **61** | **43** |
| | **6,463** | **43** |

(*) This amount includes an amount of $21.2m receivable from INGL as a result of the relevant milestones being achieved, in line with the agreement. See Note 11(5) for further details
(**) See also Note 19(E)(4).

## NOTE 8: - CASH AND CASH EQUIVALENTS

| | 31 December | |
|---|---|---|
| | 2021 | 2020 |
| | US Dollars in thousands | |
| Cash at bank and in hand | 45,827 | 34,461 |
| Banks time deposits | 304,000 | 2,960 |
| | **349,827** | **37,421** |

Bank demand deposits comprise deposits and other short-term money market deposit accounts that are readily convertible into known amounts of cash.
The effective interest rate on short-term bank deposits was 0.383% for the year ended 31 December 2021 (year ended 31 December 2020: 0.815%).

## NOTE 9: - BORROWING AND SECURED NOTES

**a. 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 million (the "Project Finance Facility").
The Project Finance Facility was charged at LIBOR plus margin of 3.75%-4.75% There was a commitment fee of 30% of the applicable margin.

During 2019, the Group signed a hedge contract for 50% of the facility notional, to hedge the 3 months LIBOR component of the facility. As of 31 December 2020, the group recognised derivative liability at the amount of US$6,919 thousands, net from tax, see also Note 12(D). The hedge contract was terminated during Q3 2021 and the liability was fully paid.

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

**b. Short term loan from ultimate parent company repayment - See Note 19(E)(3):**

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

**c. 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 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, unless otherwise stated)**

**NOTE 9: - BORROWING AND SECURED NOTES (Cont.)**

1. **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.

2. **Collateral:**
The Company had provided the following collateral in favor of the Trustee:
a. 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 licences (Block 12, Block 21, Block 23, Block 31 and 80% of the licences under "Zone D") and the INGL Agreement.
b. Floating charge over all of the present and future assets of Energean Israel Limited and Energean Israel Finance Ltd.
c. 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).

3. **Reserves accounts:**
On 29 April 2021, following the escrow release as stated above, the Company funded its reserves account as follow:
a. 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 31 December 2021, the Interest Reserve Account balance is approx. US$96.8 million.
b. US$100 million Debt Payment Fund that would be released upon achieving three quarters annualised production of 3.8 BCM/year.
c. 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.

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

rating the senior secured notes.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, unless otherwise stated)**

## NOTE 9: - BORROWING AND SECURED NOTES (Cont.)

### d. Reconciliation of liabilities arising from financing activities:

| | 1 January 2021 | Cash inflows | Cash Outflows | Additions | Disposals | Borrowings costs including amotisation of arrangement fee | Foreign exchange impact | Other | Fair value changes | Reclassi-fication to short term | 31 December 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | US Dollars in thousands | | | | | | | | | | |
| **2021** | | | | | | | | | | | |
| Senior secured notes | - | 2,500,000 | (106,105) | - | - | 101,856 | - | - | - | (32,227) | 2,463,524 |
| Borrowings | 1,093,965 | 118,000 | (1,290,936) | - | - | 76,890 | - | 2,081 | - | - | - |
| Long-term payables | 28,979 | 5,673 | - | 17,817 | - | 2,036 | (968) | - | - | - | 53,537 |
| Lease liabilities | 270 | - | (585) | 3,405 | - | 152 | (28) | - | - | - | 3,214 |
| Loans from related parties | 16,000 | - | (16,000) | - | - | - | - | - | - | - | - |
| Deferred licence payments (1) | 69,518 | - | (14,344) | - | - | 2,056 | - | - | - | - | 57,230 |
| Liability held to hedge long-term borrowings | 6,919 | - | (6,988) | - | - | 7,002 | - | - | (6,933) | - | - |
| | **1,215,651** | **2,623,673** | **(1,434,958)** | **21,222** | **-** | **189,992** | **(996)** | **2,081** | **(6,933)** | **(32,227)** | **2,577,505** |

(1) Cash outflows relate to finance costs paid for deferred licence payments of approx. US$3,494 thousands and payment for purchase of oil & gas leases of US$10,850 thousands which are included in the cash flows from financing and investing activities respectively, in the Consolidated Statement of Cash Flows.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, unless otherwise stated)**

## NOTE 9: - BORROWING AND SECURED NOTES (Cont.)

| | 1 January 2020 | Cash inflows | Cash Outflows | Additions | Disposals | Borrowings costs including amotisation of arrangement fee | Foreign exchange impact | Fair value changes | Reclassi-fication to short term | 31 December 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| | US Dollars in thousands | | | | | | | | | |
| **2020** | | | | | | | | | | |
| Borrowings (1) | 756,216 | **320,000** | **(61,437)** | **-** | **-** | **80,720** | **-** | **-** | **(1,534)** | **1,093,965** |
| Long-term payables | 5,306 | **22,229** | **-** | **-** | **-** | **476** | **968** | **-** | **-** | **28,979** |
| Lease liabilities | 283 | **-** | **(368)** | **365** | **(81)** | **70** | **1** | **-** | **(262)** | **8** |
| Loans from related parties | - | **16,000** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **16,000** |
| Deferred licence payments (2) | 78,139 | **-** | **(14,843)** | **-** | **-** | **6,222** | **-** | **-** | **(14,344)** | **55,174** |
| Liability (asset) held to hedge long-term borrowings (1) | (564) | **-** | **(4,664)** | **-** | **-** | **4,664** | **-** | **7,483** | **-** | **6,919** |
| | **839,380** | **358,229** | **(81,312)** | **365** | **(81)** | **92,152** | **969** | **7,483** | **(16,140)** | **1,201,045** |

(1) See Note 9(A).

(2) Cash outflows relate to finance costs paid for deferred licence payments of approx. US$3,993 thousands and payment for purchase of oil & gas leases of US$10,850 thousands which are included in the cash flows from financing and investing activities respectively, in the Consolidated Statement of Cash Flows.

## NOTE 10: - PROVISION FOR DECOMMISSIONING

| | For the year ended 31 December | |
|---|---|---|
| | 2021 | 2020 |
| | US Dollars in thousands | |
| **At 1 January** | 38,399 | - |
| New provisions | - | 38,125 |
| Changes in estimates | (3,549) | - |
| Unwinding of discount | 675 | 274 |
| **At 31 December** | **35,525** | **38,399** |
| **Current provisions** | **-** | **-** |
| **Non-current provisions** | **35,525** | **38,399** |

The decommissioning provision represents the present value of decommissioning costs relating to three wells of Karish main.

The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred up to 2041, when the producing oil and gas properties are expected to cease operations. These provisions have been created based on the Group's internal estimates. Assumptions based on the current economic environment have been made, which management believes form a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time.

Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

The discount rate applied on 31 December 2021 is 1.95% (31 December 2020: 1.45%).

Depreciation will be commenced based on the depletion method (for accounting purposes), upon commercial production.

## NOTE 11: - TRADE AND OTHER PAYABLES

| | 31 December | |
|---|---|---|
| | 2021 | 2020 |
| | US Dollars in thousands | |
| **Current** | | |
| **Financial items** | | |
| Trade accounts payable (1) | 32,611 | 68,706 |
| Accrued expenses (1) | 3,167 | 1,628 |
| Payables to related parties (2) | 1,079 | 3,381 |
| Accrued expenses to related parties (2) | 2,444 | - |
| Deferred licence payments (3) | - | 14,344 |
| Other finance costs accrued (4) | 32,227 | 2,081 |
| Current lease liabilities | 1,011 | 262 |
| | 72,539 | 90,402 |
| **Non-Financial items** | | |
| VAT payable | 1,217 | - |
| Social insurance and other taxes | 132 | 87 |
| Income taxes | 227 | - |
| | 1,576 | 87 |
| | **74,115** | **90,489** |
| **Non-current** | | |
| **Financial items** | | |
| Accrued Expenses to related parties (2) | 294 | 199 |
| Long term lease liabilities | 2,203 | 8 |
| Deferred licence payments (3) | 57,230 | 55,174 |
| | 59,727 | 55,381 |
| **Non-Financial items** | | |
| Contract Liability (INGL) (5) | 53,537 | 28,979 |
| | 53,537 | 28,979 |
| | **113,264** | **84,360** |

(1) The main balance of the Trade Payables and Accrued expenses as of 31 December 2021 relates to development costs for a total amount of approx. US$32 million (2020: approx. US$69 million) at trade accounts payable and approx. US$3 million (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) See Note 19(C).

(3) 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 31 December 2021 the total discounted deferred consideration was approx. US$57 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

**(US Dollars in thousands, unless otherwise stated)**

accrued in that period





**NOTE 11: - TRADE AND OTHER PAYABLES (Cont.)**

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 31 December 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. See also note 18(H)

(4) As of 31 December 2021, the balance is mainly accrued interest related the Senior Security Notes (see also Note 9(C)). As of 31 December 2020, the balance is mainly accrued interest related the project finance loan.

(5) The contract liability refer to sales consideration received in advance following an 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. As consideration, INGL will pay the Company 369 million ILS, represents as of 31 December 2021 approximately US$119 million for the infrastructure being built by the Company which will be paid in accordance with milestones detailed in the agreement. The total payments received as of 31 December 2021 at the amount of approx. 110 million ILS, represents approx. US$33 million. Because the advance received is for the period more than one year, the effective interest is recognized.

The agreement covers the onshore section of the Karish and Tanin infrastructure and the near shore section of pipeline extending to approximately 10km offshore. 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 Q3 2022. Following Hand Over, INGL will be responsible for the operation and maintenance of this part of the infrastructure.

**NOTE 12: - EQUITY**

a. Share capital:

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Number of shares | US$ | Number of shares | US$ |
| **Authorised, issued and fully paid** | | | | |
| Ordinary A shares of US$1 each | **1,708,415** | **1,708,415** | **1,708,415** | **1,708,415** |

b. Share capital issuance:

On 7 January 2020 the Company issued 32,500 new ordinary shares issuance at US$1,000 per share subscription price for total consideration of US$32.5 million.
The Company's two shareholders participated pro-rata such that the ownership of the

Company remained 70% Energean E&P Holdings Limited and 30% Kerogen.

## NOTE 12: - EQUITY (Cont.)

c. 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. Please refer to 20(A).

d. Other reserves:

During 2019, the Group signed a hedge contract for 50% of the facility notional, to hedge the 3 months LIBOR component of the facility. As of 31 December 2020, the Group recognised derivative financial liability at the amount of US$6,919 thousands, net from tax. See also Note 9(A). 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.
During 2021 with the repayment of the senior facility loan, the fair value differences, previously recognized in other comprehensive income, were recognised immediately as finance costs. See Note 20(E). The derivative contract was terminated during September 2021.

e. Shares rights:

An ordinary share gives the shareholder the right to vote on matters put before all of the shareholders of the Company. One share equals one vote. An ordinary share also provides the shareholder with the right to receive a share of the Company's profits by way of dividends.

## NOTE 13: - INCOME TAX AND LEVIES

a. Corporate Tax rates applicable to the Company:

1. Israel:

The Israeli corporate tax rate is 23% in 2021 and 2020

2. Cyprus:

For its activity in Cyprus, the Company is subject to corporation tax on its taxable profits at the rate of 12.5%.

**NOTE 13: - INCOME TAX AND LEVIES (Cont.)**

b. The Income and Natural Resources Taxation Law, 5771-2011 - Israel:

In April 2011, the Knesset passed the Income and Natural Resources Tax Law, 5771-2011 ("the Law"). The implementation of the law led to a change in the taxation rules applicable to the Group's income, including among others, oil and gas profits levy according to a mechanism determined in the law and cancellation of the depletion allowance.

<u>The main provisions of the law are as follows:</u>
The imposition of an oil and gas profits levy at a rate to be set as set out below. The rate of the levy will be calculated according to a proposed R factor mechanism, according to the ratio between the net accrued revenues from the project and the cumulative investments as defined in the law. A minimum levy of 20% will be levied at the stage where the R factor ratio reaches 1.5, and when the ratio increases, the levy will increase gradually until the maximum rate of 50% until the ratio reaches 2.3. In addition, it was determined that the rate of the levy as stated will be reduced starting in 2017 by multiplying 0.64 by the difference between the corporate tax rate prescribed in section 126 of the Income Tax Ordinance for each tax year and the tax rate of 18%. In accordance with the corporate tax rate from 2018 onwards, the maximum rate will be 46.8%.

In addition, additional provisions were prescribed regarding the levy, inter alia, the levy will be recognised as an expense for the purpose of calculating income tax; The limits of the levy shall not include export facilities; The levy will be calculated and imposed for each reservoir separately (Ring Fencing); Payment by the owner of an oil right calculated as a percentage of the oil produced, the recipient of the payment will be liable to pay a levy according to the amount of the payment received, and this amount will be subtracted from the amount of the levy owed by the holder of the oil right.
The law also sets rules for the unification or separation or consolidation of oil projects for the purposes of the law.
In accordance with the provisions of the Law, the Group is not yet required to pay any payment in respect of the said levy, and therefore no liability has been recognised in the financial statements in respect of this payment.

c. Deferred taxes:
The Group is subject to corporation tax on its taxable profits in Israel at the rate of 23%. The Capital Gain Tax rates depends on the purchase date and the nature of asset. The general capital tax rate for a corporation is the standard corporate tax rate.
Tax losses can be utilised for an unlimited period, and tax losses may not be carried back.
Tax losses occurring during the development or construction phases are to be deducted at the depreciation rate of the asset under development in respect of which they were created.

According to Income Tax (Deductions from Income of Oil Rights Holders) Regulations, 5716-1956, the exploration and evaluation expenses of oil and gas assets are deductible in the year in which they are incurred.

The Group expects that there will be sufficient taxable profit in the following years and that deferred tax assets, recognised in the consolidated financial statements of the Group, will be recovered.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, unless otherwise stated)**

## NOTE 13: - INCOME TAX AND LEVIES (Cont.)

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 2021** | (12,140) | (62) | - | 9,325 | - | 63 | 293 | 1,591 | 8,769 | 7,839 |
| Increase (decrease) for the year through: | | | | | | | | | | |
| Profit or loss | (492) | (700) | - | 1,436 | 5,020 | 31 | 630 | - | (598) | **5,327** |
| Reclassifications in the current year | - | - | - | (6,011) | 6,011 | - | - | - | - | **-** |
| Other comprehensive income | - | - | - | - | - | - | - | (1,591) | - | **(1,591)** |
| **At 31 December 2021** | **(12,632)** | **(762)** | **-** | **4,750** | **11,031** | **94** | **923** | **-** | **8,171** | **11,575** |
| **At 1 January 2020** | (2,347) | (65) | (130) | 7,948 | - | 35 | 178 | - | - | **5,619** |
| Increase (decrease) for the year through: | | | | | | | | | | |
| Profit or loss | (9,793) | 3 | - | 1,377 | - | 28 | 115 | - | 8,769 | **499** |
| Other comprehensive income | - | - | 130 | - | - | - | - | 1,591 | - | **1,721** |
| **At 31 December 2020** | **(12,140)** | **(62)** | **-** | **9,325** | **-** | **63** | **293** | **1,591** | **8,769** | **7,839** |

**NOTE 13: - INCOME TAX AND LEVIES (Cont.)**

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| | US Dollars in thousands | |
| Deferred tax liabilities | (13,394) | (12,202) |
| Deferred tax assets | 24,969 | 20,041 |
| | **11,575** | **7,839** |

d. Taxation charge:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| | US Dollars in thousands | |
| Tax - current year (1) | (310) | (4) |
| Deferred tax | 5,327 | 499 |
| **Total taxation income** | **5,017** | **495** |

(1) The tax is related to Energean Israel Finance Ltd and Energean Israel Finance S.a.r.l. in Luxemburg.

e. Reconciliation of the total tax charge:
The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate of Israel and the taxes on income recorded in profit or loss is as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| | US Dollars in thousands | |
| **Loss before tax** | **(15,849)** | **(5,375)** |
| Tax credit at the applicable tax rates of 23% (1) | 3,645 | 1,236 |
| Impact of different tax rates (2) | 653 | - |
| Tax effect of non-taxable income & allowances (6) | 624 | - |
| Reassessment of recognised deferred tax asset in the current period (3) | 127 | - |
| Permanent differences (4) | (24) | (153) |
| Non recognition of deferred tax on current year losses (5) | - | (588) |
| Other adjustments | (8) | - |
| **Taxation income** | **5,017** | **495** |
| **Effective tax rate** | **32%** | **9%** |

(1) For the reconciliation of the effective tax rate, the statutory tax rate of the Israeli Branch of 23% has been used since the deferred tax comes from the Israeli Branch

operations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, unless otherwise stated)**

**NOTE 13: - INCOME TAX AND LEVIES (Cont.)**

(2) Energean Israel Limited (Cyprus) is subject to corporation tax rate of 12.5%.
The Head Office of Energean Israel Finance S.a.r.l is subject to corporation tax in Luxemburg on its taxable profits at the rate of 17% (Effective interest rate: corporate income tax, solidarity surtax and municipal business tax - 25%).

(3) Reassessment of prior periods Deferred Tax Assets at the amount of approx. US$64 thousands, and tax effect for deferred taxes related environmental rehabilitation from prior years at the amount of approx. US$63 thousands.

(4) Permanent differences consisted of non-deductible expenses with the majority derived from the Israeli Branch and, *inter alia*, related to refreshments, accommodation, donations and travelling.

(5) Non recognition of deferred tax on current period losses in 2020 were derived mainly from the capital loss the Company incurred in Israel for fixed assets disposal due to failure to forecast capital gains tax in Israel in the foreseeable future that can be offset from.

(6) The Cypriot Income Tax Law (ITL) provides for a notional interest deduction (NID) from the taxable profits of entities financing their operations through new equity. In view of this, the Company proceeded with the relevant calculation regarding the new equity used to finance asset.

**NOTE 14: - OPERATING LOSS BEFORE TAXATION**

| | **Year ended 31 December** | |
|---|---|---|
| | **2021** | **2020** |
| | **US Dollars in thousands** | |
| General & administration expenses | | |
| Payroll costs (Note 17) | 1,278 | 891 |
| Share-based payment charge included in administrative expenses | 166 | 81 |
| Depreciation and amortisation | 93 | 294 |
| Auditor fees (1) | 255 | 208 |
| Other General & administration expenses | 3,408 | 2,435 |
| **Total administrative expenses** | **5,200** | **3,909** |
| Exploration and evaluation expenses | | |
| Exploration costs written off (2) | - | 492 |
| Other exploration and evaluation expenses | 50 | 10 |
| **Total exploration and evaluation expenses** | **50** | **502** |
| Other expenses | | |
| Reversal of prior period provision | 5 | - |
| Loss from property, plant and equipment disposal (3a) | 23 | 2,452 |
| Write down of assets | 433 | - |

## NOTE 14: - OPERATING LOSS BEFORE TAXATION (Cont.)

| | Year ended 31 December | |
|---|---|---|
| | 2021 | 2020 |
| | US Dollars in thousands | |
| Other exceptional expenses (3b) | - | 249 |
| **Total other expenses** | **461** | **2,701** |
| Other income | | |
| Gain from disposal | 19 | - |
| **Total other income** | **19** | **-** |

(1) In addition to the auditor fees included at the administrative expenses, for the year ended on 31 December 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 as part of the borrowing costs.

(2) Exploration and evaluation expenses - Block 22:
Block 22 licence expired in January 2021. The Company expensed it as "write off" to exploration costs in 2020 (Note 6).

(3) Other exceptional expenses:

a) Loss from disposal on property, plant and equipment
The Company sold surplus equipment mainly from its Subsea equipment to third parties during Q4 2020 for the amount of approx. US$532 thousands, the book value for the said assets was approx. US$2,984 thousands and as such recorded the loss on disposal of approx. US$2,452 thousands to other exceptional expenses.

b) An amount of approx. US$239 thousands in 2020 is related to a financial sanction imposed on the Company by the Ministry of Environmental Protection in Israel in connection with discharges to the sea at the drilling campaign.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, unless otherwise stated)**

## NOTE 15: - NET FINANCE INCOME (EXPENSES)

| | Year ended 31 December | |
|---|---|---|
| | 2021 | 2020 |
| | US Dollars in thousands | |
| Interest on bank borrowings (1) | 76,890 | 76,678 |
| Effective interest on senior secured notes (1) | 101,856 | - |
| Interest expense on long terms payables (1) | 4,092 | 6,698 |
| Interest on shareholders loan (2) | 9 | 18 |
| Less amounts included in the cost of qualifying assets (3) | (169,813) | (83,394) |
| | 13,034 | - |
| Finance and arrangement fees | 16,675 | 4,042 |
| Other finance costs and bank charges | 64 | 52 |
| Interest expenses from Hedging (1) | 7,002 | 4,664 |
| Unwinding of discount on decommissioning liabilities (4) | 675 | 274 |
| Interest on obligations for leases (1) | 152 | 70 |
| Less amounts included in the cost of qualifying assets (3) | (19,076) | (8,776) |
| | 5,492 | 326 |
| **Total finance costs** | **18,526** | **326** |
| Interest income from time deposits | 1,447 | 201 |
| Interest income from loans to related parties (5) | 6,402 | - |
| **Total finance income** | **7,849** | **201** |
| Net foreign exchange gain | 520 | 1,862 |
| **Net finance income (expenses)** | **(10,157)** | **1,737** |

(1) See also Note 9.
(2) See also Note 19(E)(3).
(3) See also Note 5(A).
(4) See also Note 10.
(5) See also Note 19(E)(4).

## NOTE 16: - SHARE BASED PAYMENTS

Analysis of share-based payment charge:

| | Year ended 31 December | |
|---|---|---|
| | 2021 | 2020 |
| | US Dollars in thousands | |
| Energean 2018 Long Term Incentive Plan | 305 | 146 |
| Energean Deferred Share Bonus Plan | 64 | - |
| **Total share-based payment charge** | 369 | 146 |
| Capitalised to property, plant and equipment assets | 203 | 65 |
| Expensed as administration expenses | 166 | 81 |
| **Total share-based payment charge** | 369 | 146 |

Energean plc's 2018 Long Term Incentive Plan (LTIP)

Under the LTIP, Senior Management can be granted nil exercise price options, normally exercisable from three to ten years following grant provided an individual remains in employment. The size of awards depends on both annual performance measures and Total Shareholder Return (TSR) over a period of up to three years. There are no post-grant performance conditions. No dividends are paid over the vesting period; however, Energean plc's Board may decide at any time prior to the issue or transfer of the shares in respect of which an award is released that the participant will receive an amount (in cash and/or additional Shares) equal in value to any dividends that would have been paid on those shares on such terms and over such period (ending no later than the Release Date) as the Board may determine. This amount may assume the reinvestment of dividends (on such basis as the Board may determine) and may exclude or include special dividends.

The weighted average remaining contractual life for LTIP awards outstanding at 31 December 2021 was one year (31 December 2020: 1.5 years).

All the amount related to share-based payment is recognised as liability since Energean plc charges the Group, using the share price at grant date, for the shares issued upon vesting.

## NOTE 16: - SHARE BASED PAYMENTS (Cont.)

Deferred Share Bonus Plan (DSBP)

Under the DSBP, the portion of any annual bonus above 30 per cent of the base salary of a Senior Executive nominated by the Remuneration Committee was deferred into shares.

Deferred awards are usually granted in the form of conditional share awards or nil-cost options (or, exceptionally, as cash-settled equivalents). Deferred awards usually vest two years after award although may vest early on leaving employment or on a change of control.

The weighted average remaining contractual life for DSBP awards outstanding at 31 December 2021 was 0.5 year (31 December 2020: one year).

All the amount related to share-based payment is recognised as liability since Energean plc charges the Group, using the share price at grant date, for the shares issued upon vesting.

## NOTE 17: - STAFF COSTS

| | Year ended 31 December | |
|---|---|---|
| | **2021** | **2020** |
| | **US Dollars in thousands** | |
| Salaries | 3,814 | 2,789 |
| Other staff costs | 165 | 202 |
| Social insurance costs and other funds | 943 | 766 |
| Share-based payments | 369 | 149 |
| Payroll Cost capitalised in Oil & gas assets | (3,847) | (2,934) |
| **Total payroll cost at administration expenses** | **1,444** | **972** |

## NOTE 18: - MATERIAL ENGAGEMENTS, COMMITMENTS AND CONTINGENCIES

a. Material engagements:

Gas supply agreements:
As of 31 December 2021, the Group has entered into a number of gas supply agreements with certain buyers in Israel for the provision of natural gas from the production of Karish and Tanin.
In general, the weighted average tenor of the GSPAs is 16 years.
The Group signed Gas Sales and Purchase Agreements ("GSPAs"), for the supply of approximately 7.2 BCM per year on plateau.
The gas supply agreements contained customary warranties, terms and provisions for agreements of this nature.

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.

b. Commitments:

In acquiring its oil and gas interests, the Group has pledged that various work programmes will be undertaken on each permit/interest. The exploration commitments in the following table are an estimate of the net cost to the Group of performing these work programmes:

| | Year ended 31 December | |
|---|---|---|
| | **2021** | **2020** |
| | **US Dollars in thousands** | |
| **Capital commitments:** | | |
| Due within one year | 222 | 345 |
| | 222 | 345 |
| **Contingent liabilities:** | | |
| Performance guarantees - see Note 18(C) | 89,693 | 62,101 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, unless otherwise stated)**

**NOTE 18: - MATERIAL ENGAGEMENTS, COMMITMENTS AND CONTINGENCIES (Cont.)**

c. Performance guarantees:

1. **Letter of Credit Facility Agreement** - On April 2021, the Company signed with a banking corporation on a 250 million ILS (approx. US$80 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.

2. **Karish and Tanin Leases** - As part of the requirements of the Karish and Tanin Lease deeds, the Group provided the Israeli Ministry of National Infrastructures, Energy and Water with bank guarantees in the amount of US$10 million for each lease (total US$20 million). The bank guarantees have been extended during the first quarter of 2021 and are in force until 31 March 2022.

3. **Blocks 12, 21, 22, 23 and 31** - As part of the requirements of the exploration and appraisal licences which granted to the Group during the Israeli offshore BID in December 2017, the Group provided the Israeli Ministry of National Infrastructures, Energy and Water with bank guarantees in the amount of US$6 million for all 4 blocks mentioned above (Block 22 relinquished). The bank guarantees are in force until 13 January 2023. In addition, US$5 million bank guarantee related Block 12 drilling was issued in November 2021 and is in force until 17 December 2022

4. **Blocks 55, 56, 61 and 62, also known as "ZONE D"** - As part of the requirements of the exploration and appraisal licences which granted to the Group during the Israeli 2nd offshore BID in July 2019, the Group provided the Israeli Ministry of National Infrastructures, Energy and Water in January 2018 with bank guarantees in the amount of US$3.2 million for all 4 blocks mentioned above. The bank guarantees are in force until 28 September 2022.

5. **Israeli Natural Gas Lines ("INGL")** - As part of the agreement signed with INGL on June 2019 the Group provided INGL bank guarantee at the amount of 166 million ILS (approx. US$54 million) in order to secure the milestone payments from INGL.
   The first bank guarantee at the amount of 92 million ILS (approx. US$30 million) in force until until 21 November 2022. During June 2021 and November 2021 additional two bank guarantees were issued to secure INGL's additional milestone payments in total of 18 million ILS (approx. US$6 million) and 56 million ILS (approx. US$18 million), accordingly, these bank guarantees are in force until 30 June 2022 and 30 November 2022, accordingly.

6. **Transmission licence -** As part of the requirements of the Transmission licence, the Group provided the Israeli Ministry of National Infrastructures, Energy and Water with bank guarantees in the amount of US$250 thousand. The bank guarantee in force until 20 September 2022. The bank guarantee will be renewed

each year thereafter as long as the licence is valid, in accordance with the period of Karish and Tanin Leases.



**NOTE 18: - MATERIAL ENGAGEMENTS, COMMITMENTS AND CONTINGENCIES (Cont.)**

7. **Other** - As part of the ongoing operations in Israel, the Group provided various bank guarantees to third parties in Israel which amounted approx. US$2 million. The main bank guarantees are in force till end of first quarter of 2022, the remaining bank guarantees are in force till end of third quarter of 2022.

**d.** Compensation to gas buyers due to late supply - during 2021, compensated group of gas buyers due to the fact the gas supply date is taking place beyond a certain date which defined in the GSPAs. The subject compensation is US$22.9 million.
The compensation presented under long term deferred expenses and accounted as variable purchase consideration under IFRS 15 hence recognised in straight line method once production commences and gas is delivered to the offtakers.

**e.** 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.
On March 9, 2022 the Company filed a statement of Defense, in which it rejected Gas buyer's arguments and claimed, inter alia, that Gas buyer termination notices were invalid and in breach of the relevant contract. The Company filed a counterclaim for damages due to Gas buyer breach of the contract, estimated at $US105- $US406 million.
The said contract is under arbitration process which expected to take place during Q4 2022.

**f.** 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 ILS 600 thousand, approx. US$181 thousand instead of Hof HaCarmel's original demand of ILS 10.28 million, approx. US$3.1 million. The settlement amount paid during October 2021.

**g.** Contractual and Certain Other Future Obligations **-** Contractual royalties are payable to Delek and third-party holders at a total rate of 7.5%, increasing to 8.25% (with such increase expected in 2025 for the Karish lease) after the date at which the lease in question starts to pay the Levy, less royalties due under existing royalties for the benefit of third-party Royalty Holders, to be paid directly to such third parties. The royalty payable to Delek under the Delek SPA is calculated on the value of the total amount of natural gas and condensate produced at the wellhead without any deduction (except for natural gas and Petroleum (as defined under the Petroleum Law) used in the production process). No contractual royalties under the Delek SPA will be payable on future discoveries that were not part of the original acquisition. Royalties under the Delek SPA are deductible for corporate tax and for the Levy tax base. See also Note 11(3).

**h.** Legal cases and contingent liabilities - The Company had no material contingent liabilities as of 31 December 2021

(US Dollars in thousands, unless otherwise stated)

## NOTE 19: - RELATED PARTIES

a. As of 31 December 2020, the Group's ordinary shares were owned 70% by Energean E&P Holdings Limited, incorporated in Cyprus, and 30% by Kerogen Investments No. 38 Limited, incorporated in the British Virgin Islands.

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. Details of related parties:

| Name | Country of incorporation / registered office | Principal activities | Relationship |
|---|---|---|---|
| Energean plc | 44 Baker Street, London W1U 7AL, United Kingdom | Holding company | Ultimate Parent company |
| Energean E&P Holdings Ltd | 22 Lefkonos Street, 2064 Nicosia, Cyprus | Holding Company | Parent company |
| Energean Oil & Gas S.A. | 32 Kifissias Ave. 151 25 Marousi Athens, Greece | Oil and gas exploration, development and production | Sister company |
| Energean International Limited | 22 Lefkonos Street, 2064 Nicosia, Cyprus | Oil and gas exploration, development and production | Sister company |
| Energean Italy S.p.A. | Piazza Sigmund Freud no.1, 20154, Milano, Italy | Oil and gas exploration, development and production | Sister company |
| Energean Capital Limited | 22 Lefkonos Street, 2064 Strovolos, Nicosia, Cyprus | Holding of investments and management services | Sister company |
| Energean Italy SPA (under common control | Via Aterno, 49 – C.da Dragonara 66020 San Giovanni Teatino (CH | Oil and gas exploration, development and production | Sister company |
| Energean Israel Transmission LTD | 121, Menachem Begin St. Azrieli Sarona Tower, POB 24, Tel Aviv 67012039 Israel | Gas transportation licence holder | Subsidiary 100% |
| Energean Israel Finance Ltd | 121, Menachem Begin St. Azrieli Sarona Tower, POB 24, Tel Aviv 67012039 Israel | Financing activities | Subsidiary 100% |
| Kerogen Investments No. 38 Limited (*) | 171 Main Street, Road Town Tortola VG1110, British Virgin Islands | Independent private equity fund manager specialising in the international oil and gas sector, which currently holds the 30% of ordinary shares | Material shareholder 30% |

(*) Since February 2021 Kerogen Investments No. 38 Limited is no longer a shareholder or related party of the company.

**NOTE 19: - RELATED PARTIES (Cont.)**

c. Balances with related parties:

| | Nature of balance | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| | | US Dollars in thousands | |
| **In current assets:** | | | |
| Receivables from related parties - Note 7: | | | |
| Energean E&P Holdings Limited (controlling party) | Long term interest Receivable | 6,402 | - |
| | | **6,402** | **-** |
| **In current liabilities:** | | | |
| Payables to related parties - Note 11: | | | |
| Energean plc (the ultimate parent company) | Trading | (413) | (2,415) |
| Energean Oil & Gas S.A (under common control) | Trading | (204) | (738) |
| Energean International UK branch (under common control) | Trading | - | (197) |
| Energean E&P Holdings Limited (controlling party) | Trading | (428) | (15) |
| Energean International Limited (under common control) | Trading | (27) | (2) |
| Energean Capital Limited (controlling party) | Trading | (7) | (14) |
| Energean plc (the ultimate parent company), under accrued expenses | Trading | (181) | - |
| Energean International UK branch (under common control), under accrued expenses | Trading | (364) | - |
| Energean Italy SPA (under common control) , under accrued expenses | Trading | (1,899) | - |
| | | **(3,523)** | **(3,381)** |
| Short term loan from related parties - Note 19(E)(3): | | | |
| Energean plc (the ultimate parent company) | | - | (16,000) |
| **In non-current liabilities:** | | | |
| Accrued expenses to related parties - Note 11: | | | |
| Energean plc (the ultimate parent company) | Share based payments | **(294)** | **(199)** |

**NOTE 19: - RELATED PARTIES (Cont.)**

d. Transactions with related parties:

| | Year ended 31 December | |
|---|---|---|
| | 2021 | 2020 |
| | US Dollars in thousands | |
| Service received in connection with the oil and gas assets: | | |
| Related companies | 6,189 | 4,514 |
| Parent company | 8,539 | 5,316 |
| Director and shareholder at the Ultimate Parent Company - see Note 19(E)(8) | 10,273 | 19,950 |
| | 25,001 | 29,780 |
| Service received in connection with the intangible assets: | | |
| Related companies | 1,265 | 812 |
| Service received in connection with borrowings: | | |
| Parent company | 391 | 1,999 |
| Service received in connection with senior secured notes: | | |
| Parent company | 1,575 | - |
| In administrative expenses: | | |
| Related companies | 530 | 836 |
| Parent company | 239 | 388 |
| | 769 | 1,224 |
| In Exploration and evaluation expenses: | | |
| Related companies | - | 96 |
| Parent company | - | 21 |
| | - | 117 |
| In Finance Income: | | |
| Parent company | (6,402) | - |
| In Finance Costs: | | |
| Parent company | 12,189 | 139 |

**NOTE 19: - RELATED PARTIES (Cont.)**

e. Additional information:

1. The Group and related companies of Energean Group entered into an agreements for the provision of consulting services which includes administrative, technical, finance and commercial matters for the development of the Karish and Tanin reservoirs. The consideration for the said services and the respective balances presented above at Note 19 (c) and 19 (d)

2. Following a competitive tender process, the Company has entered into an agreement to purchase a Field Support Vessel ("FSV") from Prime Marine Energy Inc., a company controlled by director and shareholder at Energean plc, for approx. US$35 million. The FSV is being constructed to meet the Company's specifications and will provide significant in-country capability to support the Karish project, including FPSO re-supply, crew changes, holdback operations for tanker offloading, emergency subsea intervention, drilling support and emergency response. The purchase of this multi-purpose vessel will enhance operational efficiencies and economics when compared to the leasing of multiple different vessels for the various activities.

3. On 21 December 2020, Energean plc granted US$16 million loan to the Company. The loan bearded annual interest rate of 3.75% and 0.144% (total 3.894%) due to LIBOR. The loan repaid in full on 5 January 2021.

4. On 29 April 2021 (the "Closing Date") and in accordance with the Senior Secured 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 (which was determined upon market conditions) 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 31 December 2021, US$346 million was loaned to Energean E&P Holdings Limited.

**NOTE 19: - RELATED PARTIES (Cont.)**

5. Parent Company Guarantees (PCG):

a) Under the Karish EPCIC Energean plc provided PCG dated 27 July 2018, guaranteeing the payment obligations of Energean Israel Limited in relation to certain deferred payments, which are approximately US$140 million.

b) Purchase Karish and Tanin rights - In order to secure the payments to the sellers as stated at Note 5(F), Energean E&P Holdings Limited, the Parent company, granted a corporate guarantee to the Sellers.

c) As part of GSPA the Company signed in 2020, to secure the agreement obligations to the gas buyer, Energean E&P Holdings Limited, the Parent company, granted on 3 December 2020 a corporate guarantee to the gas buyers amounted US$15 million. The parent company guarantee will be in force till July 2023 or till commercial production starts (the earlier). During 2021, a PCG granted to certain gas buyers in the total amount of US$38 million. The parent company guarantee will be in force until June 2024.

d) As part of the banking corporation security of the Letter of Credit Facility Agreement Energean plc granted PCG in amount of US$80 million. The parent company guarantee will be in force until April 2022.

## NOTE 20: - FINANCIAL INSTRUMENTS

Financial risk management objectives

The Group is exposed to market price risk which comprises: foreign currency risk, credit risk, liquidity risk and capital risk management arising from the financial instruments it holds. The risk management policies employed by the Group to manage these risks are discussed below:

a. Foreign exchange risk:

The Group is exposed to foreign exchange risk as it undertakes operations in various foreign currencies. The key sources of the risk are attributed to the fact that the Group has certain financial assets (mainly other receivables and cash and cash equivalents) and financial liabilities (mainly trade and other payable) with different currencies than the functional currency of the Group, mainly Israeli Shekel (ILS) United Kingdom Pound (GBP) , Euro and Norwegian Krone (NOK).

The Group's exposure to foreign currency risk at each reporting date is shown in the table below. The amounts shown are the US$ equivalent of the foreign currency amounts.

| | Liabilities as of 31 December | | Assets as of 31 December | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | US Dollars in thousands | | | |
| Israeli New Shekel (ILS) | 1,501 | 32,593 | 22,442 | 23,103 |
| United Kingdom Pound (GBP) | 9,613 | 2,422 | 1,587 | 466 |
| Euro | 9,964 | 2,990 | 2,073 | 980 |
| Norwegian Krone (NOK) | 4,403 | 248 | 18 | 31 |
| **Total** | **25,481** | **38,253** | **26,120** | **24,580** |

The following table reflects the sensitivity analysis for profit and loss result for the year and the equity, taking into consideration for the periods presented foreign exchange variation by +/- 10%.

| | 31 December 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | US Dollars in thousands | | | | | | | |
| | ILS | | GBP | | EURO | | NOK | |
| | Variation | | Variation | | Variation | | Variation | |
| | 10% | -10% | 10% | -10% | 10% | -10% | 10% | -10% |
| Profit (loss) before tax | 2,094 | (1,904) | (803) | 730 | (789) | 717 | (439) | 399 |
| Equity | 1,612 | (1,466) | (613) | 562 | (608) | 552 | (338) | 307 |

| | 31 December 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | US Dollars in thousands | | | | | | | |
| | ILS | | GBP | | EURO | | NOK | |
| | Variation | | Variation | | Variation | | Variation | |
| | 10% | -10% | 10% | -10% | 10% | -10% | 10% | -10% |
| Profit (loss) before tax | 5,570 | (5,063) | 289 | (263) | 397 | (361) | 28 | (25) |
| Equity | 4,289 | (3,899) | 222 | (202) | 306 | (278) | 21 | (19) |

## NOTE 20: - FINANCIAL INSTRUMENTS (Cont.)

b. Credit risk:

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Group has policies in place to ensure that all of its transactions giving rise to credit risk are made with parties having an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

Also, the Group has policies to limit the amount of credit exposure to any banking institution, considering among other factors the credit ratings of the banks with which deposits are held. Credit quality information in relation to those banks is provided below.
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date, without taking account of any collateral obtained, was:

| | 31 December | |
|---|---|---|
| | 2021 | 2020 |
| | US Dollars in thousands | |
| Loan to related party | 346,000 | - |
| Restricted cash | 100,000 | - |
| Other receivable | 22,176 | 54 |
| Cash and cash equivalents and bank deposits | 349,827 | 37,421 |
| | **818,003** | **37,475** |

Credit quality of cash equivalents and bank deposits:

The credit quality of the banks in which the Group keeps its deposits is assessed by reference to the credit rating of these banks. Moody's credit ratings of the corresponding banks in which the Group keeps its deposits is as follows:

| | 31 December | |
|---|---|---|
| | 2021 | 2020 |
| | US Dollars in thousands | |
| A1 | 2 | 8 |
| A2 | 349,764 | 37,268 |
| B1 | 61 | - |
| B3 | - | 145 |
| **Total** | **349,827** | **37,421** |

The Company has assessed the recoverability of all cash balances and believe they are carried within the consolidated Statement of financial position at amounts not materially different to their fair value.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, unless otherwise stated)**

**NOTE 20: - FINANCIAL INSTRUMENTS (Cont.)**

c. Liquidity risk:

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
The Group has procedures with the object of minimizing this risk such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

The Group manages its liquidity risk by ongoing monitoring of its cash flows. Group management prepares budgets and regular cash flow forecasts and takes appropriately actions to ensure available cash deposits and credit lines with the banks are available to meet the Group's liabilities as they fall due.

On 2 March 2018, the Group entered into a senior secured project finance for its Karish-Tanin project amounting to US$1,275 million. 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 future appraisal activity in Israel. As of 29 April 2021, the Group withdrew US$1,268 million from the Project Finance Facility. See Note 9(A).

On 24 March 2021 (“Issue Date”), Energean Israel Finance Ltd (a subsidiary of the Company, held 100%) issued US$2.5 billion senior secured notes.

| | Carrying amounts | Contractual cash flows | 3 months or less | 3-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **31 December 2021** | | | **US Dollars in thousands** | | | | |
| Senior secured notes (1) | 2,495,751 | 3,274,609 | 64,095 | 64,811 | 128,906 | 1,551,172 | 1,465,625 |
| Lease liabilities | 3,214 | 5,444 | 251 | 760 | 790 | 1,897 | 1,746 |
| Trade and other payables - long term (2) | 57,230 | 73,091 | - | - | 24,694 | 37,047 | 11,350 |
| Trade and other payables - short term | 39,595 | 39,595 | 39,301 | - | 294 | - | - |
| | 2,595,790 | 3,392,739 | 103,647 | 65,571 | 154,684 | 1,590,116 | 1,478,721 |

**NOTE 20: - FINANCIAL INSTRUMENTS (Cont.)**

| | Carrying amounts | Contractual cash flows | 3 months or less | 3-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **31 December 2020** | US Dollars in thousands | | | | | | |
| Bank loans (Borrowings) (3) | 1,096,046 | 1,202,535 | 13,278 | 1,189,257 | - | - | - |
| Derivative liability | 6,919 | 6,919 | 6,919 | - | - | - | - |
| Lease liabilities | 270 | 363 | 71 | 191 | 101 | - | - |
| Loans from related parties | 16,000 | 16,000 | 16,000 | - | - | - | - |
| Trade and other payables - long term (2) | 69,518 | 89,931 | 14,344 | - | 27,190 | 37,047 | 11,350 |
| Trade and other payables - short term | 73,914 | 73,914 | 73,715 | - | 199 | - | - |
| | 1,262,667 | 1,416,981 | 124,327 | 1,189,448 | 27,490 | 37,047 | 11,350 |

(1) As of 31 December 2021 include short term accrued interest in the amount of approx. US$32,227 (31 December 2020: Nil). See Note 11.

(2) Include commitment to Karish and Tanin sellers, for more information see Note 11(3)).

(3) As of 31 December 2020 include short term accrued interest in the amount of approx. US$2,081. See Note 11.

d. Capital risk management:

Capital includes equity shares and share premium.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions, in order to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group's overall objectives, policies and processes remained unchanged from last year.

e. Fair Values:

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 of the group's finance lease obligations is estimated using discounted cash flow analysis based on the group's current incremental borrowing rates for similar types and maturities of borrowing and are consequently categorised in level 2 of the fair value hierarchy.

## NOTE 20: - FINANCIAL INSTRUMENTS (Cont.)

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 ended during September 2021. 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 at 31 December 2020 the Group's interest rate derivatives are Level 2. There were no transfers between fair value levels during the year.

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 at 31 December 2021** | | | |
|---|---|---|---|---|
| | **US Dollars in thousands** | | | |
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | |
| Long term trade and other receivables | - | 6,402 | - | **6,402** |
| Loan to related party | - | 346,000 | - | **346,000** |
| Long term restricted cash | 100,000 | - | - | **100,000** |
| Short term restricted cash | 99,729 | - | - | **99,729** |
| Short term trade and other receivables | - | 22,176 | - | **22,176** |
| Cash and cash equivalents | 349,827 | - | - | **349,827** |
| **Total** | **549,556** | **374,578** | - | **924,134** |
| **Financial liabilities** | | | | |
| Senior secured notes | - | 2,495,751 | - | **2,495,751** |
| Trade and other payables - long term | - | 59,727 | - | **59,727** |
| Trade and other payables - short term | - | 40,312 | - | **40,312** |
| **Total** | - | **2,595,790** | - | **2,595,790** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**(US Dollars in thousands, unless otherwise stated)**

## NOTE 20: - FINANCIAL INSTRUMENTS (Cont.)

| | Fair value hierarchy as at 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** | | | | |
| 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 | - | 55,182 | - | **55,182** |
| Trade and other payables - short term | - | 88,520 | - | **88,520** |
| **Total** | - | **1,262,667** | **-** | **1,262,667** |

## NOTE 21: - SUBSEQUENT EVENTS

In March 2022, Energean signed a gas supply agreement with the Israel Electric Company. The gas price will be determined in each period, with volumes determined on a daily basis. Starting upon the commencement of first gas production from Karish, the agreement will be valid for an initial one-year period with an option to extend subject to ratification by both parties.