ISRAMCO INC
Form 10-K
March 14, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Mark one:
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 0-12500

ISRAMCO, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 13-3145265 |
| (State or Other Jurisdiction of Incorporation) | (IRS Employer Identification No.) |

2425 West Loop South, Suite 810, Houston Texas 77027
(Address of Principal Executive Offices)

713-621-6785
(Registrant's Telephone Number, including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, par value $0.01
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this Form, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act). Yes No

As of March 10, 2017, there were 2,717,691 shares of the Registrant's common stock par value $0.01 per share ("Common Stock") outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant at March 9, 2017, based on the last sale price of such equity reported on Nasdaq Market, was approximately $86.5 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2016 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Form 10-K.

ISRAMCO, INC.
2016 FORM 10-K ANNUAL REPORT

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Special note regarding forward-looking statements

This report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical facts, concerning, among other things, planned capital expenditures, potential increases in oil and natural gas production, the number of anticipated wells to be drilled in the future, future cash flows and borrowings, pursuit of potential acquisition opportunities, our financial position, business strategy and other plans and objectives for future operations, are forward-looking statements. These forward-looking statements are identified by their use of terms and phrases such as “may,” “expect,” “estimate,” “project,” “plan,” “believe,” “intend,” “achiev “anticipate,” “will,” “continue,” “potential,” “should,” “could” and similar terms and phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties. The actual results could differ materially from those anticipated in these forward-looking statements. One should consider carefully the statements under the “Risk Factors” section of this report and other sections of this report that describe factors that could cause our actual results to differ from those set forth in the forward-looking statements, including, but not limited to, the following factors:

- the timing and extent of changes in prices for, and demand for, crude oil and condensate, NGLs, natural gas and related commodities;
- the possibility that the industry may be subject to future regulatory or legislative actions (including any additional taxes and changes in environmental regulation);
- the presence or recoverability of estimated oil and natural gas reserves and the actual future production rates and associated costs;
- the possibility that production decline rates for some of our oil and gas producing properties are greater than we expect;
- our ability to generate sufficient cash flow from operations, borrowings or other sources to enable us to fully develop our undeveloped acreage positions;
- the ability to replace oil and natural gas reserves;
- our ability to retain skilled operations personnel whom we would need in the event of an upturn in the demand for our services;
- environmental risks;
- drilling and operating risks;
- the loss of one or more of our larger customers;
- our ability to implement price increases or maintain pricing on our core services;
- exploration and development risks;
- competition, including competition for acreage in oil and gas producing areas and for experienced personnel;
- management’s ability to execute our plans to meet our goals;
- technological advances affecting energy consumption and energy supply;

- the collectability of our receivables;

- our ability to retain key members of senior management and key technical employees;
- industry capacity;
- employee turnover and our ability to replace or add qualified workers;
- severe weather impacts on our business;
- operating risks and the possibility that our insurance may not be adequate to cover all of our losses or liabilities;
- our ability to repay our debt when due;
- changes in domestic and global economic and business conditions that impact the demand for oil, natural gas liquids and natural gas;
- changes in domestic and global supplies of oil, natural gas and natural gas liquids arising from economic and business conditions (including actions by the Organization of the Petroleum Exporting Countries);
- our ability to obtain goods and services, such as drilling rigs and tubulars, and access to adequate gathering systems and pipeline take-away capacity, to execute our drilling and development programs;
- general economic and regulatory conditions, whether internationally, nationally, or in the regional and local market areas in which we do business, may be less favorable than expected; and
- other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors that may negatively impact our business, operations or commodity prices.

Finally, our future results will depend upon various other risks and uncertainties, including, but not limited to, those detailed in the section entitled “Risk Factors” included in this report. All forward-looking statements are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this document. Other than as required under the securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

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PART I

ITEM 1. BUSINESS

Overview

Isramco, Inc., (NASDAQ: ISRL) is a Delaware corporation incorporated in 1982 (hereinafter, “we”, the “Company” or “Isramco”). The Company together with its subsidiaries is an independent oil and natural gas company, engaged in the exploration, development and production of predominately oil and natural gas properties located onshore in the United States and offshore Israel. The Company also operates a production services company that provides a full range of onshore production services to oil companies and independent oil and natural gas production companies conducting operations in the United States.

We currently conduct our operations through two operating segments: our Exploration, Development and Production Segment and our Production Services Segment. The following is a description of these two operating segments. Financial information about our operating segments is included in Note 10, “Segment Information”, of the Notes to Consolidated Financial Statements, included in Part II, Item 8, Financial Statements and Supplemental Data, of this Annual Report on Form 10-K.

Exploration, Development and Production Segment

At December 31, 2016, our estimated total proved oil, natural gas reserves and natural gas liquids, as prepared by our independent reserve engineering firms, Netherland, Sewell & Associates, Inc. and Cawley, Gillespie & Associates, Inc., were approximately 34,581 thousand barrels of oil equivalent (“MBOE”), consisting of 1,609 thousand barrels (MBbls) of oil, 193,269 million cubic feet (MMcf) of natural gas and 761 thousand barrels (MBbls) of natural gas liquids. Approximately 78.2% of our proved reserves were classified as proved developed (See Note 13, “Supplemental Oil and Gas Information”). Full year 2016 production averaged 3.80 MBOE/d compared to 3.78 MBOE/d in 2015. Tamar Field production share amounted to 2.35 MBOE/d out of total 3.78 MBOE/d compared to 2.07 MBOE/d in 2015.

United States

We, through our wholly-owned subsidiaries, are involved in oil and gas exploration, including the development, production and operation of wells in the United States. We own varying working interests in oil and gas wells in Louisiana, Texas, New Mexico, Oklahoma, Wyoming, Utah and Colorado and currently serve as operator of approximately 515 producing wells located mainly in Texas and in New Mexico.

Israel

In 2007, we closed our branch in Israel in order to focus on our expanding presence in the United States. Despite the closure of that branch we retained certain overriding royalties in three oil and gas licenses located offshore Israel. These licenses granted by the government of Israel are known as the “Michal”, “Matan” and “Shimson” Licenses.

In 2009, two natural gas discoveries, known as “Tamar” and “Dalit”, were made within the area covered by the Michal and Matan Licenses, respectively. In December 2009, the Israeli Petroleum Commissioner granted Noble Energy, Inc. (“Noble”) and its partners, Isramco Negev 2 Limited Partnership, Delek Drilling, Avner Oil & Gas, and Dor Gas (the “Tamar Consortium”), two leases (the “Tamar Lease” and the “Dalit Lease”). The Leases are scheduled to expire in December 2038 and cover the Tamar and Dalit gas fields (collectively the “Tamar Field”). The Tamar Field is approximately 95 kilometers off the coast of the Israel, in the Israel exclusive economic zone of the Eastern Mediterranean, with a water depth of approximately 1,700 meters.

We own all ownership units in Tamar Royalties LLC, a Delaware limited liability company. Tamar Royalties LLC owns an overriding royalty interest of 1.5375% in the Tamar Field, which will increase to 2.7375% after payout (collectively the "Tamar Royalty"). An overriding royalty interest is an ownership interest in the oil and gas leasehold estate equating to a certain percentage of production or production revenues, calculated free of the costs of production and development of the underlying lease(s), but subject to its proportionate share of certain post production costs. An overriding royalty interest is a non-possessory interest in the oil and gas leasehold estate and, accordingly, we have no control over the operations, drilling, expenses, timing, production, sales, or any other aspect of development or production of the Tamar Field.

Production from the Tamar Field commenced in March 2013. The Tamar Field is now operational and delivering natural gas to Israel. The natural gas flows from the Tamar Field through the world's longest subsea tieback, more than 90 miles to the Tamar platform, and then to the Ashdod onshore terminal (AOT).

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With regard to the payout of the Tamar Field, a disagreement between the Company and Isramco Negev 2 Limited Partnership has emerged as to whether the financing costs of Isramco Negev 2 Limited Partnership may be included in the calculation of payout. The disagreement largely stems from the fact that the agreements governing the creation of the Tamar Royalty were formulated in the 1980s and do not have a clear and unequivocal definition as to what costs should be included in the payout calculation. The Company believes that the total scope of the disagreement is approximately fifteen million dollars ($15,000,000). Under the terms of the agreements creating the Tamar Royalty, the dispute is subject to arbitration in Israel. The Company expects that the matter will be resolved through this arbitration process. However, the Company cannot be assured of a favorable result resulting from this arbitration process.

The Tamar Consortium currently sells natural gas from the Tamar Field to the Israel Electric Corporation (“IEC”) and numerous other Israeli purchasers, including independent power producers, cogeneration facilities, local distribution companies and certain industrial companies. Currently, many of the Tamar Consortium’s gas purchase and sale agreements provide for sales at a 7 to 15 year term, while some contracts have extension options of up to 2 years. Depending on the specific contract, prices may vary and are based on an initial base price subject to price adjustment provisions, including price indexation and a price floor. The IEC contract provides for price reopeners (sometimes referred to as “price review” clauses) in the eighth and eleventh years of the contract, subject to limits on the amount of increase or decrease from the existing contractual price.

During year ended December 31, 2016, net sales from the Tamar Field attributable to the Company amounted to 5,102,000 Mcf of natural gas and 6,882 Bbl of condensate with prices of $5.34 per Mcf and $37.48 per Bbl of condensate. Total revenues net of marketing and transportation expenses were $27,462,000. The Israeli Tax Authority withheld $6,866,000, of this revenue which is recognized as a future tax credit, an asset on the Company’s consolidated balance sheets.

During year ended December 31, 2015, net sales from the Tamar Field attributable to the Company amounted to 4,505,000 Mcf of natural gas and 6,074 Bbl of condensate with prices of $5.52 per Mcf and $46.53 per Bbl of condensate. Total revenues net of marketing and transportation expenses were $25,151,000. The Israeli Tax Authority withheld $6,665,000, of this revenue which is recognized as a future tax credit, an asset on the Company’s consolidated balance sheets.

We have a third party reserve report from independent petroleum engineers, Netherland, Sewell & Associates, Inc. dated March 7, 2017 estimating reserves allocable to the Tamar Royalty as of December 31, 2016 (the “Tamar Reserve Report”). This reserve report estimates that by reason of the Company’s ownership of the Tamar Royalty, we have proven reserves estimated at 183.5 million cubic feet of natural gas and 236 thousand barrels of natural gas liquids. The Tamar Reserve Report indicates the undiscounted estimated future net revenue (after deduction of estimated production, ad valorem taxes and levy but before estimated income tax) for such reserves (paid out over time) to be $621.8 million. The Tamar Reserve Report estimates the net present worth of such reserves, discounted at 10% annual discount rate factor, at $323.5 million (See Note 13 to our consolidated financial statements, “Supplemental Oil and Gas Information”). The gas price used to value the reserves in the Tamar Reserve Report is calculated in accordance with SEC rules based on the unweighted arithmetic price for each month within the 12-month period prior to December 31, 2016. The report indicates that there are no commercial oil deposits included as reserves.

The amount of proceeds we receive from the Tamar Royalty is contingent on a variety of factors including the timing of production and the price received. In the event of payout, the Tamar Royalty increases. Payout is the point when all the costs of leasing, drilling, producing and operating the leases have been recovered from lease production proceeds, as defined in the royalty agreements under which we acquired our interest.

As we do not control any of the factors affecting our rights to payments (time of production, price received, costs incurred) and as a result of the other risk factors as set forth below in “Risk Factors,” we cannot determine the amounts or timing of any payments we will receive or when payout is likely to occur, if ever. As discussed above, the determination of the occurrence of payout with respect to the Tamar Royalty is currently the subject of a disagreement with Isramco Negev 2 Limited Partnership. The Company believes that the disagreement will be resolved through a forthcoming arbitration process with Isramco Negev 2 Limited Partnership. Based on the reserves and anticipated production, the income from the Tamar Royalty is currently expected to be very significant to the Company for the foreseeable future.

As noted above with regard to the payout of the Tamar Field, a disagreement between the Company and Isramco Negev 2 Limited Partnership has emerged as to whether the financing costs of Isramco Negev 2 Limited Partnership may be included in the calculation of payout. The disagreement largely stems from the fact that the agreements governing the creation of the Tamar Royalty were formulated in the 1980s and do not have a clear and unequivocal definition as to what costs should be included in the payout calculation. The Company believes that the total scope of the disagreement is approximately fifteen million dollars ($15,000,000). Under the terms of the agreements creating the Tamar Royalty, the dispute is subject to arbitration in Israel. The Company expects that the matter will be resolved through this arbitration process. However, the Company cannot be assured of a favorable result resulting from this arbitration process.

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Commercial production of the Tamar Field reserves is subject to numerous risks, including all of the typical risks associated with offshore oil and gas production. Commercial production of such reserves is also subject to additional risks that may be unique to the Tamar Field. These include:

There has been no previous large scale production of natural gas from offshore Israel. Therefore, there may be geological, geophysical, or other unforeseen problems unique to offshore Israel that could affect production. In addition, because of the lack of comparable production history for this part of offshore Israel, the length of time that large scale production from offshore Israel can be sustained is uncertain.

There has been significant political upheaval and unrest in the Middle East, particularly in Syria. In addition, there is considerable hostility between Israel and other countries in the region. Accordingly, there is significant risk that production from the Tamar Field may be delayed, diminished, or prevented by virtue of war, acts of terrorism, or other similar or dissimilar events of force majeure.

The market for natural gas in Israel exists, but the financial ability of customers of the Tamar Consortium to take and pay for material amounts of such natural gas remains unclear. It is uncertain that existing customers and markets are capable of buying all of the anticipated production from the Tamar Field.

The Israel Antitrust Authority continues to monitor the Israeli natural gas market, including Noble and the Tamar Consortium, and could impose additional regulations or requirements on the Noble or the Tamar Consortium which could include a requirement to divest of some or all of their ownership or require all or any of them to separately market their proportionate share of production.

As noted above, the Company owns an interest in the Shimson license located offshore Israel. In April of 2012, a well was drilled in the area covered by the Shimshon license, which has been recognized as a commercial discovery by the Israeli government. The Shimshon partners submitted an application to convert the Shimshon license to a lease. Terms of the lease are in discussion with the Israeli government's Ministry of Energy and Water Resources.

Production Services Segment

The Company began production services operations in September 2011. Our production servicing rig and truck fleet provides a range of production services, including the completion of newly-drilled wells, maintenance and workover of existing wells, fluid transportation, related oilfield services and plugging and abandonment of wells at the end of their useful lives to a diverse group of oil and gas exploration and production companies.

Completion Services. Newly drilled wells require completion services to prepare the well for production. Production servicing rigs are frequently used to complete newly drilled wells to minimize the use of higher cost drilling rigs in the completion process. The completion process may involve selectively perforating the well casing in the productive zones to allow oil or gas to flow into the well bore, stimulating and testing these zones, and installing the production string and other downhole equipment. The completion process typically ranges from a few days to several weeks, depending on the nature and type of the completion, and generally requires additional auxiliary equipment in addition to a production services rigs. The demand for completion services is directly related to drilling activity levels, which are sensitive to fluctuations in oil and gas prices.

Well-servicing/Maintenance Services. We provide maintenance services on the mechanical apparatus used to pump or lift oil from producing wells. These services include, among other activities, repairing and replacing pumps, sucker rods and tubing. We provide the rigs, equipment and crews for these tasks, which are performed on both oil and natural gas wells, but which are more commonly required on oil wells. Maintenance services typically take less than 48 hours to complete. Rigs generally are provided to customers on a call-out basis.

Workover Services. Producing oil and natural gas wells occasionally require major repairs or modifications, called "workovers." Workovers may be required to remedy failures, modify well depth and formation penetration to capture hydrocarbons from alternative formations, clean out and recomplete a well when production has declined, repair leaks or convert a depleted well to an injection well for secondary or enhanced recovery projects. Workovers normally are carried out with pumps and tanks for drilling fluids, blowout preventers, and other specialized equipment for servicing rigs. A workover may last anywhere from a few days to several weeks.

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Fluid Services. At December 31, 2016, we owned and operated 12 fluid service trucks equipped with an average fluid hauling capacity of up to 130 barrels a piece. Each fluid service truck is equipped to pump fluids from or into wells, pits, tanks and other storage facilities. The majority of our fluid service trucks are also used to transport water to fill frac tanks on well locations, to transport produced salt water to disposal wells, and to transport drilling and completion fluids to and from well locations.

Plugging Services. Production servicing rigs are also used in the process of permanently closing oil and gas wells no longer capable of producing in economic quantities. Many well operators bid this work on a "turnkey" basis, requiring the service company to perform the entire job, including the sale or disposal of equipment salvaged from the well as part of the compensation received, and complying with state regulatory requirements. Plugging and abandonment work can provide favorable operating margins and is less sensitive to oil and gas pricing than drilling and workover activity since well operators must plug a well in accordance with state regulations when it is no longer productive. We perform plugging and abandonment work throughout our core areas of operation in conjunction with equipment provided by us or by other service companies.

We typically bill clients for our production servicing on an hourly basis for the period that the rig is actively working. As of December 31, 2016, our fleet of production servicing rigs totaled 33 rigs, which we operate through 4 locations in Texas and New Mexico. Our fleet is capable of working at depths from 14,000 to 25,000 feet, and as of December 31, 2016, our fleet consists of one 600 series rig, twenty eight 550 series rigs, and four 300 series rigs.

Derivative Instruments and Hedging Activities

From time to time we utilize derivative contracts to hedge against the variability in cash flows associated with interest rate risk and/or the forecasted sale of our anticipated future oil and natural gas production. We may hedge a substantial, but varying, portion of our anticipated oil and natural gas production current and subsequent. We do not use derivative instruments for trading purposes. We have elected not to apply hedge accounting to derivative contracts, which would potentially allow us to not record the change in fair value of our derivative contracts in the consolidated statements of operations. We carry our derivatives at fair value on our consolidated balance sheets, with the changes in the fair value included in our consolidated statements of operations in the period in which the change occurs.

On June 16, 2015, Tamar Royalties LLC, a wholly owned subsidiary of the Company, engaged in an interest rate swap agreement ("IRS Agreement") with the Deutsche Bank AG London Branch ("DBAG"). An interest rate swap is an agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified notional principal amount. Interest rate swaps often exchange fixed interest payments for floating interest payments that are linked to interest rates.

As previously disclosed on the Company's Form 8-K filed May 22, 2015, Tamar Royalties LLC entered into a $120,000,000 credit facility with Deutsche Bank, which facility is discussed further in Note 4 "Long-Term Debt and Interest Expense" to the Company's consolidated financial statements, Under the terms of this facility, Tamar Royalties LLC, is required to hedge at least seventy-five percent (75%) of the outstanding balance under this Facility against fluctuations in LIBOR, with at least thirty seven and one-half percent (37.5%) of the outstanding balance being hedged through swaps. The notional value of these hedges corresponds to the amortization schedule covering the facility and previously disclosed in the aforementioned Form 8-K. Accordingly, on June 16, 2015, Tamar Royalties LLC and DBAG entered into the IRS Agreement whereby the Tamar Royalties LLC hedged $119,250,000 of the $120,000,000 initial borrowing as follows:

(a) Tamar Royalties LLC hedged 37.5% of the perpetual outstanding balance under the facility, being an initial notional amount of $45,000,000, with a fixed rate swap whereby the Company will pay DBAG a fixed interest rate of

4.63%, and DBAG will pay the Company a monthly floating interest rate of USD-LIBOR-BBA plus a spread of 2.75%.

(b) Tamar Royalties hedged the remaining 62.5% of the perpetual outstanding balance less $750,000, being an initial notional amount of $74,250,000, against fluctuations in LIBOR by capping the fluctuations in LIBOR at 1.50%. Pursuant to the IRS agreement, the Company will pay DBAG a fixed interest rate of 0.91%, and DBAG will pay the Company the greater of (i) USD-LIBOR-BBA minus a cap strike of 1.5% and (ii) zero.

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Competitive Conditions in the Business

The oil and natural gas industry is highly competitive and we compete with many other companies that have greater financial and other resources. Many of these companies explore for, produce and market oil and natural gas, as well as carry on refining operations and market the resultant products on a worldwide basis. There are also many production services companies that compete for the same customers as we compete. The primary areas in which we encounter substantial competition are in locating and acquiring attractive producing oil and natural gas properties, obtaining purchasers and transporters of the oil and natural gas we produce and hiring and retaining key employees during active times in the oil and gas industry. Furthermore, competitive conditions may be substantially affected by various forms of energy legislation and/or regulation considered from time to time by the government of the United States and in some instances individual states where we operate. It is not possible to predict the nature of any such legislation or regulation which may ultimately be adopted or its effects upon our future operations. Such laws and regulations may substantially increase the costs of exploring for, developing or producing oil and natural gas and may prevent or delay the commencement or continuation of a given operation.

Our production services customers include major oil companies and mid-range independent oil and natural gas production companies. The markets in which we operate are highly competitive. Competition is influenced by such factors as price, capacity, availability of work crews, and reputation and experience of the service provider. We believe that an important competitive factor in establishing and maintaining long-term customer relationships is having an experienced, skilled and well-trained work force. We believe many of our large customers place increased emphasis on the safety, performance and quality of the crews, equipment and services provided by their contractors. Although we believe customers consider all of these factors, price is often the primary factor in determining which service provider is awarded the work. However, in several instances, we have secured and maintained work for large customers for which efficiency, safety, technology, size of fleet, and availability of other services are of equal importance to price.

Markets and Major Customers

Through our wholly-owned subsidiary, we operate a substantial portion of our domestic oil and natural gas properties. As the operator of a property, the Company makes full payment of the costs associated with each property and seeks reimbursement from the other working interest owners in the property for their share of those costs. Our joint interest partners consist primarily of independent oil and natural gas producers. If the oil and natural gas exploration and production industry in general were adversely affected, the ability of the Company's joint interest partners to reimburse the Company could be adversely affected.

The purchasers of the Company's United States based oil and natural gas production consist primarily of independent marketers, major oil and natural gas companies and gas pipeline companies. During the year ended December 31, 2016 no purchaser, marketer, or major oil and gas or pipeline company accounted for 10% or more of our consolidated revenues. The Company has not experienced any significant losses from uncollectible accounts as to its sales of oil and gas production. The Company does not believe the loss of any one of its purchasers would materially affect the Company's ability to sell the oil and natural gas it produces. The Company believes other purchasers are available in the Company's areas of operations.

The Company's overriding royalty interest in the Tamar field is paid monthly by Isramco Negev 2 Limited Partnership, a related party. During the twelve months ended December 31, 2016 income from this source accounted for 50% of the Company's consolidated revenues. If Isramco Negev 2 Limited Partnership were to stop receiving revenue from its working interest in the Tamar Field, we would not receive revenue from our overriding royalty interest (the Tamar Royalty). Loss of payments from this source would cause significant financial consequences to the Company.

Our production service subsidiary customers include major oil and natural gas production companies and independent oil and natural gas production companies. We perform credit evaluations of our customers and usually do not require collateral. We maintain reserves for potential credit losses when necessary. During the twelve months ended December 31, 2016, no one individual customer accounted for 10% or more of consolidated revenues. The Company believes the loss of one or more customers of our production service subsidiary would not have a significant effect on this Segment because the Company believes that it can employ its rigs with other existing customers or new customers to the extent it has in the past in such circumstances.

Seasonality of Business

Weather conditions affect the demand for, and prices of, natural gas and can disrupt our overall business plans. Demand for natural gas is typically higher in the fourth and first quarters resulting in higher natural gas prices. Due to these seasonal fluctuations, results of operations for individual quarterly periods may not be indicative of the results that may be realized on an annual basis.

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Operational Risks

Oil and natural gas exploration and development involves a high degree of risk that even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that we will discover or acquire additional oil and natural gas in commercial quantities. Oil and natural gas operations also involve the risk that well fires, blowouts, equipment failure, human error and other circumstances may cause accidental leakage of toxic or hazardous materials, such as petroleum liquids or drilling fluids, into the environment, or cause significant injury to persons or property. Such hazards may also cause damage to or destruction of wells, producing formations, production facilities and pipeline or other processing facilities. In such event, substantial liabilities to third parties or governmental entities may be incurred, the satisfaction of which could substantially reduce available cash and possibly result in loss of oil and natural gas properties.

We carry insurance against such hazards. However, as is common in the oil and natural gas industry, we do not insure fully against all risks associated with our business, either because such insurance is not available or because we believe the premium costs are prohibitive. A loss not fully covered by insurance could have a materially adverse effect on our financial position and results of operations. For further discussion on risks, see Item 1A. Risk Factors.

Regulations

We do not have any offshore operations in the United States. However, all of the jurisdictions in which we own or operate oil and natural gas properties regulate exploration for and production of oil and natural gas. These laws and regulations include provisions requiring permits to drill wells and requirements that we obtain and maintain a bond or other security as a condition to drilling or operating wells. Regulations also specify the permitted location of and method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, the sourcing and disposal of water used in the drilling and completion process, and the plugging and abandonment of wells.

Our operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units, the number of wells which may be drilled in a given area, and the unitization or pooling of oil and natural gas properties, as well as regulations that generally prohibit the venting or flaring of natural gas, and impose certain requirements regarding the establishment of maximum allowable rates of production from fields and individual wells. The effect of these regulations may limit the amount of oil and natural gas that we can produce from our wells and limit the number of wells or the locations at which we can drill, although we can apply for exceptions to such regulations or to have reductions in well spacing.

Failure to comply with applicable laws and regulations can result in substantial penalties. The regulatory burden on the industry increases the cost of doing business and affects profitability.

Each state in which we operate also imposes some form of production or severance tax with respect to the production and sale of oil, natural gas and natural gas liquids within its jurisdiction. We are liable for paying this tax on our production, and are also liable for various real and personal property taxes on our leases and facilities.

Environmental and Occupational Health and Safety Regulations

The oil and gas industry in the United States is subject to stringent federal, state and local laws regulating the discharge of materials into the environment or otherwise relating to health and safety or the protection of the environment. Many governmental agencies, such as the United States Environmental Protection Agency (the “EPA”) have issued lengthy and comprehensive regulations to implement and enforce these laws. These laws and regulations often require difficult and costly compliance measures. Failure to comply with these laws and regulations may result in the assessment of substantial administrative, civil and criminal penalties, as well as the issuance of injunctions limiting or prohibiting our activities.

In addition, some laws and regulations relating to protection of the environment may, in certain circumstances, impose strict liability for environmental contamination, rendering a person liable for environmental damages and cleanup costs without regard to negligence or fault on the part of that person. We endeavor to fully comply with these regulatory requirements; however, compliance increases our costs and consequently affects our profitability.

As a part of the overall environmental regulatory policy, the permitting, construction and operations of certain oil and gas facilities are regulated. Many factors, including public perception, can materially impact the ability to secure an environmental construction or operation permit. Once operational, enforcement measures can include significant civil penalties for regulatory violations, regardless of intent. Under appropriate circumstances, an administrative agency can issue a cease and desist order to require termination of operations.

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Environmental regulation is becoming more comprehensive and additional programs, as well as increased obligations under existing programs, are anticipated. In this regard, we expect additional regulation of naturally occurring radioactive materials, oil and natural gas exploration and production operations, waste management, and underground injection of water and waste material. The adoption of additional regulations could have a material adverse effect on our financial condition and results of operations. Environmental laws and regulations have been subject to frequent changes over the years, and the imposition of more stringent requirements could have a material adverse effect on our financial condition and results of operations.

Compliance with environmental laws and regulations increases the Company’s overall cost of business, but has not had, to date, a material adverse effect on its operations, financial condition or results of operations. It is not anticipated, based on current laws and regulations, that Isramco will be required in the near future to expend amounts (whether for environmental control facilities or otherwise) that are material in relation to its total exploration and development expenditure program in order to comply with such laws and regulations. However, given that such laws and regulations are subject to change, Isramco is unable to predict the ultimate cost of compliance or the ultimate effect on its operations, financial condition and results of operations.

Comprehensive Environmental Response, Compensation and Liability Act and Hazardous Substances

In 1980, the United States Congress enacted the federal Comprehensive Environmental Response, Compensation and Liability Act, referred to as CERCLA or the Superfund law. This law, which has been amended since enactment, and comparable state laws impose strict liability, without regard to fault, on certain classes of persons that are considered to be responsible for the release of what are considered to be “hazardous substances” into the environment. These persons include the current or former owners or operators of the sites where the release occurred and companies that disposed or arranged for the disposal of hazardous substances released at the site. Under CERCLA, we may be subject to joint and several liability for the costs of investigating and cleaning up hazardous substances that have been released into the environment whether or not we are responsible for the release or even owned an interest in the site at the time of the release, as well as for damages to natural resources and for the costs of health studies. In addition, companies that incur liability frequently confront additional claims because it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment in addition to a CERCLA claim.

The Solid Waste Disposal Act and Waste Management

The federal Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, referred to as RCRA, regulates the disposal of solid waste but generally excludes most wastes generated by the exploration and production of oil and natural gas, such as drilling fluids, produced waters and other wastes associated with the exploration, development or production of oil and natural gas from regulation as hazardous wastes. However, these wastes may be regulated by the EPA or state agencies as non-hazardous wastes as long as these wastes are not commingled with regulated hazardous wastes. Moreover, in the ordinary course of our operations, other wastes generated in connection with our exploration and production activities may be regulated as hazardous waste under RCRA or hazardous substances under CERCLA. From time to time, releases of materials or wastes have occurred at locations we own or at which we have operations. These properties and the materials or wastes released thereon may be subject to CERCLA, RCRA and analogous state laws. Under these laws, we have been and may be required to remove or remediate these materials or wastes. At this time it is not possible to estimate the potential liabilities to which we may be subject from unknown, latent liability risks with respect to any properties where materials or wastes may have been released, but of which we have not been made aware.

The Clean Water Act, wastewater and storm water discharges

The oil and gas industry, generally, and our operations specifically, are also subject to the federal Clean Water Act and analogous state laws. Under the Clean Water Act, the EPA has adopted regulations concerning discharges of storm water runoff. This program requires covered facilities to obtain individual permits, or seek coverage under a general permit. Some of our properties may require permits for discharges of storm water runoff and, as part of our overall evaluation of our current operations, we may apply for storm water discharge permit coverage and updating storm water discharge management practices at some of our facilities. We believe that we will be able to obtain, or be included under, these permits, where necessary, and be required make only minor modifications to existing facilities and operations that we believe would not have a material effect on us. The Clean Water Act and similar state acts regulate other discharges of wastewater, oil, and other pollutants to surface water bodies, such as lakes, rivers, wetlands, and streams. Failure to obtain permits for such discharges could result in civil and criminal penalties, orders to cease such discharges, and costs to remediate and pay natural resources damages.

These laws also require the preparation and implementation of Spill Prevention, Control, and Countermeasure Plans in connection with on-site storage of significant quantities of oil. More specifically, we are required to develop and maintain a plan applicable to each of our properties at which any significant volume of crude oil or other substance is stored and to ensure the site has sufficient protections (such as berms, etc.) to ensure that any spill will be contained and not reach navigable waters.

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The Safe Drinking Water Act, groundwater protection, and the Underground Injection Control Program

The federal Safe Drinking Water Act (SWDA), the Underground Injection Control (UIC) program promulgated under the SWDA and state programs all regulate the drilling and operation of salt water disposal wells. EPA directly administers the UIC program in some states and in others the responsibility for the program has been delegated to the state. This program requires that a permit be obtained before drilling salt water disposal well. Monitoring the integrity of well casing must also be conducted periodically to ensure the casing is not leaking saltwater to groundwater. Violation of these regulations and/or contamination of groundwater by oil and natural gas drilling, production, and related operations may result in fines, penalties, and remediation costs, among other sanctions and liabilities under the SWDA and state laws. In addition, third party claims may be filed by landowners and other parties claiming damages for alternative water supplies, property damages, and bodily injury.

We have engaged in limited hydraulic fracturing or other well stimulation services on the wells for which we are the operator by engaging third parties to conduct these operations on our behalf. For non-operated properties, the operators have applied and may choose to apply in the future hydraulic-fracturing techniques on properties in which we share interest.

The Clean Air Act

The federal Clean Air Act, enacted in 1970, and comparable state laws regulate emissions of various air pollutants through air emissions permitting programs and the imposition of other requirements. The EPA has developed and continues to develop stringent regulations under the authority of the Clean Air Act governing emissions of toxic air pollutants from specified sources. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with air permits or other requirements of the federal Clean Air Act and associated state laws and regulations.

Some of our operations may be located in areas designated as “non-attainment” areas, which are geographic areas that do not meet the federal air quality standards. Air emission controls and requirements in non-attainment areas are generally more stringent that those imposed in other areas, and the construction of new, or expansion of existing, sources may be restricted.

Climate change

The issue of “global warming” has attracted significant attention and many believe that emissions of certain gases contribute to this problem. Many nations have agreed to limit emissions of “greenhouse gases” pursuant to the United Nations Framework Convention on Climate Change, and the “Kyoto Protocol.” Methane, a primary component of natural gas, and carbon dioxide, a byproduct of the burning of oil, natural gas, and refined petroleum products, are considered “greenhouse gases” regulated by the Kyoto Protocol. Although the United States is not participating in the Kyoto Protocol, several states have adopted legislation and regulations to reduce emissions of greenhouse gases. Restrictions on emissions of methane or carbon dioxide that may be imposed in various states could adversely affect our operations and demand for our products.

In summary, we may be subject to EPA greenhouse gas monitoring and reporting rules, and potentially new EPA permitting rules if adopted, that would apply greenhouse gas permitting obligations and emissions limitations under the federal Clean Air Act. Whether or not any federal greenhouse gas regulations are enacted, more than one-third of the states have begun taking action on their own to control and/or reduce emissions of greenhouse gases. Several multi-state programs have been developed or are in the process of being developed, including the Regional Greenhouse Gas Initiative involving 10 Northeastern states, the Western Climate Initiative involving seven western states, and the Midwestern Greenhouse Gas Reduction Accord involving seven states. The latter two programs have several other states acting as observers and they may join one of the programs at a later date. Any of the climate change regulatory and legislative initiatives described above could have a material adverse effect on our business, financial condition, and results of operations.

Legislative initiatives and discussions to date have focused on the development of cap-and-trade and/or carbon tax programs. A cap-and-trade program generally would cap overall greenhouse gas emissions on an economy-wide basis and require major sources of greenhouse gas emissions or major fuel producers to acquire and surrender emission allowances. Cap-and-trade programs could be relevant to us and our operations in several ways. First, the equipment we use to explore for, develop, produce and process oil and natural gas emits greenhouse gases. We could therefore be subject to caps, and penalties if emissions exceeded the caps. Second, the combustion of carbon-based fuels, such as the oil, gas and NGLs we sell, emits carbon dioxide and other greenhouse gases. Therefore, demand for our products could be reduced by imposition of caps and penalties on our customers. Carbon taxes could likewise affect us by being based on emissions from our equipment and/or emissions resulting from use of our products by our customers. Application of caps or taxes on companies such as Isramco, based on carbon content of produced oil and gas volumes rather than on consumer emissions, could lead to penalties, fees or tax assessments for which there are no mechanisms to pass them through the distribution and consumption chain where fuel use or conservation choices are made. Moreover, because oil and natural gas are used as chemical feedstocks and not solely as fossil fuel, the Company believes that applying a carbon tax to oil and gas at the production stage would be excessive with respect to actual carbon emissions from petroleum fuels.

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The National Environmental Policy Act

Oil and natural gas exploration and production activities on federal lands are subject to the National Environmental Policy Act, or NEPA. NEPA requires federal agencies, including the Department of the Interior, to evaluate major agency actions that have the potential to significantly impact the environment. In the course of such evaluations, an agency will prepare an Environmental Assessment that assesses the potential direct, indirect and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed Environmental Impact Statement that may be made available for public review and comment. All of our current exploration and production activities, as well as proposed exploration and development plans, on federal lands require governmental permits that are potentially subject to the requirements of NEPA. This process has the potential to delay the development of oil and natural gas projects.

Threatened and endangered species, migratory birds, and natural resources

Various state and federal statutes prohibit certain actions that adversely affect endangered or threatened species and their habitat, migratory birds, wetlands, and natural resources. These statutes include the Endangered Species Act, the Migratory Bird Treaty Act, the Clean Water Act and CERCLA. The United States Fish and Wildlife Service may designate critical habitat and suitable habitat areas that it believes are necessary for survival of threatened or endangered species. A critical habitat or suitable habitat designation could result in further material restrictions to federal land use and private land use and could delay or prohibit land access or development. Where takings of or harm to species or damages to wetlands, habitat, or natural resources occur or may occur, government entities or at times private parties, may act to prevent oil and gas exploration activities or seek damages for harm to species, habitat, or natural resources resulting from drilling, construction or releases of oil, wastes, hazardous substances or other regulated materials, and may seek compensation for alleged natural resources damages and in some cases, criminal penalties.

Hazard communications and community right to know

We are subject to federal and state hazard communications and community right to know statutes, including, but not limited to, the federal Emergency Planning and Community Right-to-Know Act, and regulations. These regulations govern record keeping and reporting of the use and release of hazardous substances.

Occupational Safety and Health Act

We are subject to the requirements of the federal Occupational Safety and Health Act, commonly referred to as OSHA, and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities and the public.

Hydraulic Fracturing

Hydraulic fracturing is an essential and common practice in the oil and gas industry used to stimulate production of natural gas and/or oil from dense subsurface rock formations. Hydraulic fracturing involves using water, sand or other proppant materials, and certain chemicals to fracture the hydrocarbon-bearing rock formation to allow flow of hydrocarbons into the wellbore.

As explained in more detail below, the hydraulic fracturing process is typically regulated by state oil and natural gas agencies, although the EPA, and the Bureau of Land Management of the United States Department of the Interior (“BLM”), and other federal regulatory agencies have taken steps to review or impose federal regulatory requirements.

Certain states in which we operate, have adopted, and other states are considering adopting, regulations that could impose more stringent permitting, public disclosure and well construction requirements on hydraulic fracturing operations or otherwise seek to ban fracturing activities altogether. Certain municipalities have already banned hydraulic fracturing, and courts have upheld those moratoria in some instances. In the past several years, dozens of states have approved or considered additional legislative mandates or administrative rules on hydraulic fracturing.

At the federal level, the EPA has issued final Clean Air Act regulations governing performance standards, including standards for the capture of air emissions released during hydraulic fracturing; finalized regulations in June 2016 that prohibit the discharge of wastewater from hydraulic fracturing operations to publicly owned wastewater treatment plants; and issued in May 2014 an Advanced Notice of Proposed Rulemaking seeking comment on its intent to develop regulations under the Toxic Substances Control Act to require companies to disclose information regarding the chemicals used in hydraulic fracturing. Also, the BLM finalized rules in March 2015 that impose new or more stringent standards for performing hydraulic fracturing on federal and American Indian lands including, for example, notice to and pre-approval by BLM of the proposed hydraulic fracturing activities; development and pre-approval by BLM of a plan for managing and containing flowback fluids and produced water recovered during the hydraulic fracturing process; implementation of measures designed to protect usable water from hydraulic fracturing activities; and public disclosure of the chemicals used in the hydraulic fracturing fluid. The rule has been challenged in federal court and implementation has been stayed pending a final decision.

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In addition, from time to time, legislation has been introduced, but not enacted, in Congress to provide for federal regulation of hydraulic fracturing and to require disclosure of the chemicals used in the fracturing process. The adoption of new federal rules or regulations relating to hydraulic fracturing could lead to increased operating costs, delays and curtailment in the pursuit of exploration, development or production activities, which in turn could materially adversely affect our operations. Several governmental reviews are underway that focus on environmental aspects of hydraulic fracturing activities. For example, in December 2016, the EPA released its final report on the potential impacts of hydraulic fracturing on drinking water resources. The final report concluded that “water cycle” activities associated with hydraulic fracturing may impact drinking water resources “under some circumstances,” noting that the following hydraulic fracturing water cycle activities and local- or regional-scale factors are more likely than others to result in more frequent or more severe impacts: water withdrawals for fracturing in times or areas of low water availability; surface spills during the management of fracturing fluids, chemicals or produced water; injection of fracturing fluids into wells with inadequate mechanical integrity; injection of fracturing fluids directly into groundwater resources; discharge of inadequately treated fracturing wastewater to surface waters; and disposal or storage of fracturing wastewater in unlined pits. Since the report did not find a direct link between hydraulic fracturing itself and contamination of groundwater resources, we do not believe that this multi-year study report provides any basis for further regulation of hydraulic fracturing at the federal level.

Based on the foregoing, increased regulation and attention given to the hydraulic fracturing process from federal agencies, various states and local governments could lead to greater opposition, including litigation, to oil and gas production activities using hydraulic fracturing techniques. Additional legislation or regulation could also lead to operational delays or increased operating costs in the production of oil and natural gas, including from the developing shale plays, or could make it more difficult to perform hydraulic fracturing. The adoption of any federal, state or local laws or the implementation of regulations regarding hydraulic fracturing could potentially cause a decrease in the completion of new oil and gas wells and increased compliance costs and time, which could adversely affect our financial position, results of operations and cash flows.

Employees

As of December 31, 2016, we had 170 full-time employees. We hire independent contractors on an as needed basis. We have no collective bargaining agreements with our employees. At the beginning of 2016, we reduced our workforce as part of an overall plan to reduce costs and better align our workforce with the needs of our business and current oil and natural gas commodity prices. We believe that our employee relationships are satisfactory.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other documents with the SEC under the Securities Exchange Act of 1934, as amended. The public may read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an internet website that contains reports, proxy and information statements, and other information regarding issuers, including Isramco, Inc., that file electronically with the SEC. Information about the Company can be found at our internet address: www.isramcousa.com The public can obtain any document we file with the SEC at www.sec.gov.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Annual Report on Form 10-K, investors should consider carefully the following risk factors, which may not be the only risks we face, as our business and operations may also be subject to risks that we do not yet know of, or that we currently believe are immaterial. If any of the events or circumstances described below actually occurs, our business, financial condition or results of operations could be materially and adversely affected and the trading price of our common stock could decline.

Oil, natural-gas and NGLs prices are volatile. A substantial or extended decline in prices could adversely affect our financial condition and results of operations.

Prices for oil, natural gas and NGLs (Natural Gas Liquids) can fluctuate widely. Our revenues, operating results and future growth rates are highly dependent on the prices we receive for our oil, natural gas and NGLs. Historically, the markets for oil, natural gas and NGLs have been volatile and may continue to be volatile in the future. For example, in recent years market prices for natural gas in the United States have declined substantially from the highs achieved in 2008, and the rapid development of shale plays throughout North America has contributed significantly to this trend.

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A significant decline in crude oil prices started in October 2014, continued through 2015 and slightly rebounded towards the end of 2016. As a result, we experienced decreases in crude oil revenues and recorded asset impairment charges due to commodity price declines. If crude oil prices were continue to decline again, further operating asset impairment and our profitability will likely be negatively affected.

Factors influencing the prices of oil, natural gas and NGLs are beyond our control. These factors include, among others:

- the worldwide military and political environment, uncertainty or instability resulting from the escalation or additional outbreak of armed hostilities or further acts of terrorism in the United States, or elsewhere, particularly Israel;
- global factors impacting supply quantities of crude oil, natural gas and NGLs, in particular, US crude oil and NGL supply growth resulting from shale oil development;
- the extent to which US shale producers become swing producers, yielding additional non-OPEC crude oil supply;
- political conditions and events (including instability or armed conflict) in hydrocarbon-producing regions;
- actions taken by foreign oil and gas producing nations;
- the level of global crude oil and natural gas inventories;
- further application of horizontal drilling techniques which could increase production and significantly impact both domestic and global supplies of crude oil, natural gas, and NGLs;
- the price and level of foreign imports of oil, natural gas and NGLs;
- the effect of worldwide energy conservation efforts;
- actions by the Organization of Petroleum Exporting Countries, which we refer to as OPEC;
- the price and availability of alternative and competing fuels;
- the cost of exploring for, developing, producing, transporting, and marketing oil, natural gas, and NGLs;
- the availability of pipeline capacity and infrastructure;
- the availability of crude oil transportation and refining capacity;
- consumer demand for oil, gas and NGLs;
- the growth of consumer product demand in emerging markets, such as India and China;
- fuel efficiency regulations, such as the Corporate Average Fuel Economy (CAFE) standards, and its impacts on crude oil demand as a transportation fuel;
- labor unrest in oil and natural gas producing regions;
- regional pricing differentials;
- weather conditions;
- electricity needs;
- the nature and extent of domestic and foreign governmental regulation (including environmental regulation and regulation of derivatives transactions and hedging activities) and taxation; and
- the overall economic environment.

The long-term effect of these and other factors on the prices of oil, natural gas and NGLs are uncertain. Prolonged or substantial declines in these commodity prices may have the following effects on our business:

- adversely affecting our financial condition, liquidity, ability to finance planned capital expenditures and results of operations;
- reducing the amount of oil, natural gas and NGLs that we can produce economically;
- reducing our revenues, profit margins, operating income and cash flows;
- certain properties in our portfolio becoming economically unviable;
- delay or postponement of some of our capital projects;
- reducing the carrying value of our crude oil and natural gas properties;
- reducing the amounts of our estimated proved oil and natural-gas reserves;
- reducing the standardized measure of discounted future net cash flows relating to oil and natural-gas reserves; and
- limiting our access to sources of capital, such as equity and long-term debt; and

additional counterparty credit risk exposure on commodity hedges.

asset impairment charges resulting from reductions in the carrying values of our crude oil and natural gas properties at the date of assessment;

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Depending on the market prices of oil and gas, oil and gas exploration and production companies may cancel or curtail their drilling programs and may lower production spending on existing wells, thereby reducing demand for our production services. Many factors beyond our control affect oil and gas prices, including:

- the cost of exploring for, producing and delivering oil and gas;
- the discovery rate of new oil and gas reserves;
- the rate of decline of existing and new oil and gas reserves;
- the ability of oil and gas exploration and production companies to raise capital;
- economic conditions in the United States, Israel and elsewhere;
- the price of foreign imports of oil and gas.

Our domestic operations are subject to governmental risks that may impact our operations.

Our domestic operations have been, and at times in the future may be, affected by political developments and are subject to complex federal, state, tribal, local and other laws and regulations such as restrictions on production, permitting, changes in taxes, deductions, royalties and other amounts payable to governments or governmental agencies, price or gathering-rate controls, hydraulic fracturing and environmental protection regulations. In order to conduct our operations in compliance with these laws and regulations, we must obtain and maintain numerous permits, approvals and certificates from various federal, state, tribal and local governmental authorities. We may incur substantial costs in order to maintain compliance with these existing laws and regulations. In addition, our costs of compliance may increase if existing laws, including environmental and tax laws, and regulations are revised or reinterpreted, or if new laws and regulations become applicable to our operations. For example, currently proposed federal legislation, that, if adopted, could adversely affect our business, financial condition and results of operations, includes the following:

Climate Change. A number of state and regional efforts have emerged that are aimed at tracking and/or reducing emissions of green-house gases (GHGs). In addition, the U.S. Environmental Protection Agency (EPA) has made findings that emissions of GHGs present a danger to public health and the environment and, based on these findings, has adopted regulations that restrict emissions of GHGs under existing provisions of the federal Clean Air Act. We may be required to install “best available control technology” to limit emissions of GHGs from any new or significantly modified facilities that we may seek to construct in the future if they would otherwise emit large volumes of GHGs.

Taxes. Congress may undertake significant deficit reduction or comprehensive tax reform in the coming year. Proposals include provisions that would, if enacted, (i) eliminate the immediate deduction for intangible drilling and development costs, (ii) eliminate the manufacturing deduction for oil and gas qualified production activities, and (iii) eliminate the acceleration of depreciation for tangible property.

Hydraulic Fracturing. This process is an essential and common practice in the oil and gas industry used to stimulate production of natural gas and/or oil from dense subsurface rock formations. With regard to our non-operated properties, the operators may choose to apply hydraulic-fracturing techniques in many of our U.S. onshore oil and natural-gas drilling and completion programs. Hydraulic fracturing involves using water, sand or other proppant materials, and certain chemicals to fracture the hydrocarbon-bearing rock formation to allow flow of hydrocarbons into the wellbore.

As explained in more detail below, the hydraulic fracturing process is typically regulated by state oil and natural gas agencies, although the EPA, the BLM and other federal regulatory agencies have taken steps to review or impose federal regulatory requirements. Certain states in which we operate, have adopted, and other states are considering adopting, regulations that could impose more stringent permitting, public disclosure and well construction requirements on hydraulic fracturing operations or otherwise seek to ban fracturing activities altogether. Certain municipalities have already banned hydraulic fracturing, and courts have upheld those moratoria in some instances. In the past several years, dozens of states have approved or considered additional legislative mandates or administrative rules on hydraulic fracturing.

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At the federal level, the EPA has taken numerous actions, including the following: final federal Clean Air Act regulations in 2012 and, more recently, in June 2016 governing performance standards, including standards for the capture of air emissions released during oil and natural gas hydraulic fracturing, leak detection, and permitting; published in June 2016 an effluent limitation final rule prohibiting the discharge of wastewater from onshore unconventional oil and natural gas extraction facilities to publicly owned wastewater treatment plants; and issued in May 2014 an Advanced Notice of Proposed Rulemaking seeking comment on its intent to develop regulations under the Toxic Substances Control Act to require companies to disclose information regarding the chemicals used in hydraulic fracturing. Also, the BLM finalized rules in March 2015 that impose new or more stringent standards for performing hydraulic fracturing on federal and American Indian lands including, for example, notice to and pre approval by BLM of the proposed hydraulic fracturing activities; development and pre approval by BLM of a plan for managing and containing flowback fluids and produced water recovered during the hydraulic fracturing process; implementation of measures designed to protect usable water from hydraulic fracturing activities; and public disclosure of the chemicals used in the hydraulic fracturing fluid. The U.S. District Court of Wyoming has temporarily stayed implementation of this rule. A final decision is pending, however. In addition, from time to time, legislation has been introduced, but not enacted, in Congress to provide for federal regulation of hydraulic fracturing and to require disclosure of the chemicals used in the fracturing process. The adoption of new federal rules or regulations relating to hydraulic fracturing could require us to obtain additional permits or approvals or to install expensive pollution control equipment for our operations, which in turn could lead to increased operating costs, delays and curtailment in the pursuit of exploration, development or production activities, which in turn could materially adversely affect our operations.

In December 2016, the EPA released its final report on the potential impacts of hydraulic fracturing on drinking water resources. The final report concluded that “water cycle” activities associated with hydraulic fracturing may impact drinking water resources “under some circumstances,” noting that the following hydraulic fracturing water cycle activities and local- or regional-scale factors are more likely than others to result in more frequent or more severe impacts: water withdrawals for fracturing in times or areas of low water availability; surface spills during the management of fracturing fluids, chemicals or produced water; injection of fracturing fluids into wells with inadequate mechanical integrity; injection of fracturing fluids directly into groundwater resources; discharge of inadequately treated fracturing wastewater to surface waters; and disposal or storage of fracturing wastewater in unlined pits. Since the report did not find a direct link between hydraulic fracturing itself and contamination of groundwater resources, we do not believe that this multi-year study report provides any basis for further regulation of hydraulic fracturing at the federal level.

Based on the foregoing, increased regulation and attention given to the hydraulic fracturing process from federal agencies, various states and local governments could lead to greater opposition, including litigation, to oil and gas production activities using hydraulic fracturing techniques. Additional legislation or regulation could also lead to operational delays or increased operating costs in the production of oil, natural gas and NGLs, including from the developing shale plays, or could make it more difficult to perform hydraulic fracturing. The adoption of any federal, state or local laws or the implementation of regulations regarding hydraulic fracturing could potentially cause a decrease in the completion of new oil and gas wells and increased compliance costs and time, which could adversely affect our business, financial position, results of operations and cash flows.

The federal Clean Water Act, as amended by the Oil Pollution Act, the federal Clean Air Act, the federal Resource Conservation and Recovery Act, the federal Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, the Safe Drinking Water Act, or SDWA, the federal Outer Continental Shelf Lands Act, the Occupational Safety and Health Act, or OSHA, and their state counterparts and similar statutes are the primary statutes that impose the requirements and provide for civil, criminal and administrative penalties and other sanctions for violation of their requirements. The OSHA hazard communication standard, the Environmental Protection Agency “community right-to-know” regulations under Title III of the federal Superfund Amendment and

Reauthorization Act and comparable state statutes require us to organize and report information about the hazardous materials we use in our operations to employees, state and local government authorities and local citizens. In addition, CERCLA, also known as the "Superfund" law, and similar state statutes impose strict liability, without regard to fault or the legality of the original conduct, on certain classes of persons who are considered responsible for the release or threatened release of hazardous substances into the environment. These persons include the current owner or operator of a facility where a release has occurred, the owner or operator of a facility at the time a release occurred, and companies that disposed of or arranged for the disposal of hazardous substances found at a particular site. This liability may be joint and several. Such liability, which may be imposed for the conduct of others and for conditions others have caused, includes the cost of removal and remedial action as well as damages to natural resources. Few defenses exist to the liability imposed by environmental laws and regulations. It is also common for third parties to file claims for personal injury and property damage caused by substances released into the environment.

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The enactment of derivatives legislation could have an adverse effect on the Company's ability to use derivative instruments to reduce the effect of commodity-price, interest-rate, and other risks associated with its business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), enacted in 2010, establishes federal oversight and regulation of the over-the-counter derivatives market and entities, such as the Company, that participate in that market. The Dodd-Frank Act requires the Commodities Futures Trading Commission (CFTC) and the SEC to promulgate rules and regulations implementing the Dodd-Frank Act. In its rulemaking under the Dodd-Frank Act, the CFTC issued a final rule on position limits for certain futures and option contracts in the major energy markets and for swaps that are their economic equivalents. Certain bona fide hedging transactions or positions are exempt from these position limits. The position-limits rule was vacated by the U.S. District Court for the District of Colombia in September 2012 and the CFTC recently stated that it will appeal the District Court's decision. The CFTC also finalized other regulations, including critical rulemakings on the definition of "swap," "swap dealer," and "major swap participant." Some regulations, however, remain to be finalized and it is not possible at this time to predict when this will be accomplished. Depending on the Company's classification and the particular nature of its derivative activities, the Dodd-Frank Act and regulations may require the Company to comply with margin requirements and with certain clearing and trade-execution requirements in connection with its derivative activities. The Dodd-Frank Act and regulations may also require the counterparties to the Company's derivative instruments to spin off some of their derivatives activities to separate entities, which may not be as creditworthy as the current counterparties. The Dodd-Frank Act and regulations could significantly increase the cost of derivative contracts (including through requirements to post collateral which could adversely affect our available liquidity), materially alter the terms of derivative contracts, reduce the availability of derivatives to protect against risks the Company encounters, reduce the Company's ability to monetize or restructure its existing derivative contracts, and increase the Company's exposure to less-creditworthy counterparties. If the Company reduces its use of derivatives as a result of the Dodd-Frank Act and regulations, the Company's results of operations may become more volatile and its cash flows may be less predictable, which could adversely affect the Company's ability to plan for and fund capital expenditures. Finally, the Dodd-Frank Act was intended, in part, to reduce the volatility of oil and natural-gas prices, which some legislators attributed to speculative trading in derivatives and commodity instruments related to oil and natural gas. The Company's revenues could therefore be adversely affected if a consequence of the Dodd-Frank Act and regulations is to lower commodity prices. Any of these consequences could have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Drilling crude oil and natural gas wells is a high-risk activity and subjects us to a variety of risks that we cannot control.

Drilling crude oil and natural gas wells, including development wells, involves numerous risks, including the risk that we may not encounter commercially productive crude oil and natural gas reserves (including "dry holes"). As a result, we may not recover all or any portion of our investment in new wells.

Specifically, we often are uncertain as to the future cost or timing of drilling, completing and operating wells, and our drilling operations and those of our third-party operators may be curtailed, delayed or canceled, the cost of such operations may increase and/or our results of operations and cash flows from such operations may be impacted, as a result of a variety of factors, including

- unexpected drilling conditions;
- title problems;
- pressure or irregularities in formations;
- equipment failures or accidents;
- adverse weather conditions, such as winter storms, flooding and hurricanes, and changes in weather patterns;
- compliance with, or changes in, environmental laws and regulations relating to air emissions, hydraulic fracturing and disposal of produced water, drilling fluids and other wastes, laws and regulations imposing conditions and restrictions

on drilling and completion operations and other laws and regulations, such as tax laws and regulations;
the availability and timely issuance of required governmental permits and licenses;
the availability of, costs associated with and terms of contractual arrangements for properties, including mineral licenses and leases, pipelines, rail cars, crude oil hauling trucks and qualified drivers and related facilities and equipment to gather, process, compress, transport and market crude oil, natural gas and related commodities; and
the costs of, or shortages or delays in the availability of, drilling rigs, hydraulic fracturing services, pressure pumping equipment and supplies, tubular materials, water, sand, disposal facilities, qualified personnel and other necessary equipment, materials, supplies and services.

Our failure to recover our investment in wells, increases in the costs of our drilling operations or those of our third-party operators, and/or curtailments, delays or cancellations of our drilling operations or those of our third-party operators in each case due to any of the above factors or other factors, may materially and adversely affect our business, financial condition and results of operations. For related discussion of the risks and potential losses and liabilities inherent in our crude oil and natural gas operations generally, see the immediately following risk factor.

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Our oil and natural gas activities are subject to various risks that are beyond our control and expose us to potential losses and liabilities, and insurance may not fully protect us against these risks and potential losses and liabilities.

Our operations are subject to many risks and hazards incident to exploring and drilling for, producing, transporting, marketing and selling oil and natural gas. Although we may take precautionary measures, many of these risks and hazards are beyond our control and unavoidable under the circumstances. Many of these risks or hazards could materially and adversely affect our revenues and expenses, the ability of certain of our wells to produce oil and natural gas in commercial quantities, the rate of production and the economics of the development of, and our investment in the prospects in which we have or will acquire an interest. Any of these risks and hazards could materially and adversely affect our financial condition, results of operations and cash flows. Such risks and hazards include:

human error, accidents, labor force and other factors beyond our control that may cause personal injuries or death to persons and destruction or damage to equipment and facilities;

blowouts, fires, explosions, loss of well control, hurricanes, pollution and equipment failures that may result in damage to or destruction of wells, producing formations, production facilities and equipment;

unavailability of materials and equipment;

engineering and construction delays;

unanticipated transportation costs and delays;

adverse weather conditions, such as winter storms, flooding and hurricanes, and other natural disasters;

hazards resulting from unusual or unexpected geological or environmental conditions;

environmental regulations and requirements;

accidental leakage of toxic or hazardous materials, such as petroleum liquids or drilling fluids, into the environment;

changes in laws and regulations, including laws and regulations applicable to oil and natural gas activities or markets for the oil and natural gas produced;

fluctuations in supply and demand for oil and natural gas causing variations of the prices we receive for our oil and natural gas production;

hazards resulting from the presence of hydrogen sulfide (H2S) or other contaminants in gas we produce;

the availability of alternative fuels and the price at which they become available; and

terrorism, vandalism and physical, electronic and cyber security breaches.

To mitigate financial losses resulting from these operating hazards, we maintain insurance coverage, including insurance coverage for certain physical damage, comprehensive general liability, and worker's compensation and employer's liability. However, our insurance coverage may not be sufficient to cover us against all of potential losses arising as a result of the foregoing, and for certain risks, such as political risk, business interruption, war, terrorism, and piracy, for which we have limited or no coverage. In addition, we are not insured against all risks in all aspects of our business. The occurrence of a significant event against which we are not fully insured could have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

The high cost or unavailability of drilling rigs, equipment, supplies, personnel, and other oilfield services could adversely affect our ability to execute our exploration and development plans on a timely basis and within our budget, which could have a material adverse effect on our business, financial condition, or results of operations.

Our industry is cyclical and, from time to time, there is a shortage of drilling rigs, equipment, supplies, or qualified personnel. During these periods, the costs of rigs, equipment, supplies, and personnel are substantially greater and their availability to us may be limited. Additionally, these services may not be available on commercially reasonable terms. The high cost or unavailability of drilling rigs, equipment, supplies, personnel, and other oilfield services could adversely affect our ability to execute our exploration and development plans on a timely basis and within our budget, which could have a material adverse effect on our business, financial condition, or results of operations.

A portion of our crude oil and natural gas production may be subject to interruptions that could have a material and adverse effect on us.

A portion of our crude oil and natural gas production may be interrupted, or shut in, from time to time for various reasons, including, but not limited to, as a result of accidents, weather conditions, loss of gathering, processing, compression or transportation facility access or field labor issues, or intentionally as a result of market conditions such as crude oil or natural gas prices that we deem uneconomic. If a substantial amount of our production is interrupted, our cash flows and, in turn, our financial condition and results of operations could be materially and adversely affected.

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Failure to fund continued capital expenditures could adversely affect our properties.

Our acquisition, exploration, and development activities require substantial capital expenditures. Historically, we have funded our capital expenditures through a combination of cash flows from operations and loans from commercial banks and related parties. Future cash flows are subject to a number of variables, such as the level of production from existing wells, prices of crude oil and natural gas, and our success in finding, developing and producing new reserves. If revenues were to decrease as a result of lower crude oil and natural gas prices or decreased production, and our access to capital were limited, we would have a reduced ability to replace our reserves, resulting in a decrease in production over time. If our cash flows from operations are not sufficient to meet our obligations and fund our capital budget, we may not be able to access debt, equity or other methods of financing on an economic basis to meet these requirements, particularly in the current economic environment. If we are not able to fund our capital expenditures, interests in some properties might be reduced or forfeited as a result.

Reserve estimates depend on many interpretations and assumptions that may turn out to be inaccurate. Any significant inaccuracies in these interpretations and assumptions could cause the reported quantities and the value of our reserves to be materially misstated.

Estimating quantities of crude oil, NGLs and natural gas reserves and future net cash flows from such reserves is a complex, inexact process. It requires interpretations of available technical data and various assumptions, including assumptions relating to economic factors, made by our management and our independent reserve engineering firms; Netherland, Sewell & Associates, Inc. and Cawley, Gillespie & Associates, Inc. Any significant inaccuracies in these interpretations or assumptions could cause the reported quantities of our reserves and future net cash flows from such reserves to be overstated or understated. Also, the data for a given reservoir may also change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions.

To prepare estimates of our economically recoverable crude oil, NGLs and natural gas reserves and future net cash flows from our reserves, we analyze many variable factors, such as historical production from the area compared with production rates from other producing areas. We also analyze available geological, geophysical, production and engineering data, and the extent, quality and reliability of this data can vary. The process also involves economic assumptions relating to commodity prices, production costs, severance and excise taxes, capital expenditures and workover and remedial costs, many of which factors are or may be beyond our control.

Estimates of reserves based on risk of recovery and estimates of expected future net cash flows prepared by different engineers, or by the same engineers at different times, may vary substantially. Actual production, revenues, and expenditures with respect to our reserves will likely vary from estimates, and the variance may be material. The discounted cash flows included in this report should not be construed as the fair value of the estimated oil, natural-gas, and NGLs reserves attributable to our properties. The estimated discounted future net cash flows from proved reserves are based on average 12-month sales prices using the average beginning-of-month price. Actual future prices and costs may differ materially from the SEC regulation-compliant prices used for purposes of estimating future discounted net cash flows from proved reserves.

Discoveries or Acquisitions of reserves are needed to avoid a material decline in reserves and production.

The production rates from oil and gas properties generally decline as reserves are depleted, while related per unit production costs generally increase, due to decreasing reservoir pressures and other factors. Therefore, our estimated proved reserves and future oil, gas and NGL production will decline materially as reserves are produced unless we conduct successful exploration and development activities or, through engineering studies, identify additional producing zones in existing wells, secondary or tertiary recovery techniques, or acquire additional properties containing proved reserves. Consequently, our future oil, gas and NGL production and related per unit production costs are highly dependent upon our level of success in finding or acquiring additional reserves.

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If we acquire crude oil and natural gas properties, our failure to fully identify existing and potential problems and liabilities, to accurately estimate reserves, production rates or costs, or to effectively integrate the acquired properties into our operations could materially and adversely affect our business, financial condition and results of operations.

From time to time, we seek to acquire crude oil and natural gas properties. Although we perform reviews of properties to be acquired in a manner that we believe is duly diligent and consistent with industry practices, reviews of records and properties may not necessarily reveal existing or potential problems, nor may they permit us to become sufficiently familiar with the properties in order to assess fully their deficiencies and potential. We do not inspect every well. Even when we inspect a well, we do not always discover structural, subsurface and environmental problems that may exist or arise in the future. Even when problems with a property are identified, we often may assume environmental and other risks and liabilities in connection with acquired properties pursuant to the acquisition agreements. In addition, there are numerous uncertainties inherent in estimating quantities of crude oil and natural gas reserves (as discussed further above), actual future production rates and associated costs with respect to acquired properties. Actual reserves, production rates and costs may vary substantially from those assumed in our estimates. In addition, an acquisition may have a material and adverse effect on our business and results of operations, particularly during the periods in which the operations of the acquired properties are being integrated into our ongoing operations or if we are unable to effectively integrate the acquired properties into our ongoing operations.

Title to the properties in which we have an interest may be impaired by title defects.

We generally conduct due diligence to review title on significant properties that we drill or acquire. However, there is no assurance that we will not suffer a monetary loss from title defects or title failure. Additionally, undeveloped acreage has greater risk of title defects than developed acreage. Generally, under the terms of the operating agreements affecting our properties, any monetary loss is due to title defects is to be borne by all parties to any such agreement in proportion to their interests in such property. If there are any title defects or defects in assignment of leasehold rights in properties in which we hold an interest, we will suffer a financial loss.

There is a possibility that we will lose the leases to our oil and gas properties.

Our oil and gas revenues are generated through oil and gas leases. These leases are conditioned on the performance of certain obligations, primarily the obligation to produce oil and/or gas or engage in operations designed to result in the production of oil and gas. If production ceases and operations are not commenced within a specified time, the lease may be lost. The loss of our leases may have a material and adverse impact on our revenues.

In the case of Israeli-based properties, we have interests in licenses that, subject to certain conditions, may result in leases being granted. The leases are subject to certain obligations and are renewable at the discretion of various governmental authorities. As such, if the parties responsible for operations are not able to fulfill their obligations under the leases, the leases may be modified, cancelled, not renewed, or renewed on terms different from the current leases. The modification or cancellation of our leases could eliminate our interests and may have a material and adverse impact on our revenues.

We are subject to complex laws and regulations relating to environmental protection that can adversely affect the cost, manner, and feasibility of doing business.

Our operations and properties are subject to numerous federal, regional, state, tribal, local, and foreign laws and regulations governing the release of pollutants or otherwise relating to environmental protection. These laws and regulations govern the following, among other things:

- issuance of permits in connection with exploration, drilling and production activities;
- protection of endangered species;

amounts and types of emissions and discharges;
generation, management, and disposition of waste materials;
reclamation and abandonment of wells and facility sites; and
remediation of contaminated sites;

In addition, these laws and regulations may impose substantial liabilities for our failure to comply or for any contamination resulting from our operations. Future environmental laws and regulations, such as the restriction against emission of pollutants from previously unregulated activities or the designation of previously unprotected species as threatened or endangered in areas where we operate, may negatively impact our industry. The cost of satisfying these requirements may have an adverse effect on our financial condition, results of operations, or cash flows or could result in limitations on our exploration and production activities, which could have an adverse impact on our ability to develop and produce our reserves.

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We cannot be certain that the insurance coverage maintained by us will be adequate to cover all losses that may be sustained in connection with all oil and natural gas activities.

We maintain general and excess liability policies, which we consider to be reasonable and consistent with industry standards. These policies generally cover:

- personal injury;
- bodily injury;
- third party property damage;
- medical expenses;
- legal defense costs;
- pollution in some cases;
- loss or damage to equipment;
- well blowouts in some cases; and
- worker's compensation.

As is common in the oil and natural gas industry, we will not insure fully against all risks associated with our business either because such insurance is not available or because we believe the premium costs are prohibitive. A loss not fully covered by insurance could have a materially adverse effect on our financial position, results of operations and cash flows. There can be no assurance that the insurance coverage that we maintain will be sufficient to cover claims made against us in the future.

Reduced demand for or excess capacity of production services could adversely affect our profitability.

Our profitability in the future will depend on many factors, but largely on pricing and utilization rates for our production services. An increase in supply of production servicing rigs and equipment, without a corresponding increase in demand, or decrease in demand for production servicing rigs and equipment could decrease the pricing and utilization rates of our production services, which would adversely affect our revenues and profitability.

Our production services business depends on domestic spending by the oil and natural gas industry, and this spending and our business has been in the past, and may in the future be, adversely affected by industry and financial market conditions that are beyond our control.

We depend on our customers' willingness to make operating and capital expenditures to explore for, develop and produce oil and natural gas in the United States. Customers' expectations for lower market prices for oil and natural gas, as well as the availability of capital for operating and capital expenditures, may cause them to curtail spending, thereby reducing demand for our services and equipment.

Industry conditions are influenced by numerous factors over which we have no control, such as the supply of and demand for oil and natural gas, domestic and worldwide economic conditions, political instability in oil and natural gas producing countries and merger and divestiture activity among oil and gas producers. The volatility of the oil and natural gas industry and the consequent impact on exploration and production activity could adversely impact the level of drilling and workover activity by some of our customers. This reduction may cause a decline in the demand for our services or adversely affect the price of our services. In addition, reduced discovery rates of new oil and natural gas reserves in our market areas also may have a negative long-term impact on our business, even in an environment of stronger oil and natural gas prices, to the extent existing production is not replaced and the number of producing wells for us to service declines.

Deterioration in the global economic environment commencing in the latter part of 2008 and continuing throughout 2009 caused the oilfield services industry to cycle into a downturn due to weakened demand. The industry returned to higher activity levels in 2011 and remained higher during the first half of 2012, before another downturn in the second half of 2012, affecting natural gas prices in particular. The industry pricing remained relatively stable through the middle of 2014. However, beginning in the second half of 2014 through the end of 2015 and continued at the beginning of 2016, oil prices declined substantially from historical highs. Towards the end of 2016 we saw an increase in oil prices though they did not reach the same levels prior to the decline beginning in 2014. Any adverse changes in capital markets and declines in prices for oil and natural gas will likely cause oil and natural gas producers to announce reductions in capital budgets for future periods.

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Limitations on the availability of capital, or higher costs of capital, for financing expenditures may cause oil and natural gas producers to make further reductions to capital budgets in the future even if oil or natural gas prices increase from current levels. Any such cuts in spending will curtail drilling programs as well as discretionary spending on production services, which may result in a reduction in the demand for our services, the rates we can charge and our utilization. In addition, certain of our customers could become unable to pay their suppliers, including us. Any of these conditions or events could adversely affect our operating results.

If oil and natural gas prices remain volatile, or if oil or natural gas prices remain low or decline further, the demand for our production services could be adversely affected.

The demand for our services is primarily determined by current and anticipated oil and natural gas prices and the related general production spending and level of drilling activity in the areas in which we have operations. Volatility or weakness in oil prices or natural gas prices (or the perception that oil prices or natural gas prices will decrease) affects the spending patterns of our customers and may result in the drilling of fewer new wells or lower production spending on existing wells. This, in turn, could result in lower demand for our services and may cause lower rates and lower utilization of our production service equipment. If oil prices or natural gas prices continue to remain low or decline further, or if there is a reduction in drilling activities, the demand for our services and our results of operations could be materially and adversely affected.

Prices for oil and natural gas historically have been extremely volatile and are expected to continue to be volatile. The Cushing WTI Spot Oil Price averaged approximately $93.26, $48.68 and $43.14 per barrel in 2014, 2015 and 2016, respectively. The Henry Hub Natural Gas Spot Price averaged approximately $4.39, $2.28 and $2.52 per Mcf for 2014, 2015 and 2016, respectively.

Competition in the oil and gas exploration and production industry is intense, and many of our competitors have greater resources than we have.

We compete with national oil companies, major integrated oil and gas companies, independent oil and gas companies and other individual producers for the acquisition of licenses and leases, properties and reserves and the equipment, materials, services and employees and other contract personnel (including geologists, geophysicists, engineers and other specialists) required to explore, develop, produce and market crude oil and natural gas. Some of our competitors may have greater and more diverse resources on which to draw than we do. As a consequence, we may be at a competitive disadvantage in certain respects, such as in bidding for drilling rights, acquisition of licenses and leases, properties and reserves or in acquiring necessary services, equipment, materials and personnel. If we are not successful in our competition for oil and gas reserves or in our marketing of production, our financial condition and results of operations may be adversely affected.

Poor general economic, business, or industry conditions may have a material adverse effect on our results of operations, liquidity, and financial condition.

During the last few years, concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market, uncertainties with regard to European sovereign debt, and a declining real estate market in the United States have contributed to increased economic uncertainty and diminished expectations for the global economy. Concerns about global economic conditions have had a significant adverse impact on global financial markets and commodity prices. If the economic recovery in the United States or abroad remains prolonged, demand for petroleum products could diminish or stagnate, which could impact the price at which we can sell our oil, natural gas, and NGLs, affect our vendors', suppliers' and customers' ability to continue operations, and ultimately adversely impact our results of operations, liquidity, and financial condition.

Our hedging activities may prevent us from benefiting fully from price increases and may expose us to other risks.

In order to manage our exposure to price risks in the marketing of our oil and natural gas production, we sometimes enter into oil and natural gas price hedging arrangements with respect to a portion of our anticipated production and we may enter into additional hedging transactions in the future. While intended to reduce the effects of volatile oil and natural gas prices, such transactions may limit our potential gains and increase our potential losses if oil and natural gas prices were to rise substantially over the price established by the hedge. In addition, such transactions may expose us to the risk of loss in certain circumstances, including instances in which:

- our actual production is less than hedged volumes;
- there is a widening of price differentials between delivery points for our production and the delivery point assumed in the hedge arrangement;
- the counterparties to our hedging agreements fail to perform under the contracts; or
- a sudden unexpected event materially impacts oil and natural-gas prices.

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At the time of this report, the Company had no commodity price hedging agreements in place.

The credit risk of financial institutions could adversely affect us.

We have exposure to different counterparties, and we have entered into transactions with counterparties in the financial services industry, including commercial banks, insurance companies and other institutions. These transactions expose us to credit risk in the event of default of our counterparty. Deterioration in the credit markets may impact the credit ratings of our current and potential counterparties and affect their ability to fulfill their existing obligations to us and their willingness to enter into future transactions with us. We have exposure to these financial institutions through our derivative transactions. In addition, if any lender under our credit facility is unable to fund its commitment, our liquidity will be reduced by an amount up to the aggregate amount of such lender's commitment under our credit facility. Moreover, to the extent that purchasers of the Company's production rely on access to the credit or equity markets to fund their operations, there is a risk that those purchasers could default in their contractual obligations to the Company if such purchasers were unable to access the credit or equity markets for an extended period of time.

We have no means to market our oil and gas production without the assistance of third parties.

The marketability of our production depends upon the proximity of our reserves to, and the capacity of, facilities and third party services, including oil and natural gas gathering systems, pipelines, trucking or terminal facilities, and processing facilities. The unavailability or lack of capacity of such services and facilities could impair or delay the production of new wells or the delay or discontinuance of development plans for properties. A shut-in, delay or discontinuance could adversely affect our financial condition. In addition, regulation of oil and natural gas production transportation in the United States or in other countries may affect its ability to produce and market our oil and natural gas on a profitable basis.

Our exploration and development drilling efforts and the operation of our wells may not be profitable or achieve our targeted returns.

We require significant amounts of undeveloped leasehold acreage to further our development efforts. Exploration, development, drilling and production activities are subject to many risks, including the risk that commercially productive reservoirs will not be discovered. We invest in property, including undeveloped leasehold acreage, which we believe will result in projects that will add value over time. However, we cannot guarantee that our leasehold acreage will be profitably developed, that new wells drilled by us will be productive or that we will recover all or any portion of our investment in such leasehold acreage or wells. Drilling for oil and natural gas may involve unprofitable efforts, not only from dry wells but also from wells that are productive but do not produce sufficient net reserves to return a profit after deducting operating and other costs. In addition, wells that are profitable may not achieve our targeted rate of return. Our ability to achieve our target results is dependent upon the current and future market prices for oil and natural gas, costs associated with producing oil and natural gas and our ability to add reserves at an acceptable cost.

In addition, we may not be successful in controlling our drilling and production costs to improve our overall return. The cost of drilling, completing and operating a well is often uncertain and cost factors can adversely affect the economics of a project. We cannot predict the cost of drilling and completing a well, and we may be forced to limit, delay or cancel drilling operations as a result of a variety of factors, including:

- unexpected drilling conditions;
- pressure or irregularities in formations;
- equipment failures or accidents and shortages or delays in the availability of drilling and completion equipment and services;

adverse weather conditions, including hurricanes; and
compliance with governmental requirements.

We depend on the skill, ability and decisions of third party operators to a significant extent.

The success of the drilling, development and production of the oil and natural gas properties in which we have or expect to have a non-operating working interest is substantially dependent upon the decisions of such third-party operators and their diligence to comply with various laws, rules and regulations affecting such properties. The failure of any third-party operator to make decisions, perform their services, discharge their obligations, deal with regulatory agencies, and comply with laws, rules and regulations, including environmental laws and regulations in a proper manner with respect to properties in which we have an interest could result in material adverse consequences to our interest in such properties, including substantial penalties and compliance costs. Such adverse consequences could result in substantial liabilities to us or reduce the value of our properties, which could negatively affect our results of operations.

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We depend substantially on the continued presence of key personnel for critical management decisions and industry contacts.

Our success depends upon the continued contributions of our executive officers and key employees, particularly with respect to providing the critical management decisions and contacts necessary to manage and maintain growth within a highly competitive industry. Competition for qualified personnel can be intense, particularly in the oil and natural gas industry, and there are a limited number of people with the requisite knowledge and experience. Under these conditions, we could be unable to attract and retain these personnel. The loss of the services of any of our executive officers or other key employees for any reason could have a material adverse effect on our business, operating results, financial condition and cash flows.

Our operations in Israel may be adversely affected by unique economic, terrorist activities and political developments.

We have interests in oil and gas leases and in oil and gas licenses in the waters off Israel. These interests are a significant portion of our future production and cash flow and may be adversely affected by terrorist activities, political and economic developments, including the following:

- war, terrorist acts and civil disturbances, and other political risks;
- changes in taxation policies;
- laws and policies of the US and Israel affecting foreign investment, taxation, trade and business conduct;
- foreign exchange restrictions;
- international monetary fluctuations and changes in the value of the US dollar, such as the decline of the US dollar; and
- other hazards arising out of Israeli governmental sovereignty over areas in which we own oil and gas interests.

Oilfield service is a highly competitive, fragmented industry in which price competition could reduce our profitability.

We encounter substantial competition from other oilfield service companies. Our primary market areas are highly fragmented and competitive. The fact that production services equipment are mobile and can be moved from one market to another in response to market conditions heightens the competition in the industry and may result in an oversupply of equipment in an area. Oilfield service companies compete primarily on a regional basis, and the intensity of competition may vary significantly from region to region at any particular time. If demand for drilling or production services improves in a region where we operate, our competitors might respond by moving in suitable rigs and production services equipment from other regions. An influx of equipment from other regions could rapidly intensify competition, reduce profitability and make any improvement in demand for production services short-lived.

Most production services contracts are awarded on the basis of competitive bids, which also results in price competition. In addition to pricing and equipment availability, we believe the following factors are also important to our clients in determining which production services provider to select:

- the type and condition of each of the competing production servicing rigs;
- the quality of service and experience of the crews;
- the safety record of the company providing the services; and
- the offering of ancillary services;

We could be adversely affected if shortages of equipment, supplies or personnel occur.

From time to time there have been shortages of production services equipment and supplies during periods of high demand which we believe could recur. Shortages could result in increased prices for production services equipment or supplies that we may be unable to pass on to clients. In addition, during periods of shortages, the delivery times for equipment and supplies can be substantially longer. Any significant delays in our obtaining production services equipment or supplies could limit production services operations and jeopardize our relations with clients. In addition, shortages of production services equipment or supplies could delay and adversely affect our ability to obtain new contracts for our rigs, which could have a material adverse effect on our financial condition and results of operations.



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Our operations require the services of employees having the technical training and experience necessary to achieve the proper operational results. As a result, our operations depend, to a considerable extent, on the continuing availability of such personnel. Shortages of qualified personnel have occurred in our industry. If we should suffer any material loss of personnel to competitors or be unable to employ additional or replacement personnel with the requisite level of training and experience to adequately operate our equipment, our operations could be materially and adversely affected. A significant increase in the wages paid by other employers could result in a reduction in our workforce, increases in wage rates, or both. The occurrence of either of these events for a significant period of time could have a material adverse effect on our financial condition and results of operations.

There are limitations with regard to sales of Tamar Field Production

As noted above, we own an interest in the Tamar Field located offshore Israel. This interest in 2016 accounted for approximately 50% of our consolidated revenues and we expect the interest as a percentage of consolidated revenues to increase significantly if and when payout occurs. We note that the government of Israel allows the owners of Tamar Field production to export fifty percent (50%) of the production that has not yet been committed to supply the Israel domestic market as of the date of the government's decision in this regard. Accordingly, production from Tamar must first satisfy the minimum amount required to supply the Israeli economy.

If our customers delay paying or fail to pay a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

In most cases, we bill our customers for our services in arrears and are, therefore, subject to our customers delaying or failing to pay our invoices. In weak economic environments, we may experience increased delays and failures due to, among other reasons, a reduction in our customers' cash flow from operations and their access to the credit markets. If our customers delay paying or fail to pay us a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

We may be unable to implement price increases or maintain existing prices on our core services.

We periodically seek to increase the prices of our services to offset rising costs and to generate higher returns for our stockholders. However, we operate in a very competitive industry and as a result, we are not always successful in raising, or maintaining our existing prices. Additionally, during periods of increased market demand, a significant amount of new service capacity, including new production services rigs may enter the market, which also puts pressure on the pricing of our services and limits our ability to increase or maintain prices. Furthermore, during periods of declining pricing for our services, we may not be able to reduce our costs accordingly, which could further adversely affect our profitability.

Even when we are able to increase our prices, we may not be able to do so at a rate that is sufficient to offset such rising costs. In periods of high demand for oilfield services, a tighter labor market may result in higher labor costs. During such periods, our labor costs could increase at a greater rate than our ability to raise prices for our services. Also, we may not be able to successfully increase prices without adversely affecting our activity levels. The inability to maintain our prices or to increase our prices as costs increase could have a material adverse effect on our business, financial position and results of operations.

A member of Isramco's management team owns a significant amount of common stock, giving him influence or control in corporate transactions and other matters, and the interests of these individuals could differ from those other shareholders.

Haim Tsuff, the Company's President, Chief Executive Officer and Chairman of the Board of Directors, individually and through companies that he beneficially controls own over 72% of our outstanding shares of common stock as of

March 10, 2016. As a result, Haim Tsuff is in a position to significantly influence or control the outcome of matters requiring a shareholder vote, including the election of directors, the adoption of an amendment to our certificate of incorporation or bylaws, and the approval of mergers and acquisitions, and other significant corporate transactions.

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Our stock price is volatile, could continue to be volatile and has limited liquidity; Accordingly, investors may not be able to sell any significant number of shares of our stock at prevailing market prices.

Investor interest in our common stock may not lead to the development of an active or liquid trading market. The market price of our common stock has fluctuated in the past and is likely to continue to be volatile and subject to wide fluctuations. In addition, the stock market has experienced extreme price and volume fluctuations. The stock prices and trading volumes for our stock has fluctuated widely and the average daily trading volume of our stock continues to be limited and may continue for reasons that may be unrelated to business or results of operations. General economic, market and political conditions could also materially and adversely affect the market price of our common stock and investors may be unable to resell their shares of common stock at or above their purchase price. As a result of the limited trading in our stock, it may be difficult for investors to sell their shares in the public market at any given time at prevailing prices.

We have not paid dividends on our common stock and do not plan to declare dividends in the foreseeable future, and therefore only appreciation of the price of our common stock will provide a return to our shareholders.

We have not paid or declared any dividends on our common stock and currently intend to retain any earnings to fund our working capital needs, reduce debt and fund growth opportunities. Any future dividends will be at the discretion of our board of directors after taking into account various factors it deems relevant, including our financial condition and performance, cash needs, income tax consequences and restrictions imposed by the Texas Business Organizations Code and other applicable laws.

The Company could be impacted by unfavorable results of legal proceedings.

The Company is subject to various legal proceedings, disputes and claims that have not yet been fully resolved, and additional disputes and claims may arise in the future. Results of legal proceedings are subject to significant uncertainty and, regardless of the merit of the claims, these legal proceedings may be expensive, time-consuming, and disruptive to the Company’s operations and management. The Company may enter into arrangements to settle legal proceedings and other disputes in an attempt to mitigate against the foregoing risks. However, the Company cannot guarantee a favorable result with respect to any resolution of a legal proceeding, whether by settlement or otherwise. If one or more of these legal proceedings were resolved against the Company in a reporting period for amounts in excess of the Company’s expectations, such resolution could result in a material adverse effect on our business, financial position and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Oil and Gas Exploration and Production - Properties and Reserves

We own varying working interests in oil and gas wells in Louisiana, Texas, New Mexico, Oklahoma, Wyoming, Utah and Colorado. We currently serve as operator of over 500 producing wells most of which are located in Texas and New Mexico. Moreover, we own interests in properties operated by third party entities. In many instances, the Company does not have, nor is it entitled to, information pertaining to certain matters such as (i) whether shut-in or temporarily abandoned wells operated by these third parties are mechanically capable of production, (ii) whether third party operators have obtained leases in which the Company would be contractually entitled to participate (being undeveloped acreage), and, in some instances or (iii) the gross and net acreage maintained in the leases included in the contract area under the operative joint operating agreements. Due to the nature of some third party operations (e.g., field wide units), to the Company cannot ascertain the total number of wells drilled within a particular project area and whether each well within such project area is productive. In some instances, third parties operate properties (e.g. field wide units and leases covering a large amount of acreage) where production, revenue and expenses for the property are aggregated and reported as a single property. Accordingly, well information with regard to such properties is not always available to Isramco. In addition, most of the Company's operated wells are legacy assets and, accordingly, were drilled and operated for several years by our predecessors in title. Therefore, at this time, the Company is conducting a review of the terms and conditions of each lease covering our operated assets to determine the acreage held by the underlying oil and gas leases and the Company is also examining shut-in wells to ascertain whether these wells are mechanically capable of production in their current state. Moreover, we are working with the operators of our non-operated assets to obtain similar information with regard to such properties. The Company expects to complete this review in the near future. Currently, we do not own any interest in undeveloped acreage.

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Drilling Activities

During the year ended December 31, 2015 we drilled and completed two development wells in North Texas. No new wells were drilled in 2016.

Reserve Information. For estimates of Isramco's net proved reserves of natural gas, crude oil and natural gas liquids, see Note 13 to Consolidated Financial Statements, "Supplemental Oil and Gas Information".

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the producer. The reserve data set forth in Note 13 to Consolidated Financial Statements, "Supplemental Oil and Gas Information", represent only estimates. Reserve engineering is a subjective process of estimating underground accumulations of natural gas, crude oil and condensate and natural gas liquids that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the amount and quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers normally vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimate (upward or downward). Accordingly, reserve estimates are often different from the quantities ultimately recovered. The meaningfulness of such estimates is highly dependent upon the accuracy of the assumptions upon which they were based. For related discussion, see ITEM 1A. Risk Factors.

We believe that we have satisfactory title to the properties owned and used in our business, subject to liens for taxes not yet payable, liens incident to minor encumbrances, liens for credit arrangements and easements and restrictions that do not materially detract from the value of these properties, our interests in these properties, or the use of these properties in our business. We believe that our properties are adequate and suitable for us to conduct business in the future.

Controls Over Reserve Estimates

The Company's policies and practices regarding internal controls over the recording of reserves are structured to objectively and accurately estimate our oil and gas reserves quantities and present values in compliance with the SEC's regulations and GAAP. The Company relies on third party professionals to integrate geological, geophysical, engineering and economic data to produce the Company's reserve reports, which are utilized for its filings with the Commission. Our internal controls over reserves estimates include the following:

- A reserve report covering 100% of our proved reserves in the United States is prepared by Cawley, Gillespie and Associates, Inc., a third-party petroleum consulting firm, on an annual basis;

- A reserve report covering 100% of our interests in Israel is prepared by Netherland, Sewell & Associates, Inc. ("NSAI"), a third-party petroleum consulting firm, on an annual basis; and

- Senior Management of the Company reviews and examines the reserve reports generated by third parties and conducts an internal evaluation of the assumptions underlying material changes to reserves on an annual basis.

The reserves estimates shown for our U.S. properties have been independently evaluated by Cawley, Gillespie and Associates, Inc. The technical person at Cawley, Gillespie and Associates primarily responsible for preparing the estimates set forth in the reserves report incorporated herein is Mr. Robert D. Ravnaas. Mr. Ravnaas is a Petroleum Engineer and the President of Cawley, Gillespie and Associates, Inc. He attended the University of Colorado at Boulder from 1975-1979 and graduated with a Bachelor of Science degree in Chemical Engineering. Mr. Ravnaas also attended the University of Texas at Austin from 1979-1981 and graduated with a Master of Science degree in Petroleum Engineering. He is a registered Professional Engineer with the Texas Board of Professional Engineers (No. 61304) and a member of the Texas Society of Professional Engineers. Mr. Ravnaas has in excess of 30 years' experience in oil and gas reservoir studies and evaluations.

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The reserves estimates shown for overriding royalty interest in the Tamar field have been independently evaluated by Netherland, Sewell & Associates, Inc. (NSAI), a worldwide leader of petroleum property analysis for industry and financial organizations and government agencies. NSAI was founded in 1961 and performs consulting petroleum engineering services under Texas Board of Professional Engineers Registration No. F-2699. Within NSAI, the technical persons primarily responsible for preparing the estimates set forth in the NSAI reserves report incorporated herein are Mr. Richard B. Talley, Jr. and Mr. Zachary R. Long. Mr. Talley, a Licensed Professional Engineer in the State of Texas (No. 102425), has been practicing consulting petroleum engineering at NSAI since 2004 and has over 5 years of prior industry experience. He graduated from University of Oklahoma in 1998 with a Bachelor of Science Degree in Mechanical Engineering and from Tulane University in 2001 with a Master of Business Administration Degree. Mr. Long, a Licensed Professional Geoscientist in the State of Texas, Geology (No. 11792), has been practicing consulting petroleum geoscience at NSAI since 2007 and has over 2 years of prior industry experience. He graduated from University of Louisiana at Lafayette in 2003 with a Bachelor of Science Degree in Geology and from Texas A&M University in 2005 with a Master of Science Degree in Geophysics. Both technical principals meet or exceed the education, training, and experience requirements set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers; both are proficient in judiciously applying industry standard practices to engineering and geoscience evaluations as well as applying SEC and other industry reserves definitions and guidelines.

ITEM 3. LEGAL PROCEEDINGS

On or about September 21, 2011, the Company’s former Vice President and General Counsel, Dennis Holifield resigned. Mr. Holifield had been hired in March 2011. On or about October 12, 2011, Mr. Holifield submitted a “Summary Report” to the SEC (the “Summary Report”), in which made numerous factual allegations regarding Haim Tsuff, the Company‘s Chief Executive Officer, Chairman, and President; Edy Francis, the Company’s Chief Financial Officer; Amir Sanker, the Company’s Asset Manager; and other Company personnel. In the Summary Report, Mr. Holifield characterized the alleged conduct as illegal or criminal. On November 3, 2011, the Company’s Board of Directors constituted a committee of independent directors consisting of Max Pridgeon and Asaf Yarkoni, referred to as the Special Investigative Committee of the Board of Directors (“SIC”) which was directed to investigate all of the Holifield allegations and report back to the full board and make any recommendations, if any, for corrective action. On January 7, 2013, SIC made their final report to the Board of Directors of the conclusions and results of the fourteen-month investigation into the allegations made by Mr. Holifield. The SIC determined that Mr. Holifield’s allegations were not supported by any available documentary evidence or by any statements made by former or current Isramco, Inc., directors, management, or employees interviewed by the SIC or its counsel. The SIC also determined that the Company had not engaged in wrongdoing of any sort including any unlawful or unethical business practices, any lapses in financial controls, or any governance issues that require redress or reform.

On September 10, 2013, the Company filed suit against Mr. Holifield in Cause No. 201352927 of the 270th Judicial District Court of Harris County, Texas, to collect damages estimated in the amount of $1,000,000.00 owing to the Company by virtue of Mr. Holifield’s actions, which are alleged in the suit to include, but are not limited to, negligence, negligence per se, gross negligence, and breach of fiduciary duty owed to the Company. In response, in December 2013, Mr. Holifield filed a pro se answer which included counterclaims and a summary judgment motion. In his counterclaims. Mr. Holifield seeks to recover from the Company the following damages, inter alia: (i) over $2,000,000 for loss of income and failure to secure gainful employment arising from his constructive discharge or termination by the Company; (ii) over $2,000,000 for loss of earnings due to his alleged inability to obtain gainful employment by virtue of the damage caused to his professional reputation by alleged willful and deliberate acts of Haim Tsuff, Edy Francis, and Amir Sanker, (iii) over $2,000,000 due to the intentional infliction of emotional distress to Mr. Holifield; (iv) an amount estimated at $5,000,000 arising from Mr. Holifield’s claim that the Company violated the Racketeer Influenced Corrupt Organizations Act, by engaging in racketeering and conspiracy; (v) over $5,000,000 arising from the Company’s alleged fraudulent misrepresentation regarding Isramco’s purpose in hiring Mr. Holifield and (vi) other relief. The Company believes Mr. Holifield’s counter claims have no merit. The Company intends to vigorously (i) pursue its case against Mr. Holifield and (ii) defend against Mr. Holifield's counterclaims.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on the NASDAQ Capital Market under the symbol "ISRL". The following table sets forth for the periods indicated, the reported high and low closing prices for our common stock. As of March 10, 2017, there were approximately 155 holders of record of our common stock.

| | High | Low |
|---|---|---|
| 2016 | | |
| First Quarter | $88.11 | $72.43 |
| Second Quarter | 99.93 | 75.70 |
| Third Quarter | 85.00 | 78.00 |
| Fourth Quarter | 124.30 | 82.90 |

| | | |
|---|---|---|
| 2015 | | |
| First Quarter | $141.40 | $117.00 |
| Second Quarter | 139.94 | 117.10 |
| Third Quarter | 144.80 | 96.92 |
| Fourth Quarter | 108.96 | 85.40 |

We have never paid cash dividends on our common stock. We intend to retain earnings for use in the operation and expansion of our business and therefore do not anticipate declaring cash dividends on our common stock in the foreseeable future. Any future determination to pay dividends on common stock will be at the discretion of the board of directors and will be dependent upon then existing conditions, including other factors, as the board of directors deems relevant.

## ITEM 6. SELECTED FINANCIAL DATA

The table below contains selected consolidated financial data derived from our Consolidated Financial Statements. The data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and the related notes included elsewhere in this report.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| (thousands, except share and per share amounts) | 2016 | 2015 | 2014 | 2013 | 2012 |
| Revenues and Income (Loss) | | | | | |
| Total Revenues | 54,942 | 74,509 | 93,898 | 68,692 | 50,430 |
| Net Income (Loss) | 6,745 | (17,310) | 5,162 | (6,710) | 2,221 |
| Per Share Data | | | | | |
| Earnings (Loss) Per Share - Basic | 2.48 | (6.37) | 1.90 | (2.47) | 0.82 |
| Earnings Per Share - Diluted | 2.48 | (6.37) | 1.90 | (2.47) | 0.82 |
| Cash Dividends Per Share | - | - | - | - | - |
| Year-End Stock Price Per Share | 124.30 | 89.31 | 138.00 | 127.05 | 103.99 |
| Weighted Average Shares Outstanding | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 |
| Basic | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 |
| Diluted | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 |
| Total Assets | 141,272 | 146,957 | 158,864 | 157,913 | 153,958 |
| Long-term Obligations | 116,289 | 124,567 | 92,674 | 114,849 | 99,413 |
| Long-Term Debt & Long-Term Accrued Interest | 95,441 | 104,252 | 72,628 | 96,035 | 81,505 |

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ITEM 7. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING COMMENTARY SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES CONTAINED ELSEWHERE IN THIS FORM 10-K. THE DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THESE STATEMENTS RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. IN SOME CASES, YOU CAN IDENTIFY THESE FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "PLAN," "ANTICIPATE," "BELIEVE," "ESTIMA "PREDICT," "POTENTIAL," "INTEND," OR "CONTINUE," AND SIMILAR EXPRESSIONS. THESE STATEMENTS ARE ONLY PREDICTIONS. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF A VARIETY OF FACTORS, INCLUDING, BUT NOT LIMITED TO, THOSE SET FORTH UNDER "RISK FACTORS" AND ELSEWHERE IN THIS FORM 10-K.

Overview

We are an independent oil and natural gas company engaged in the exploration, development, and production of oil and natural gas properties located onshore in the United States and an owner of various royalty interests offshore Israel. Our properties are primarily located in Texas, New Mexico and Oklahoma. We act as the operator of most of our U.S. properties. Historically, we have grown through acquisitions, with a focus on properties within our core operating areas that we believe have significant development and exploration opportunities and where we can apply our technical experience and economies of scale to increase production and proved reserves while lowering lease operating costs. In August, 2011 we created a new production services subsidiary that began operations in October 2011. As of December 2016, the subsidiary had 33 deployed production services rigs and various trucks that operate primarily in Texas and New Mexico. The Company provides a full range of production services such as well completion and wellbore maintenance, workover, fluid transportation and plugging and abandonment services.

Oil and Gas Exploration and Production Segment

Our financial results depend upon many factors, but are largely driven by the volume of our oil and natural gas production and the price that we receive for that production. Our production volumes will decline as reserves are depleted unless we expend capital in successful development and exploration activities or acquire additional properties with existing production. The amount we realize for our production depends predominantly upon commodity prices, which are affected by changes in market demand and supply, as impacted by overall economic activity, weather, pipeline capacity constraints, inventory storage levels, quality, basis differentials and other factors, and secondarily upon our commodity price hedging activities. Accordingly, finding and developing oil and natural gas reserves at economical costs is critical to our long-term success. Our future drilling plans are subject to change based upon various factors, some of which are beyond our control, including drilling results, oil and natural gas prices, the availability and cost of capital, drilling and production costs, availability of drilling services and equipment, gathering system and pipeline transportation constraints and regulatory approvals. To the extent these factors lead to reductions in our drilling plans and associated capital budgets in future periods, our financial position, cash flows and operating results could be adversely impacted.

We own all ownership units in Tamar Royalties, LLC, which owns an overriding royalty interest of 1.5375% in the Tamar Field, which will increase to 2.7375% after payout (collectively the "Tamar Royalty"). An overriding royalty interest is an ownership interest in the oil and gas leasehold estate equating to a certain percentage of production or production revenues, calculated free of the costs of production and development of the underlying lease(s), but subject to its proportionate share of certain post production costs. An overriding royalty interest is a non-possessory interest in the oil and gas leasehold estate and, accordingly, we have no control over the operations, drilling, expenses, timing, production, sales, or any other aspect of development or production of the Tamar Field.

The Tamar Field project began production in March 2013 and is now operational and delivering natural gas to Israel. The natural gas flows from the Tamar Field through the world's longest subsea tieback, more than 90 miles to the Tamar platform, and then to the Ashdod onshore terminal.

As noted above with regard to the payout of the Tamar Field, a disagreement between the Company and Isramco Negev 2 Limited Partnership has emerged as to whether the financing costs of Isramco Negev 2 Limited Partnership may be included in the calculation of payout. The disagreement largely stems from the fact that the agreements governing the creation of the Tamar Royalty were formulated in the 1980s and do not have a clear and unequivocal definition as to what costs should be included in the payout calculation. The Company believes that the total scope of the disagreement is approximately fifteen million dollars ($15,000,000). Under the terms of the agreements creating the Tamar Royalty, the dispute is subject to arbitration in Israel. The Company expects that the matter will be resolved through this arbitration process. However, the Company cannot be assured of a favorable result resulting from this arbitration process.

During year ended December 31, 2016, net sales from the Tamar Field attributable to Isramco amounted to 5,102,000 Mcf of natural gas and 6,882 Bbl of condensate with prices of $5.34 per Mcf and $37.48 per Bbl of condensate. Total revenues net of marketing and transportation expenses were $27,462,000. The Israeli Tax Authority withheld $6,866,000, of this revenue which is recognized as a future tax credit, an asset on the Company's consolidated balance sheets.

During the year ended December 31, 2015, net sales from the Tamar Field attributable to the Company amounted to 4,505,000 Mcf of natural gas and 6,074 Bbl of condensate with prices of $5.52 per Mcf and $46.53 per Bbl of condensate. Total revenues net of marketing and transportation expenses were $25,151,000. The Israeli Tax Authority withheld $6,665,000, of this revenue which is recognized as a deferred tax credit, an asset on the Company's consolidated balance sheets.

At December 31, 2016, our estimated total proved oil, natural gas reserves and natural gas liquids, as prepared by our independent reserve engineering firms, Netherland, Sewell & Associates, Inc. and Cawley, Gillespie & Associates, Inc., were approximately 34,581 thousand barrels of oil equivalent ("MBOE"), consisting of 1,609 thousand barrels (MBbls) of oil, 193,269 million cubic feet (MMcf) of natural gas and 761 thousand barrels (MBbls) of natural gas liquids. Approximately 78.2% of our proved reserves were classified as proved developed (See Note 13, "Supplemental Oil and Gas Information"). Full year 2016 production averaged 3.80 MBOE/d compared to 3.78 MBOE/d in 2015. Tamar Field production share amounted to 2.35 MBOE/d out of total 3.78 MBOE/d compared to 2.07 MBOE/d in 2015.

Production Services Segment

Our core businesses depend on our customers' willingness to make expenditures to produce, develop and explore for oil and natural gas in the United States. Industry conditions are influenced by numerous factors, such as the supply of and demand for oil and natural gas, domestic and worldwide economic conditions, political instability in oil producing countries and merger and divestiture activity among oil and natural gas producers. The volatility of the oil and natural gas industry, and the consequent impact on exploration and production activity, could adversely impact the level of workover activity by some of our customers. This volatility also affects the demand for our services and the price of our services. In addition, the discovery rate of new oil and natural gas reserves in our market areas also may have an impact on our business, even in an environment of stronger oil and natural gas prices.

We derive a majority of our revenues from services supporting production from existing oil and natural gas operations including in moderate oil and natural gas price environments, ongoing maintenance spending is generally required to sustain production. However, in a low commodity price environment our customers may reduce their budgets resulting in reduced demand for our services. As oil and natural gas prices reach higher levels, demand for all of our services generally increases as our customers engage in more well servicing activities relating to existing wells to maintain or increase oil and natural gas production from those wells. Because our services are required to support drilling and workover activities, our revenues will vary based on changes in capital spending by our customers as oil and natural gas prices increase or decrease.

The production services market is highly competitive. Competition is influenced by such factors as price, capacity, availability of work crews, and reputation and experience of the service provider. We believe that an important competitive factor in establishing and maintaining long-term customer relationships is having an experienced, skilled and well-trained work force. We believe many of our larger customers place increased emphasis on the safety, performance and quality of the crews, equipment and services provided by their contractors. Although we believe customers consider all of these factors, price is often the primary factor in determining which service provider is awarded the work. However, in numerous instances, we secure and maintain work from large customers for which efficiency, safety, technology, size of fleet and availability of other services are of equal importance to price.

The demand for our services fluctuates, primarily in relation to the price (or anticipated price) of oil and natural gas, which, in turn, is driven primarily by the supply of, and demand for, oil and natural gas. Generally, as supply of those commodities decreases and demand increases, service and maintenance requirements increase as oil and natural gas producers attempt to maximize the productivity of their wells in a higher priced environment. However, in a lower oil and natural gas price environment, demand for service and maintenance generally decreases as oil and natural gas producers decrease their activity. In particular, the demand for new or existing field drilling and completion work is driven by available investment capital for such work. Oil and natural gas producers generally tend to be less risk tolerant when commodity prices are low or volatile, we may experience a more rapid decline in demand for well maintenance services compared with demand for other types of oilfield services. Further, in a low commodity price environment, fewer production services rigs are needed for completions, as these activities are generally associated with drilling activity. The plugging and abandonment work is less affected by prices and generally driven by state regulations and have smaller variations in demand.

The level of our revenues, earnings and cash flows are substantially dependent upon, and affected by, the level of U.S. oil and natural gas exploration, development and production activity, as well as the equipment capacity in any particular region.

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## Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect our reported results of operations and the amount of reported assets, liabilities and proved oil and natural gas reserves. Some accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. Actual results may differ from the estimates and assumptions used in the preparation of our consolidated financial statements. Described below are the most significant policies we apply in preparing our consolidated financial statements, some of which are subject to alternative treatments under accounting principles generally accepted in the United States. We also describe the most significant estimates and assumptions we make in applying these policies.

### Oil and Natural Gas Activities

Accounting for oil and natural gas activities is subject to unique rules. Two generally accepted methods of accounting for oil and natural gas activities are available - successful efforts and full cost. The most significant differences between these two methods are the treatment of unsuccessful exploration costs and the manner in which the carrying value of oil and natural gas properties are amortized and evaluated for impairment. The successful efforts method requires unsuccessful exploration costs to be expensed as they are incurred upon a determination that the well is uneconomical, while the full cost method provides for the capitalization of these costs. Both methods generally provide for the periodic amortization of capitalized costs based on proved reserve quantities. Impairment of oil and natural gas properties under the successful efforts method is based on an evaluation of the carrying value of individual oil and natural gas properties against their estimated fair value, while impairment under the full cost method requires an evaluation of the carrying value of oil and natural gas properties included in a cost center against the net present value of future cash flows from the related proved reserves, using period-end prices and costs and a 10% discount rate. We account for our natural gas and crude oil exploration and production activities under the successful efforts method of accounting.

### Proved Oil and Natural Gas Reserves

Isramco estimates its proved oil and gas reserves as defined by the SEC and the FASB. This definition includes crude oil, natural gas, and NGLs that geological and engineering data demonstrate with reasonable certainty to be economically producible in future periods from known reservoirs under existing economic conditions, operating methods, government regulations, etc., i.e., at prices and costs as of the date the estimates are made. Prices include consideration of price changes provided only by contractual arrangements, and do not include adjustments based upon expected future conditions.

The Company’s estimates of proved reserves are made using available geological and reservoir data, as well as production performance data. These estimates are reviewed annually by our independent reserve engineering firm, Cawley, Gillespie & Associates, Inc and Netherland, Sewell & Associates, Inc. and revised, either upward or downward, as warranted by additional data. Revisions are necessary due to changes in, among other things, reservoir performance, prices, economic conditions, and governmental restrictions, as well as changes in the expected recovery associated with infill drilling. Decreases in prices, for example, may cause a reduction in some proved reserves due to reaching economic limits earlier. A material adverse change in the estimated volumes of proved reserves could have a negative impact on depreciation, depletion and amortization expense (DD&A) and could result in property impairments.

### Depreciation, Depletion and Amortization

Our rate of recording DD&A is primarily dependent upon our estimate of proved reserves, which is utilized in our unit-of-production method calculation. If the estimates of proved reserves were to be reduced, the rate at which we record DD&A expense would increase, reducing net income. Such a reduction in reserves may result from lower market prices, which may make it non-economic to drill for and produce higher cost reserves.

Our production services equipment and tools are carried at cost less accumulated depreciation. Depreciation is provided for our assets over the estimated depreciable lives of the assets using the straight-line method. We depreciate our operational assets over their depreciable lives to their salvage value, which is a fair value higher than the assets' value as scrap. When we scrap an asset, we accelerate the depreciation of the asset down to its salvage value. When we dispose of an asset, a gain or loss is recognized.

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Impairment

We review our property and equipment in accordance with Accounting Standards Codification (ASC) 360, Property, Plant, and Equipment (ASC 360). ASC 360 requires us to evaluate property and equipment as an event occurs or circumstances change that would more likely than not reduce the fair value of the property and equipment below the carrying amount. If the carrying amount of property and equipment is not recoverable from its undiscounted cash flows, then we would recognize an impairment loss for the difference between the carrying amount and the current fair value. Further, we evaluate the remaining useful lives of property and equipment at each reporting period to determine whether events and circumstances warrant a revision to the remaining depreciation periods.

Asset Retirement Obligations

We have significant obligations to remove tangible equipment and facilities associated with our oil and gas wells and to restore land at the end of oil and gas production operations. Our removal and restoration obligations are most often associated with plugging and abandoning wells. Estimating the future restoration and removal costs is difficult and requires us to make estimates and judgments because most of the removal obligations we have will be take effect in the future. Additionally, these operations are subject to private contracts and government regulations that often have vague descriptions of what is required. Asset removal technologies and costs are constantly changing, as are regulatory, political, environmental, safety and public relations considerations. Inherent in the present value calculations are numerous assumptions and judgments including the ultimate removal cost amounts, inflation factors, credit adjusted discount rates, timing of obligations and changes in the legal, regulatory, environmental and political environments.

Accounting for Derivative Instruments and Hedging Activities

We have and may utilize derivative contracts to hedge against the variability in cash flows associated with the forecasted sale of our anticipated future oil and natural gas production. We may generally hedge a substantial, but varying, portion of our anticipated oil and natural gas production for the next years. We do not use derivative instruments for trading purposes. We have elected not to apply hedge accounting to our derivative contracts, which would potentially allow us to not record the change in fair value of our derivative contracts in the consolidated statements of operations. We carry our derivatives at fair value on our consolidated balance sheets, with the changes in the fair value included in our consolidated statements of operations in the period in which the change occurs.

Environmental Obligations, Litigation and Other Contingencies

Management makes judgments and estimates in accordance with applicable accounting rules when it establishes reserves for environmental remediation, litigation, and other contingent matters. Provisions for such matters are charged to expense when it is probable that a liability is incurred and reasonable estimates of the liability can be made. Estimates of environmental liabilities are based on a variety of matters, including, but not limited to, the stage of investigation, the stage of the remedial design, evaluation of existing remediation technologies, and presently enacted laws and regulations. In future periods, a number of factors could significantly change the Company’s estimate of environmental-remediation costs, such as changes in laws and regulations, changes in the interpretation or administration of laws and regulations, revisions to the remedial design, unanticipated construction problems, identification of additional areas or volumes of contaminated soil and groundwater, and changes in costs of labor, equipment, and technology. Consequently, it is not possible for management to reliably estimate the amount and timing of all future expenditures related to environmental or other contingent matters and actual costs may vary significantly from the Company’s estimates. The Company’s in-house legal counsel regularly assesses these contingent liabilities and, in certain circumstances, consults with third-party legal counsel or consultants to assist in forming the Company’s conclusion.

Income Taxes

The Company follows ASC 740, Income Taxes, (ASC 740), which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred tax assets and liabilities are computed using the liability method based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

A valuation allowance is provided, if necessary, to reserve the amount of net operating loss and net deferred tax assets which the Company may not be able to use because of the expiration of maximum carryover periods allowed under applicable tax codes.



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Liquidity and Capital Resources

Our primary source of cash during the year ended December 31, 2016, was net cash flow from operating activities. We continuously monitor our liquidity and evaluate our development plans in light of a variety of factors, including, but not limited to, our cash flows, capital resources and drilling success.

Our future capital resources and liquidity may depend, in part, on our success in developing the leasehold interests that we have acquired. Cash is required to fund capital expenditures necessary to offset inherent declines in production and proven reserves, which is typical in the capital-intensive oil and gas industry. Future success in growing reserves and production will be highly dependent on the capital resources available and our success in finding and acquiring additional reserves. Our production services subsidiary also requires capital resources to acquire and maintain equipment. We expect to fund our future capital requirements through internally generated cash flows, and borrowings under loans and the credit facilities described below. Long-term cash flows are subject to a number of variables, including the level of production, prices, amount of work orders received, and our commodity price hedging activities, as well as various economic conditions that have historically affected the oil and natural gas industry.

On May 18, 2015, Tamar Royalties LLC ("Tamar Royalties"), a newly formed, wholly-owned, special purpose subsidiary of the Company entered into a term loan credit agreement (the "DB Facility") with Deutsche Bank Trust Company Americas ("Deutsche Bank") in the amount of $120,000,000 secured by the Company's interest in the Tamar field. Interest on the borrowing is subject to fluctuations in LIBOR. The Company entered into interest rate swap agreements in relation to this borrowing. The terms of the agreement and swaps are disclosed in Notes 3 and 4.

On June 30, 2015, the Company obtained a credit facility (the "SG Facility") with The Société Générale. The SG facility provided for a commitment by The Société Générale of $150,000,000, subject to an initial borrowing base of $40,000,000. The tenor of the SG Facility was four (4) years and it was secured by certain onshore United States oil and gas properties. Interest on borrowing was variable as disclosed in Note 4 "Long-Term Debt and Interest Expense". On February 28, 2017 the SG Facility was terminated.

During the year ended December 31, 2016, our cash increased by $4,012,000. Specifically, net cash from operating activities of $15,510,000, was offset by cash used in financing activities of $10,691,000 and cash used in investing activities of $807,000.

(See Item 1A "Risk Factors").

Commitments and Contingencies

As is common within the oil and natural gas industry, we have entered into various commitments and operating agreements related to the exploration and development of and production from proved oil and natural gas properties. It is our belief that such commitments will be met without a material adverse effect on our financial position, results of operations or cash flows.

Contractual Obligations: Aggregate maturities of contractual obligations at December 31, 2016 are due in future years as follows (in thousands):

Principal Payments on Long-term debt:

| | |
|---|---|
| 2017 | 9,600 |
| 2018 | 18,900 |
| 2019 | 21,900 |
| 2020 | 17,100 |

| | |
|---|---|
| 2021 | 14,700 |
| 2022 | 14,400 |
| 2023 | 11,400 |
| Total | $108,000 |

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Debt

| | As of December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (In thousands except percentage) | | |
| Long – term debt net of discount and bank fees | 95,441 | 104,252 | - |
| Long – term debt – related party (1) | - | - | 94,548 |
| Current maturities of long-term debt, short-term debt, net of current portion of discount and debt cost and bank overdraft | 9,147 | 9,952 | 1,306 |
| Total debt | 104,588 | 114,204 | 95,854 |
| Stockholders' equity (deficit) | 2,016 | (2,868 ) | 18,120 |
| Debt to capital ratio | 98 % | 100 % | 84 % |

(1) The amounts are exclusive of accrued interest.

At year-end 2016, our total debt was $104,588,000 compared to total debt of $114,204,000 at year-end 2015 and $95,854,000 at year-end 2014.

Bank Loan and Credit Facility

The Deutsche Bank Facility

On May 18, 2015, Tamar Royalties LLC ("Tamar Royalties"), a newly formed, wholly-owned, special purpose subsidiary of the Company, entered into a term loan credit agreement (the "DB Facility") with Deutsche Bank Trust Company Americas ("Deutsche Bank"), as facility agent for the lenders and as collateral agent for the secured parties, and with the lenders party thereto. The DB Facility provides for borrowings in the amount of $120,000,000 on a committed basis and is secured by, among other things, an overriding royalty interest in the Tamar Field, a natural gas field in the Mediterranean Sea, equal to 1.5375%, but is subject to increase to 2.7375% upon the Tamar project payout (the "Royalty Interest"). In connection with the DB Facility, and pursuant to a royalties sale and contribution agreement, the Company contributed the Royalty Interest to Tamar Royalties in exchange for all of the ownership units of Tamar Royalties. Pursuant to the terms of its governing documents, Tamar Royalties will be managed by N.M.A. Energy Resources Ltd, a related party of the Company, and an independent manager, Donald J. Puglisi.

Pursuant to the terms of the DB Facility, Tamar Royalties borrowed $120,000,000 in its initial borrowing under this facility. The initial borrowing under the DB Facility bears annual interest based on the LIBOR for a three-month interest period plus a spread of 2.75%. The $120,000,000 initial borrowing under the DB Facility will be repaid over eight (8) years commencing July 1, 2015, in accordance with an amortization profile based on projected cash flows from the Royalty Interest. Tamar Royalties's obligations under the Facility are secured by a first ranking pledge of the shares of Tamar Royalties, first ranking pledge of all rights under the agreements creating the Royalty Interest, and a first priority security interest over the accounts created under the DB Facility.

So long as any amounts remain outstanding to the Lenders under the DB Facility, Tamar Royalties must, from and after the end of the Availability Period (as defined in the DB Facility), have a Historical Debt Service Coverage Ratio (as defined in the DB Facility) of not less than 1.00:1.00, a Loan Life Coverage Ratio (as defined in the DB Facility) of at least 1.1:1.00, and maintain a Required Reserve Amount (as defined in the DB Facility). The initial Required

Reserve Amount was $4,680,000 as of June 30, 2015 and recorded as “Restricted cash- long-term” on the Consolidated Balance Sheets. In addition, Tamar Royalties is required under the DB facility to hedge against fluctuations in LIBOR as reflected in Note 3 “Financial Instruments and Fair Value”.

In 2015 the Company incurred debt costs in obtaining the facility in the amount of $2,011,000 and $2,959,000 in fees were retained by the lenders. These costs totaling $4,970,000 were recorded as a reduction of the principal loan balance and are being amortized over the life of the loan using the effective interest method. Amortization of these costs for the twelve months ended December 31, 2016 totaled $820,000.

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In connection with the DB Facility, the Company and Tamar Royalties entered into an Intercompany Loan Agreement dated May 18, 2015 (the “Intercompany Loan Agreement”). Pursuant to the terms of the Intercompany Loan Agreement, Tamar Royalties LLC provided a loan to the Company in an aggregate principal amount of $108,000,000 USD. The purpose of the Intercompany Loan was to repay indebtedness owed by the Company to related parties, to enable acquisitions and capital expenditures by the Company, and for other general corporate purposes of the Company.

As of December 31, 2016, Tamar Royalties was in compliance with the financial covenants required under the DB Facility.

The Société Générale Facility

On June 30, 2015, Isramco Onshore LLC (“Isramco Onshore”), a newly formed, wholly-owned, subsidiary of Isramco, Inc. (the “Company”), entered into a secured Credit Agreement (the “SG Facility”) with The Société Générale, as Administrative Agent and Issuing Lender, SG Americas Securities LLC, as Sole Bookrunner, Lead Arranger and Documentation Agent, and the lenders party thereto from time to time, as Lenders. The SG Facility provides for a commitment by The Société Générale of $150,000,000, subject to an initial borrowing base of $40,000,000. The tenor of the SG Facility was four (4) years and the SG Facility was secured by certain onshore United States oil and gas properties. Pricing under the SG Facility was as follows: (i) for EuroDollar Rate (as defined in the SG Facility) loans range from the EuroDollar rate plus 1.75% to the EuroDollar rate plus 2.75% depending on borrowing base utilization; and (ii) for Reference Rate (as defined in the SG Facility) loans ranges from the Reference Rate plus 0.75% to the Reference Rate Spread plus 1.75% based on borrowing base utilization; (iii) a quarterly commitment fee (as defined in the SG Facility) ranging from an annual rate of 0.38% to 0.5% of the undrawn borrowing base.

The SG Facility provided that Isramco Onshore hedge at least seventy-five percent (75%) of its crude oil production before borrowing under the SG Facility. As of December 31, 2016 and as of the date of issuance Isramco Onshore has not entered into such hedge agreements nor has it made a draw under the SG Facility. The Company incurred $478,000 of financing costs in relation to this credit facility which were capitalized as a long-term asset and amortized over the term on the agreement on a straight-line basis until December 31, 2016 at which time the remaining balance totaling $299,000 was expensed.

Isramco Onshore had various financial and operating covenants required by the SG Facility, including, among other things, the requirement that, during the term of the SG Facility, Isramco Onshore must have a Minimum Current Ratio (as defined in the SG Facility) of not less than 1.00:1.00, a Maximum Leverage Ratio (as defined in the SG Facility) of not less than 4.00:1.00 and a Minimum Interest Coverage Ratio (as defined in the SG Facility) of at least 2.50:1.00. In addition, the SG Facility provided for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control.

On August 18, 2016 as a result of semi-annual borrowing base redetermination the borrowing base under SG Facility was reduced to zero. On February 28, 2017 the SG Facility was terminated.

Related Party Debt

A discussion of the Company’s related party debt previously outstanding in fiscal year 2015 is set forth below. On June 27, 2015 the Company used a portion of the proceeds secured from the DB Facility to repay the then-outstanding principal and interest balances of the related party debt discussed below. The final payment totaled $101,022,000 which included loan principal payments totaling $93,395,000 and interest payments totaling $7,267,000. The remaining portion of the payment equal to $360,000 repaid related party payables. As result, all such related party debt was repaid and the outstanding balance as of December 31, 2015 and 2016 was zero.

I.O.C. Israel Oil Company, Ltd. (“IOC”)

On February 27, 2007, Isramco obtained a loan in the principal amount of $12,000,000 from IOC, repayable at the end of five years. Interest accrues at a per annum rate of LIBOR plus 6%. Principal is due and payable in four equal annual installments, commencing on the second anniversary of the loan. Accrued interest is payable in equal annual installments. At any time Isramco can make prepayments without premium or penalty. The loan is not secured.

In July 2009, the Company entered into a loan transaction with IOC, a related party, pursuant to which the Company borrowed $6 million (the “IOC Loan”). Amounts outstanding under the IOC Loan bear interest at LIBOR plus 6.0%. The IOC Loan matures in five years, with accrued interest payable annually on each anniversary date of the loan. The IOC Loan may be prepaid at any time without penalty.

Effective February 1, 2009, the loan from IOC was amended and restated to extend the payment deadlines arising on and after February 2009, by two years.

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On March 3, 2011, the Company entered into a Loan Agreement with IOC pursuant to which it borrowed the sum of $11,000,000. The loan bears interest at a rate of 10% per annum and is payable in quarterly payments of interest only until March 3, 2013, when all accrued interest and principal is due and payable. The loan may be prepaid at any time without penalty. The loan is unsecured. During September 2011, Isramco paid $4,544,000 of principal pursuant to this Loan agreement with IOC leaving outstanding principle of $6,456,000.

Subsequently, in October 2011 the agreement with IOC, pertaining to the above mentioned loan in the outstanding principal amount of $6,456,000 was renegotiated. The payoff of principal amount was extended by 6 month to September 9, 2013. Interest accrued per annum was determined on LIBOR+5.5% from initial 10%.

On March 29, 2012, the Company entered into a Loan Agreement with IOC pursuant to which it borrowed $3,500,000. The loan bears interest at a rate of Libor + 5.5% per annum and matures on March 29, 2013, when all accrued interest and principal is due and payable. The loan may be prepaid at any time without penalty or premium. The loan was unsecured.

On April 29, 2012, the Company entered into another Loan Agreement with IOC, pursuant to which it borrowed $10,000,000. The loan bears interest of Libor+5.5% per annum and matures on April 30, 2013, when all accrued interest and principal is due and payable. The loan may be prepaid at any time without penalty or premium. The loan was funded by IOC in three monthly installments starting April 2012. The loan is unsecured. The purpose of the loan was to provide funds to Isramco for the payment of amounts that were due to the Lenders under the Senior Credit Facility that was paid in full June 29, 2012.

On February 13, 2013, the Company entered into another Loan Agreement with IOC, pursuant to which it borrowed $1,500,000. The loan bears interest of Libor+6% per annum and matures on February 13, 2018, when all accrued interest and principal is due and payable. The loan may be prepaid at any time without penalty or premium. The loan is unsecured. The purpose of the loan was to provide funds to back up a Letter of Credit.

On March 1, 2013, all of the above-mentioned Loan agreements and notes with IOC except for the $1,500,000 loan agreement entered on February 13, 2013, were amended. The terms of all these loans and notes between the Company and IOC were amended extending the maturity to December 31, 2018. In addition the payment schedule was changed on the all of the loans and notes to require accrued interest only payments December 31, 2014, December 31, 2015, December 31, 2016, December 31, 2017 and final interest payment December 31, 2018 with outstanding principal paid in four equal installments with the first payment December 31, 2015 and a similar payment made December 31 in each of the following three years until the final payment on December 31, 2018. The other terms of the loan agreements and notes remained unchanged. In accordance with the amendment, as of December 31, 2013 the loans are classified as long-term on our consolidated balance sheets.

As noted above, on June 27, 2015 the Company used a portion of the proceeds secured from the DB Facility to repay the then-outstanding principal and interest balances of the related party debt. Accordingly, the IOC debts have been paid in full.

Mr. Haim Tsuff, Isramco's Chief Executive Officer and Chairman and is a controlling shareholder of IOC.

Naphtha Israel Petroleum Corp. Ltd., ("Naphtha")

In connection with the Company's purchase of certain oil and gas interests mainly in New Mexico and Texas in February 2007, the Company obtained loan from Naphtha, a related party, with terms and conditions as below:

On February 27, 2007, Isramco obtained a loan, in the principal amount of $11,500,000 from Naphtha, repayable at the end of seven years. Interest accrues at a per annum rate of LIBOR plus 6%. Principal is due and payable in four equal installments, commencing on the fourth anniversary of the date of the loan. Interest is payable annually upon each anniversary date of this loan. At any time Isramco can make prepayments without premium or penalty. The loan is not secured. Interest is payable at the end of each loan year. Principal plus any accrued and unpaid interest are due and payable on February 27, 2014. Interest after the maturity date accrues at the per annum rate of LIBOR plus 12% until paid in full. At any time, Isramco is entitled to prepay the outstanding amount of the loan without penalty or prepayment. To secure its obligations that may be incurred under the Loan Agreement, Jay Petroleum, LLC, a wholly owned subsidiary of Isramco, agreed to guarantee the indebtedness. Naphtha can accelerate the loan and exercise its rights under the collateral upon the occurrence any one or more of the following events of default: (i) Isramco's failure to pay any amount that may become due in connection with the loan within five (5) days of the due date (whether by extension, renewal, acceleration, maturity or otherwise) or fail to make any payment due under any hedge agreement entered into in connection with the transaction, (ii) Isramco's material breach of any of the representations or warranties made in the loan agreement or security instruments or any writing furnished pursuant thereto, (iii) Isramco's failure to observe any undertaking contained in transaction documents if such failure continues for 30 calendar days after notice, (iv) Isramco's insolvency or liquidation or a bankruptcy event or (v) Isramco's criminal indictment or conviction under any law pursuant to which such indictment or conviction can lead to a forfeiture by Isramco of any of the properties securing the loan.

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Effective February 1, 2009, the loan from Naphtha to the Company was amended and restated to extend all payment deadlines arising on and after February 2009, by two years.

On March 1, 2013, the terms of the existing loan and note between the Company and Naphtha was amended extending the maturity to December 31, 2018. The payment schedule was changed on the Naphtha loan and note to require interest only payments December 31, 2013, December 31, 2014, December 31, 2015, December 31, 2016, December 31, 2017 and the final interest payment December 31, 2018 with principal outstanding paid in four equal installments with the first payment December 31, 2015 and a similar payment made December 31 in each of the following three years until the final payment on December 31, 2018. The other terms of the loan agreement and note remained unchanged. In accordance with the amendment, as of December 31, 2013 the loan is classified as long-term on our balance sheet.

As noted above, on June 27, 2015 the Company used a portion of the proceeds secured from the DB Facility to repay the then-outstanding principal and interest balances of the related party debt. Accordingly, the Naphtha debts have been paid in full.

Mr. Haim Tsuff, Isramco's Chief Executive Officer and Chairman and is a controlling shareholder of Naphtha.

Jerusalem Oil Exploration Ltd ("JOEL")

In February and March, 2008 the Company obtained loans from JOEL in the aggregate principal amount of $48.9 million, repayable at the end of 4 months at an interest rate of LIBOR plus 1.25% per annum. Pursuant to a loan agreement signed in June 2009, the maturity date of this loan was extended for an additional period of seven years. Interest accrues at a per annum rate of LIBOR plus 6%. Principal and interest are due and payable in four equal annual installments, commencing on June 30, 2013. At any time, we can make prepayments without premium or penalty.

On June 30, 2013, the terms of an Amended and Restated Loan Agreement dated May 25, 2008, and note between the Company and Jerusalem Oil Exploration, Ltd. ("JOEL") were amended to extend the maturity date to June 30, 2017. The payment schedule of the loan agreement and note was amended to require principal and accrued interest to be paid in three (3) installments in the amounts reflected in Promissory Note due on June 30th of each year commencing June 30, 2015. The other terms of the loan agreement and note remained unchanged. In accordance with the amendment, as of December 31, 2013, the loans are classified as long-term on our consolidated balance sheets.

Mr. Jackob Maimon, Isramco's president at the time and a former director of the Company is a director of JOEL. Mr. Haim Tsuff, Isramco's Chief Executive Officer and Chairman, is a controlling shareholder of JOEL.

As noted above, on June 27, 2015 the Company used a portion of the proceeds secured from the DB Facility to repay the then-outstanding principal and interest balances of the related party debt. Accordingly, the JOEL debts have been paid in full.

Isramco also had related party payables of $90,000 and $63,000 as of December 31, 2016 and 2015 respectively which are included with short term related party debt on the balance sheets.

Off-Balance Sheet Arrangements

At December 31, 2016, we did not have any off-balance sheet arrangements.

Cash Flow

Our primary source of cash in 2016 was cash flow from operating activities. In 2016, cash received from operations and proceeds from sale of oil and gas properties was primarily used for repayment of long-term debt, short-term debt, investments in equipment and an increase in restricted cash.

Our primary source of cash in 2015 was cash flow from financing activities. In 2015, net cash received from bank loans, sales of property, and operating activities was primarily used to replay related party loans and short-term debt, increase restricted cash, and investment in equipment for our production services subsidiary and oil and gas properties.

Our primary source of cash in 2014 was cash flow from operating activities. In 2014, cash received from operations and release of restricted cash deposit was primarily used for investments in equipment for our production services subsidiary, oil and gas properties and payment of insurance financing.

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Operating cash flow fluctuations were substantially driven by changes in commodity prices and changes in our production volumes. Working capital was substantially influenced by these variables. Fluctuation in commodity prices and our overall cash flow may result in an increase or decrease in our future capital expenditures. Prices for oil and natural gas have historically been subject to seasonal fluctuations characterized by peak demand and higher prices in the winter heating season; however, the impact of other risks and uncertainties have influenced prices throughout recent years. See Results of Operations below for a review of the impact of prices and volumes on sales.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (In thousands) | | |
| Cash flows provided by operating activities | $15,510 | $8,911 | $19,776 |
| Cash flows (used in) investing activities | (807) | (4,680) | (19,356) |
| Cash flows provided by (used in) financing activities | (10,691) | 15,820 | (2,542) |
| Net increase (decrease) in cash | $4,012 | $20,051 | $(2,122) |

Operating Activities, Net cash flows provided by operating activities were $15,510,000, $8,911,000, and $19,776,000 for the years ended December 31, 2016, 2015 and 2014, respectively. Key drivers of net operating cash flows are commodity prices, production volumes, operating costs, proceeds from an overriding royalty interest in the Tamar Field and activities of our production services subsidiary.

During the year ended December 31, 2016, compared to the same period in 2015, net cash flow provided by operating activities increased by $6,599,000 to $15,510,000. As noted above, on June 27, 2015 the Company used a portion of the proceeds secured from the DB Facility to repay its related party debt. The increase in net cash flow results from the fact the Company did not have any accrued interest on its related party debt to repay in 2016 as it did in 2015.

During the year ended December 31, 2015, compared to the same period in 2014, net cash flow from operating activities decreased by $10,865,000 to $8,911,000. The decrease was primarily attributable to lower commodity prices received for our United States oil, natural gas, and NGL sales.

We are unable to predict future production levels, future commodity prices, future proceeds from our Tamar Field royalties, and future revenues generated by our production services segment; therefore, we cannot predict future levels of net cash provided by operating activities.

Investing Activities, Net cash flows used in investing activities for the twelve months ended December 31, 2016 and 2015 were $807,000 and $4,680,000, respectively. During 2016 and 2015 the Company invested in equipment and oil and gas properties in amounts equal to $794,000 ($157,000 in oil and gas properties and $637,000 in production services equipment) and $4,883,000 ($2,292,000 in oil and gas properties and $2,591,000 in production services equipment) respectively. During 2016 the Company increased restricted cash by $557,000, received $600,000 from the sale of oil and gas properties, invested $133,000 in a LLC, and received $77,000 from the sale of equipment.

Net cash flows used in investing activities for the twelve months ended December 31, 2015 and 2014 were $4,680,000 and $19,356,000, respectively. During 2015 and 2014 the Company invested in equipment and oil and gas properties in amounts equal to $4,883,000 ($2,292,000 in oil and gas properties and $2,591,000 in production services equipment) and $21,799,000 ($4,450,000 oil and gas properties and $17,349,000 in production services equipment), respectively. During 2015 the Company increased restricted cash by $7,205,000, received $7,506,000 from the sale of oil and gas properties, and invested $98,000 in a LLC.

Financing Activities, Net cash flows provided by (used in) financing activities were ($10,691,000) and $15,820,000 for the year ended December 31, 2016 and 2015, respectively. In 2016, the Company made $9,000,000 in principal loan payments. The Company also repaid short-term insurance financing of $1,341,000, and decreased bank overdraft by $350,000.

Net cash flows provided by (used in) financing activities were $15,820,000 and $(2,542,000) for the year ended December 31, 2015 and 2014, respectively. In 2015, the Company acquired $115,030,000 in net proceeds from loan financing and made $3,000,000 in principal payments toward the financing. The Company also repaid related party loans in the amount of $94,250,000, repaid short-term insurance financing of $1,810,000, increased bank overdraft by $328,000, and paid for deferred financing costs of $478,000.

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Results of Continuing Operations

Selected Data

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (In thousands except per share and MBOE amounts) | | |
| Financial Results | | | |
| Oil and Gas sales | | | |
| United States | $12,947 | $17,047 | $36,874 |
| Israel | 27,462 | 25,151 | 25,144 |
| Production services | 12,752 | 22,465 | 29,979 |
| Gain on divestiture | 600 | 8,378 | 465 |
| Other | 1,181 | 1,468 | 1,436 |
| Total revenues and other | 54,942 | 74,509 | 93,898 |
| | | | |
| Cost and expenses | 40,875 | 97,365 | 79,525 |
| Other expense | 5,544 | 7,383 | 6,385 |
| Income tax expense (benefit) | 3,634 | (9,251) | 2,859 |
| Net income (loss) attributable to common shareholders | 4,889 | (20,988) | 5,129 |
| Net income (loss) attributable to noncontrolling interests | (1,856) | (3,678) | (33) |
| Net income (loss) attributable to Isramco | 6,745 | (17,310) | 5,162 |
| Earnings (loss) per common share – basic | $2.48 | $(6.37) | $1.90 |
| Earnings (loss) per common share –diluted | $2.48 | $(6.37) | $1.90 |
| | | | |
| Weighted average number of shares outstanding-basic | 2,717,691 | 2,717,691 | 2,717,691 |
| Weighted average number of shares outstanding- diluted | 2,717,691 | 2,717,691 | 2,717,691 |
| | | | |
| Operating Results | | | |
| Adjusted EBITDAX (1) | $24,847 | $31,177 | $46,001 |
| Total proved reserves (MBOE) | 34,582 | 36,220 | 40,189 |
| Sales volumes United States (MBOE) | 528 | 623 | 700 |
| Sales volumes Israel (MBOE) | 857 | 757 | 717 |
| | | | |
| Average cost per BOE - United States: | | | |
| Production (excluding transportation and taxes) | $13.76 | $19.88 | $22.06 |
| General and administrative | $8.49 | $7.71 | $6.86 |
| Depletion of oil and gas properties | $6.58 | $9.77 | $11.16 |

(1) See Adjusted EBITDAX for a description of Adjusted EBITDAX, which is not a Generally Accepted Accounting Principles (GAAP) measure, and a reconciliation of Adjusted EBITDAX to income from operations before income taxes, which is presented in accordance with GAAP.

Financial Results

Net Income (Loss)

In 2016 our net income was $6,745,000, or $2.48 per share. This compares to net loss of $(17,310,000), or $(6.37) per share for the year ended December 31, 2015.

This increase was primarily due to the decrease in impairment expense from $43,704,000 in 2015 to $4,529,000 in 2016. Additionally lease operating expenses decreased by $5,903,000 from $14,828,000 in 2015 to $8,925,000 in 2016 and Tamar Field proceeds increased by $2,311,000 from $25,151,000 in 2015 to $27,462,000 in 2016. This increase was offset by decreased revenues from our US based oil and gas assets and production services subsidiary which was driven by decrease in natural gas and crude oil prices which in turn reduced demand for our production services; and lower sales volumes of oil, natural gas and NGLs. Additionally the increase in net income was offset lower gain on divestiture, $600,000 in 2016 as compared to $8,378,000 in 2015.

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Our net loss was ($17,310,000), or $(6.37) per share for the year ended December 31, 2015. This compares to net income of $5,162,000, or $1.90 per share for the year ended December 31, 2014.

This decrease in income was primarily due to the decrease in oil and gas prices which decreased our revenue from those sources, reduced market demand for our production services which triggered an impairment of our production services equipment, and reduced the projected value of our oil and gas reserves in in the United States which triggered additional impairment of the carrying value of these properties. All these were offset by sale of several of our oil and gas properties with a net gain of $8,378,000.

Revenues, Volumes and Average Prices Oil and Gas Segment - Israel

During the year ended December 31, 2016, net sales from the Tamar Field attributable to the Company amounted to 5,102,000 Mcf of natural gas and 6,882 Bbl of condensate with prices of $5.34 per Mcf and $37.48 per Bbl of condensate. Total revenues net of marketing and transportation expenses were $27,462,000. The Israeli Tax Authority withheld $6,866,000, of this revenue which is recognized as a future tax credit, an asset on the Company's consolidated balance sheets.

During the year ended December 31, 2015 the Tamar Field net sales attributable to the Company amounted to 4,505,000 Mcf of natural gas and 6,074 Bbl of condensate with prices of $5.52 per Mcf and $46.53 per Bbl of condensate. Total revenues net of marketing and transportations expenses were $25,151,000.

During the year ended December 31, 2014 the Tamar Field net sales attributable to the Company amounted to 4,268,000 Mcf of natural gas and 5,350 Bbl of condensate with prices of $5.80 per Mcf and $88.51 per Bbl of condensate. Total revenues net of marketing and transportations expenses were $25,144,000.

Revenues, Volumes and Average Prices Oil and Gas Segment - United States

Sales Revenues

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | | | Dvs. | | D vs. |
| | 2016 | 2015 | 2015 | 2014 | 2014 |
| Gas sales | $3,209 | $3,935 | (18 )% | $8,266 | (52 )% |
| Oil sales | 8,506 | 11,677 | (27 ) | 25,251 | (54 ) |
| Natural gas liquid sales | 1,232 | 1,435 | (14 ) | 3,357 | (57 ) |
| Total | $12,947 | $17,047 | (24 )% | $36,874 | (54 )% |

Our sales revenues for the year ended December 31, 2016 decreased by 24% when compared to the same period of 2015, due to decrease in prices for natural gas and crude oil and production volumes. Our sales revenues for the year ended December 31, 2015 decreased by 54% when compared to the same period of 2014, due to decrease in prices and production volumes for crude oil, natural gas and NGLs.

Volumes and Average Prices

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | | | D vs. | | D vs. |
| | 2016 | 2015 | 2015 | 2014 | 2014 |
| Natural Gas | | | | | |
| Sales volumes Mmcf | 1,417 | 1,640 | (14 )% | 1,836 | (11 )% |
| Price per Mcf | $2.26 | $2.40 | (6 ) | $4.50 | (47 ) |

| | | | | | |
|---|---|---|---|---|---|
| Total gas sales revenues (thousands) | $3,209 | $3,935 | (18 )% | $8,266 | (52 )% |
| Crude Oil | | | | | |
| Sales volumes MBbl | 215 | 257 | (16 )% | 287 | (10 )% |
| Price per Bbl | $39.56 | $45.44 | (13 ) | $87.98 | (48 ) |
| Total oil sales revenues (thousands) | $8,506 | $11,677 | (27 )% | $25,251 | (54 )% |
| Natural gas liquids | | | | | |
| Sales volumes MBbl | 77 | 93 | (17 )% | 107 | (13 )% |
| Price per Bbl | $16.00 | $15.43 | 4 | $31.37 | (51 ) |
| Total natural gas liquids sales revenues (thousands) | $1,232 | $1,435 | (14 )% | $3,357 | (57 )% |

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The Company's natural gas sales volumes decreased by 14%, crude oil sales volumes decreased by 16% and natural gas liquids sales volumes decreased by 17% for the year ended December 31, 2016 compared to the same period of 2015.

Our average natural gas price for the year ended December 31, 2016 decreased by 6%, or $0.14 per Mcf, when compared to the same period of 2015. Our average crude oil price for the year ended December 31, 2016 decreased by 13%, or $5.88 per Bbl, when compared to the same period of 2015. Our average natural gas liquids price for the year ended December 31, 2016 increased by 4%, or $0.57 per Bbl, when compared to the same period of 2015.

The Company's natural gas sales volumes decreased by 11%, crude oil sales volumes decreased by 10% and natural gas liquids sales volumes decreased by 13% for the year ended December 31, 2015 compared to the same period of 2014.

Our average natural gas price for the year ended December 31, 2015 decreased by 47%, or $2.10 per Mcf, when compared to the same period of 2014. Our average crude oil price for the year ended December 31, 2015 decreased by 48%, or $42.54 per Bbl, when compared to the same period of 2014. Our average natural gas liquids price for the year ended December 31, 2015 decreased by 51%, or $15.94 per Bbl, when compared to the same period of 2014.

Analysis of Oil and Gas Operations Sales Revenues

The following table provides a summary of the effects of changes in volumes and prices on Isramco's sales revenues for the year ended December 31, 2016 compared to 2015 and 2014.

| In thousands | Natural Gas | Oil | Natural gas liquids |
|---|---|---|---|
| 2014 sales revenues | $8,266 | $25,251 | $3,357 |
| Changes associated with sales volumes | (882) | (2,639) | (439) |
| Changes in prices | (3,449) | (10,935) | (1,483) |
| 2015 sales revenues | $3,935 | $11,677 | $1,435 |
| Changes associated with sales volumes | (535) | (1,908) | (247) |
| Changes in prices | (191) | (1,263) | 44 |
| 2016 sales revenues | $3,209 | $8,506 | $1,232 |

Operating Expenses (excluding production services segment)

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| In thousands except percentages | 2016 | 2015 | D vs. 2015 | 2014 | D vs. 2014 |
| Lease operating expense, transportation and taxes | $8,925 | $14,828 | (40)% | $19,066 | (22)% |
| Depreciation, depletion and amortization of oil and gas properties | 3,474 | 6,091 | (43) | 7,811 | (22) |
| Impairments of oil and gas assets | 4,529 | 33,138 | (86) | 19,540 | 70 |
| Accretion expense | 897 | 856 | 5 | 874 | (2) |
| Loss from plug and abandonment | (3) | 91 | (103) | 49 | 86 |
| General and administrative | 4,485 | 4,806 | (7) | 4,805 | NM |
| | $22,008 | $59,810 | (63)% | $52,145 | 15 % |

NM – Not Meaningful

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During 2016, our operating expenses decreased by 63% when compared to 2015 as highlighted below:

Lease operating expense, transportation cost and taxes decreased by 40%, or $5,903,000 in 2016 when compared to 2015. On a per unit basis, lease operating expenses (excluding transportation and taxes) decreased by $6.12 per MBOE to $13.76 per MBOE in 2016 from $19.88 per MBOE in 2015. The decrease was a direct result of company efforts to reduce costs through delaying well repairs, reducing vendor prices, and reducing employee headcount/wages.

Depreciation, Depletion &Amortization (DD&A) of the cost of proved oil and gas properties is calculated using the unit-of-production method. Our DD&A rate and expense are the composite of numerous individual field calculations. There are several factors that can impact our composite DD&A rate and expense, including but not limited to field production profiles, drilling or acquisition of new wells, disposition of existing wells, and reserve revisions (upward or downward) primarily related to well performance and commodity prices, and impairments. Changes in these factors may cause our composite DD&A rate and expense to fluctuate from period to period. DD&A decreased by 43%, or $2,617,000, in 2016 when compared to 2015. On a per unit basis, depletion expenses decreased by $3.19 per MBOE to $6.58 per MBOE in 2016 from $9.77 per MBOE in 2015 due to a decrease in the depletable base as a result of prior year impairments.

Impairments of oil and gas assets of $4,529,000 in 2016 were primarily the result of lower estimated future production in several fields which reduced the projected value in those fields from prior estimates and resulted in a projected value lower than the carrying value of those fields which triggered impairment.

Loss from plugging and abandonment expenses decreased by 103%, or $94,000 in 2016 when compared to 2015, primarily due to a decrease in the wells plugged in 2016.

The decrease in general and administrative expenses was primarily due to decrease in bad debt expenses and professional fees partially offset by a 2016 write-off of $299,000 in deferred financing costs.

During 2015, our operating expenses increased by 15% when compared to 2014 as highlighted below:

Lease operating expense, transportation cost and taxes decreased by 22%, or $4,238,000 in 2015 when compared to 2014. On a per unit basis, lease operating expenses (excluding transportation and taxes) decreased by $2.18 per MBOE to $19.88 per MBOE in 2015 from $22.06 per MBOE in 2014.

Depreciation, Depletion &Amortization (DD&A) of the cost of proved oil and gas properties is calculated using the unit-of-production method. Our DD&A rate and expense are the composite of numerous individual field calculations. There are several factors that can impact our composite DD&A rate and expense, including but not limited to field production profiles, drilling or acquisition of new wells, disposition of existing wells, and reserve revisions (upward or downward) primarily related to well performance and commodity prices, and impairments. Changes in these factors may cause our composite DD&A rate and expense to fluctuate from period to period. DD&A decreased by 22%, or $1,720,000, in 2015 when compared to 2014. On a per unit basis, depletion expenses decreased by $1.39 per MBOE to $9.77 per MBOE in 2015 from $11.16 per MBOE in 2014 due to a decrease in the depletable base as a result of impairments.

Impairments of oil and gas assets of $33,138,000 in 2015 were primarily the result of lower estimated future crude oil, natural gas and NGLs prices which are basis for an impairment calculation.

Loss from plugging and abandonment expenses increased by 86%, or $42,000 in 2015 when compared to 2014, primarily due to an increase in the wells plugged in 2015.

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Production Services Segment

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | | | D vs. | | D vs. |
| In thousands except percentages | 2016 | 2015 | 2015 | 2014 | 2014 |
| Production Services (1) | $12,752 | $22,465 | (43 )% | $30,934 | (27 )% |
| Operating expenses | 14,494 | 21,802 | (34 ) | 24,816 | (12 ) |
| Depreciation | 3,193 | 3,853 | (17 ) | 3,015 | 28 |
| Impairment | - | 10,566 | (100) | - | 100 |
| General and administrative (1) | 1,001 | 1,454 | (31 ) | 625 | 133 |
| Operating income | $(5,936 ) | $(15,210) | (61 )% | $2,478 | (714)% |

(1) Production Services revenue includes intersegment revenues and expenses.

The revenues from production services operations in 2016 decreased by 43% or $9,713,000 when compared to 2015 primarily due to a continued decrease in crude oil and natural gas prices that triggered a continued decrease in demand for our production services. The revenues from production services operations in 2015 decreased by 27% or $8,469,000 when compared to 2014 primarily due to significant decrease in crude oil and natural gas prices that triggered significant decrease in demand for our services.

Operating expenses from production services operations for the year ended December 31, 2016 has decreased by 34% or $7,308,000 when compared to the same period in 2015. The decrease was primarily associated with reduction in payroll, fuel, and other related expenses as a result of decrease in number of deployed rigs. Operating expenses from production services operations for the year ended December 31, 2015 has decreased by 12% or $3,014,000 when compared to the same period in 2014. The decrease was primarily associated with reduction in payroll, fuel, and other related expenses as a result of decrease in number of deployed rigs.

Production service equipment depreciation – the amounts represent depreciation of production services rigs and auxiliary equipment. The decrease in depreciation expense for the year ended December 31, 2016 of $660,000 is a result of a decrease in the depreciable base stemming from the impairment in 2015. The increase of $838,000 the year ended December 31, 2015 compared to 2014 was due to the increase in the number of rigs and the amount of auxiliary equipment.

Impairment of production service equipment – we analyze the potential impairment of property and equipment annually as of December 31 or on an interim basis if events or circumstances indicate that the fair values of the assets have decreased below the carrying value. Our analysis for potential impairment of property and equipment requires us to estimate undiscounted future cash flows. Actual impairment charges are recorded using an estimate of discounted future cash flows. The determination of future cash flows requires us to estimate rates and utilization in future periods and such estimates can change based on market conditions, technological advances in industry or changes in regulations governing the industry.

As a result of the downturn which began in late 2014 and worsened through 2015, we performed impairment testing on our equipment as of December 31, 2015. Such testing indicated that the carrying value of our production services equipment was not recoverable and thus we recorded an impairment of $10,566,000 at December 31, 2015. No such impairment was recorded for the year ended December 31, 2016 and 2014.

General and administrative expenses from production services operations for the year ended December 31, 2016 decreased by 31% or $453,000 from 2015 primarily as a result of lesser increase in the allowance for doubtful accounts. For the year ended December 31, 2015 the general and administrative expenses increased by 133% or $829,000 from 2014 primarily due to increases in the allowance for doubtful accounts and legal fees.

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Other expenses

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| In thousands except percentages | 2016 | 2015 | D vs. 2015 | 2014 | D vs. 2014 |
| Interest expense net | $4,817 | $2,432 | 98 % | $- | 100 % |
| Interest expense – related party, net | - | 2,878 | (100) | 6,773 | (58 ) |
| Loss from derivative contracts, net | 657 | 1,988 | (67 ) | - | 100 |
| Capital (gain) loss | 70 | 85 | (18 ) | (388 ) | 122 |
| | $5,544 | $7,383 | (25 )% | $6,385 | 16 % |

Interest expense. Isramco's interest expense including related party interest expense decreased by 9%, or $493,000, for the twelve months ended December 31, 2016 compared to the same period of 2015. This decrease was primarily due to lower interest rates on the loans and lower average principal balance outstanding during the twelve months ended December 31, 2016.

Isramco's interest expense including related party interest expense decreased by 22%, or $1,463,000, for the twelve months ended December 31, 2015 compared to the same period of 2014. This decrease was primarily due to lower interest rates on the loans during the twelve months ended December 31, 2015.

Net loss on derivative contracts. During 2015 we entered into interest rate cap and swap agreements. These agreements are considered derivative and are accounted for with mark-to-market valuation. The loss in fair value of these contracts is recorded in the statement of operations. The loss from derivative contracts decreased from $1,988,000 in 2015 to $657,000 in 2016 primarily as a result of an increase in the estimated future LIBOR rate which is a factor in determining the market value of the derivatives. We had no such contracts during the year ended December 31, 2014.

Income Tax

Income tax expense for the year ended December 31, 2016 was $3,634,000. The tax expense was primarily due to our pre-tax income of $8,523,000 which was primarily due to the decrease in impairment expense from $43,704,000 in 2015 to $4,529,000 in 2016. Additionally lease operating expenses decreased by $5,903,000 from $14,828,000 in 2015 to $8,925,000 in 2016 and Tamar Field proceeds increased by $2,311,000 from $25,151,000 in 2015 to $27,462,000 in 2016. This increase was offset by decreased revenues from our US based oil and gas assets and production services subsidiary which was driven by decrease in natural gas and crude oil prices which in turn reduced demand for our production services; and lower sales volumes of oil, natural gas and NGLs. Additionally the increase in net income was offset lower gain on divestiture, $600,000 in 2016 as compared to $8,378,000 in 2015.

Income tax benefit for the year ended December 31, 2015 was $9,251,000. The tax benefit was primarily due to our pre-tax loss of $30,239,000 which was primarily due to decreased revenues resulting from lower commodity prices and related impairment in our United States oil and gas properties and production services equipment.

Income tax expense for the year ended December 31, 2014 was $2,859,000. The tax expense was primarily due to our pre-tax income of $7,988,000 which was primarily due to increased revenues from a full year of production in the Tamar Field, offset by an impairment in our United States oil and gas properties.

The effective tax rates for the years ended December 31, 2016, 2015 and 2014 were 42.6%, 30.6% and 36%, respectively.

Adjusted EBITDAX.

To assess the operating results of Isramco, management analyzes income from operations before income taxes, interest expense, exploration expense, unrealized gain (loss) on derivative contracts and DD&A expense and impairments (“Adjusted EBITDAX”). Adjusted EBITDAX is not a GAAP measure. Isramco’s definition of Adjusted EBITDAX excludes exploration expense because exploration expense is not an indicator of operating efficiency for a given reporting period, but rather is monitored by management as a part of the costs incurred in exploration and development activities. Similarly, Isramco excludes DD&A expense and impairments from Adjusted EBITDAX as a measure of segment operating performance because capital expenditures are evaluated at the time capital costs are incurred. The Company’s definition of Adjusted EBITDAX also excludes interest expense to allow for assessment of segment operating results without regard to Isramco’s financing methods or capital structure. Adjusted EBITDAX is a widely accepted financial indicator of a company’s ability to incur and service debt, fund capital expenditures and make payments on its long term loans. Management believes that the presentation of Adjusted EBITDAX provides information useful in assessing the Company’s financial condition and results of operations.

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However, Adjusted EBITDAX, as defined by Isramco, may not be comparable to similarly titled measures used by other companies. Therefore, Isramco's consolidated Adjusted EBITDAX should be considered in conjunction with income (loss) from operations and other performance measures prepared in accordance with GAAP, such as operating income or cash flow from operating activities. Adjusted EBITDAX has important limitations as an analytical tool because it excludes certain items that affect income from continuing operations and net cash provided by operating activities. Adjusted EBITDAX should not be considered in isolation or as a substitute for an analysis of Isramco's results as reported under GAAP. Below is a reconciliation of consolidated Adjusted EBITDAX to income (loss) from operations before income taxes.

| | Years Ended December 31, | | |
|---|---|---|---|
| In thousands | 2016 | 2015 | 2014 |
| Income (loss) from operations before income taxes (1) | $8,523 | $(30,239) | $7,988 |
| Depreciation, depletion, amortization and impairment expense | 11,196 | 53,648 | 30,366 |
| Interest expense | 4,817 | 5,310 | 6,773 |
| Loss (gain) on derivative contract | (586) | 1,602 | - |
| Accretion Expenses | 897 | 856 | 874 |
| Consolidated Adjusted EBITDAX | $24,847 | $31,177 | $46,001 |

(1) Including net gain on divestiture $600,000 in 2016, $8,378,000 in 2015, and $465,000 in 2014.

Recently Issued Accounting Pronouncements

We discuss recently adopted and issued accounting standards in Item 8. Consolidated Financial Statements and Supplemental Data–Note 1, "Summary of Significant Accounting Policies."

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk and Derivative Instruments

We are exposed to various risks, including energy commodity price risk. If oil and natural gas prices decline significantly our ability to finance our capital budget and operations could be adversely impacted. We expect energy prices to remain volatile and unpredictable, therefore we have adopted a risk management policy which provides for the use of derivative instruments to provide partial protection against declines in oil and natural gas prices by reducing the risk of price volatility and the affect it could have on our operations. The type of derivative instrument that we typically utilize is swaps. The total volumes which we hedge through the use of our derivative instruments vary from period to period.

During the year ended December 31, 2015, Tamar Royalties LLC, a wholly owned subsidiary of the Company, entered into certain swap and cap agreements with Deutsche Bank AG London Branch to hedge the risk of interest rate volatility loan balances. See Note 3 "Financial Instruments and Fair Value" for details.

We may be exposed to market risk on our open derivative contracts of non-performance by our counterparties. However, we do not expect such non-performance because our contracts are with major financial institutions with investment grade credit ratings.

We account for our derivative activities under the provisions of ASC 815, Derivatives and Hedging, (ASC 815). ASC 815 establishes accounting and reporting that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at fair value. Please refer to Item 8. Consolidated Financial Statements and Supplemental Data—Note 3, "Financial Instruments and Fair Value" for additional information. As of December 31, 2016 and 2015 we did not have open commodity derivative positions.

Interest-Rate Risk

We are exposed to market risk related to adverse changes in interest rates. Our interest rate risk results primarily from fluctuations in short-term rates, which are LIBOR based. If interest rates increase, our interest expense would increase and our available cash flow would decrease. Periodically, we look to utilize interest rate swaps to reduce the exposure to market rate fluctuations by converting variable interest rates to fixed interest rates. During the year ended December 31, 2015, Tamar Royalties LLC, a wholly owned subsidiary of the Company, entered into certain swap and cap agreements with Deutsche Bank AG London Branch to hedge the risk of interest rate volatility loan balances. See Note 3 “Financial Instruments and Fair Value” for details.

We continue to monitor our risk exposure as we incur future indebtedness at variable interest rates and will look to continue our risk management policy as situations present themselves.

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Fair Market Value of Financial Instruments

The estimated fair values for financial instruments under ASC 825, Financial Instruments, (ASC 825) are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The estimated fair value of cash, cash equivalents, accounts receivable and accounts payable approximates their carrying value due to their short-term nature. See Item 8. Consolidated Financial Statements and Supplemental Data—Note 3 “Financial Instruments and Fair Value” for additional information.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

The information called for by this Item 8 is included following the “Index to Financial Statements” contained in this Annual Report on Form 10-K.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

## ITEM 9A. CONTROLS AND PROCEDURES

### DISCLOSURE CONTROLS AND PROCEDURES.

We have established disclosure controls and procedures to ensure that material information relating to Isramco, including its consolidated subsidiaries, is made known to the officers who certify Isramco’s financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation, Isramco’s principal executive and principal financial officers have concluded that Isramco’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective as of December 31, 2016 to ensure that the information required to be disclosed by Isramco in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

### MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

Our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment using these criteria, our management determined that our internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of our internal control over financial reporting as of December 31, 2016, has been audited by MaloneBailey LLP, an independent registered public accounting firm, as stated in their report which appears herein.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in Isramco's internal control over financial reporting during the fourth quarter of 2016 that has materially affected, or is reasonably likely to materially affect, Isramco's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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## PART III

We will file a definitive Proxy Statement for our 2017 Annual Meeting of Stockholders with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of our definitive Proxy Statement that specifically address the items set forth herein are incorporated by reference.

### Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

### Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

### Item 14. Principal Accounting Fees and Services

The information required by Item 14 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

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GLOSSARY

"Limited Partnership" means Isramco Negev 2 Limited Partnership, a Limited Partnership founded pursuant to a Limited Partnership Agreement made on the 2nd and 3rd days of March, 1989 (as amended on September 7, 1989, July 28, 1991, March 5, 1992 and June 11, 1992) between the Trustee on part as Limited Partner and Isramco Oil and Gas Ltd., as General Partner on the other part.

"Overriding Royalty" means a percentage interest over and above the base royalty and is free of all costs of exploration and production, which costs are borne by the Grantor of the Overriding Royalty Interest and which is related to a particular Petroleum License.

"Payout" means the point at which all costs of leasing, exploring, drilling and operating have been recovered from production of a well or wells as defined by contractual agreement or otherwise.

"Petroleum" means any petroleum fluid, whether liquid or gaseous, and includes oil, natural gas, natural gasoline, condensates and related fluid hydrocarbons, and also asphalt and other solid petroleum hydrocarbons when dissolved in and producible with fluid petroleum.

"Israel Petroleum Law"

The Company's business in Israel is subject to regulation by the State of Israel pursuant to the Petroleum Law, 1952. The administration and implementation of the Petroleum Law is vested in the Minister of National Infrastructure (the "Minister") and an Advisory Council.

The following includes brief statements of certain provisions of the Petroleum Law in effect at the date of this Prospectus. Reference is made to the copy of the Petroleum Law filed as an exhibit to the Registration Statement referred to under "Additional Information" and the description which follows is qualified in its entirety by such reference.

The holder of a preliminary permit is entitled to carry out petroleum exploration, but not test drilling or petroleum production, within the permit areas. The Commissioner determines the term of a preliminary permit and it may not exceed eighteen (18) months. The Minister may grant the holder a priority right to receive licenses in the permit areas and for the duration of such priority right no other Party will be granted a license or lease in such areas.

Drilling for petroleum is permitted pursuant to a license issued by the Commissioner. The term of a license is for three (3) years, subject to extension under certain circumstances for an additional period up to four (4) years. A license holder is required to commence test drilling within two (2) years from the grant of a license (or earlier if required by the terms of the license) and not to interrupt operations between test drillings for more than four (4) months. If any well drilled by the Company is determined to be a Commercial discovery prior to expiration of the license, the Company will be entitled to receive a Petroleum Lease granting it the exclusive right to explore for and produce petroleum in the lease area. The term of a lease is for thirty (30) years, subject to renewal for an additional term of twenty (20) years.

The Company, as a lessee, will be required to pay the State of Israel the royalty prescribed by the Petroleum Law which is presently, and at all times since 1952 has been, 12.5% of the petroleum produced from the leased area and saved, excluding the quantity of petroleum used in operating the leased area.

The Minister may require a lessee to supply at the market price such quantity of petroleum as, in the Minister's opinion, is required for domestic consumption, subject to certain limitations.

As a lessee, the Company will also be required to commence drilling of a development well within six (6) months from the date on which the lease is granted and, thereafter, with due diligence to define the petroleum field, develop the leased area, produce petroleum therefore and seek markets for and market such petroleum.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

| | |
|---|---|
| 3.1 | Certificate of Incorporation of Registrant with all amendments filed as an Exhibit to the S-l Registration Statement, File No. 2-83574. |
| 3.2 | Amendment to Certificate of Incorporation filed March 17, 1993, filed as an Exhibit with the S-l Registration Statement, File No. 33-57482. |
| 3.3 | By-laws of Registrant filed as Exhibit 3(ii) to the 8-k filed January 18, 2012 and incorporated herein by reference. |
| 4.2 | First Amended and Restated Promissory Note dated as of February 27, 2007, issued to NAPHTHA ISRAEL PETROLEUM CORP., LTD. in the principal amount of $11,500,000 filed as an Exhibit to the 10-K for the year ended December 31, 2010 and incorporated herein by reference. |
| 4.3 | First Amended and Restated Promissory Note dated as of February 27, 2007, issued to and I.O.C. ISRAEL OIL COMPANY, LTD. in the principal amount of $12,000,000 filed as an Exhibit to the 10-K for the year ended December 31, 2010 and incorporated herein by reference. |
| 4.4 | Promissory Note dated as of February 27, 2007, issued to and J.O.E.L JERUSALEM OIL EXPLORATION, LTD. in the principal amount of $7,000,000, filed as an Exhibit to the 10-Q for the quarter ended March 31, 2007 and incorporated herein by reference. |
| 4.5 | Promissory Note dated as of May 25, 2009, issued to and J.O.E.L JERUSALEM OIL EXPLORATION, LTD. in the principal amount of $48,900,000 filed as an Exhibit to the 10-K for the year ended December 31, 2010 and incorporated herein by reference. |
| 10.1 | Purchase and Sale Agreement, dated as of February 16, 2007, among Five States Energy Company, L.L.C. and each of the other parties listed as a party “Seller” on the signature pages thereof and ISRAMCO, Inc., filed as an Exhibit to the 10-Q for the quarter ended March 31, 2007 and incorporated herein by reference. |
| 10.2 | LOAN AGREEMENT, dated as of February 27, 2007, between ISRAMCO, INC., and NAPHTHA ISRAEL PETROLEUM CORP., LTD., filed as an Exhibit to the 10-Q for the quarter ended March 31, 2007 and incorporated herein by reference. |
| 10.3 | LOAN AGREEMENT, dated as of February 27, 2007, between ISRAMCO, INC., and NAPHTHA ISRAEL PETROLEUM CORP., LTD., filed as an Exhibit to the 10-Q for the quarter ended March 31, 2007 and incorporated herein by reference. |
| 10.4 | LOAN AGREEMENT, dated as of February 27, 2007, Between ISRAMCO, INC., and I.O.C. ISRAEL OIL COMPANY, LTD., filed as an Exhibit to the 10-Q for the quarter ended March 31, 2007 and incorporated herein by reference. |
| 10.5 | LOAN AGREEMENT, dated as of February 26, 2007, between ISRAMCO, INC., and J.O.E.L JERUSALEM OIL EXPLORATION, LTD., filed as an Exhibit to the 10-Q for the quarter ended March 31, 2007 and incorporated herein by reference. |

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| 10.6 | Employment Agreement dated as of September 1, 2007 between Isramco Inc. and Edy Francis, filed as an Exhibit to the 10-Q for the quarter ended September 30, 2007 and incorporated herein by reference.+ |
| 10.7 | Agreement dated as of December 31, 2007 between Isramco Inc. and I.O.C. Israel Oil Company Ltd and addendum dated January 1, 2008, filed as an Exhibit to the 10-Q for the quarter ended March 31, 2008 and incorporated herein by reference. |
| 10.8 | Amended and restated credit agreement dated on April 28, 2008 between Isramco Resources, LLC and The Bank of Nova Scotia and Capital One, N.A., filed as an Exhibit to the 10-Q for the quarter ended March 31, 2008 and incorporated herein by reference. |

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|---|---|
| 10.9 | Amended and Restated Loan Agreement dated as of May 25, 2008 between Isramco Inc. and J.O.E.L. Jerusalem Oil Explorations Ltd. filed as an Exhibit to the 10-K for the year ended December 31, 2009 and incorporated herein by reference. |
| 10.10 | Amended and Restated Agreement dated as of November 17, 2008 between Isramco Inc. and Goodrich Global Ltd. filed as an Exhibit to the 10-K for the year ended December 31, 2009 and incorporated herein by reference. |
| 10.11 | First Amendment to Loan Agreement dated as of February 1, 2009, between Isramco, Inc. and I.O.C. Israel Oil Company, Ltd.($18.5 million) filed as an Exhibit to the 10-K for the year ended December 31, 2009 and incorporated herein by reference. |
| 10.12 | First Amendment to Loan Agreement dated as of February 1, 2009, between Isramco, Inc, and Naphtha Israel Petroleum Corp., Ltd.($11.5 million) filed as an Exhibit to the 10-K for the year ended December 31, 2009 and incorporated herein by reference. |
| 10.13 | Loan Agreement dated as of July 14, 2009 between Isramco, Inc. and I.O.C. – Israel Oil Company, Ltd.($6.0 million) filed as an Exhibit to the 10-K for the year ended December 31, 2009 and incorporated herein by reference. |
| 10.14 | First Amendment to Loan Agreement dated as of February 1, 2009 between Isramco, Inc. and I.O.C. Israel Oil Company, Ltd.($12.0 million) filed as an Exhibit to the 10-K for the year ended December 31, 2009 and incorporated herein by reference. |
| 10.15 | Loan Agreement dated as of March 3, 2011 between Isramco, Inc. and I.O.C. – Israel Oil Company, Ltd.($11.0 million) filed as an Exhibit to the 10-K for the year ended December 31, 2010 and incorporated herein by reference. |
| 10.16 | First Amendment to Loan Agreement dated as of October 1, 2011 between Isramco, Inc. and I.O.C. Israel Oil Company, Ltd. ($11.0 million) filed as an Exhibit to the 10-K for the year ended December 31, 2011 and incorporated herein by reference. |
| 10.17 | 2011 Stock Incentive Plan filed as an Exhibit to the 10-K for the year ended December 31, 2011 and incorporated herein by reference. |
| 10.18 | Loan Agreement dated as of February 13, 2013 between Isramco, Inc. and I.O.C. Israel Oil Company, Ltd. (1.5 million) filed as an Exhibit to 10-K for the year ended December 2012 and incorporated herein by reference. |
| 10.19 | Amendment to Loan Agreement dated as of March 1, 2013 between Isramco, Inc. and I.O.C. Israel Oil Company, Ltd. filed as an Exhibit to 10-K for the year ended December 2012 and incorporated herein by reference. |
| 10.20 | Amendment to Loan Agreement dated as of March 1, 2013 between Isramco, Inc. and NAPHTHA ISRAEL PETROLEUM CORP., LTD filed as an Exhibit to 10-K for the year ended December 2012 and incorporated herein by reference. |
| 10.21 | Amendment to Amended and Restated Loan Agreement and Note between Isramco Inc and J.O.E.L. Jerusalem Oil Exploration, Ltd dated June 30, 2013 filed as an Exhibit to 10-Q for the quarter ended June 2013 and incorporated herein by reference. |

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| 10.22 | Promissory Note dated June 30, 2013, issued to and J.O.E.L JERUSALEM OIL EXPLORATION, LTD. in the principal amount of $43,700,921 filed as an Exhibit to 10-Q for the quarter ended June 2013 and incorporated herein by reference. |
| 10.23 | Loan Agreement dated as of March 29, 2012 between Isramco, Inc. and I.O.C. Israel Oil Company, Ltd. ($3.5 million) filed as an Exhibit to 10K-A for the year ended December 2012 and incorporated herein by reference. |
| 10.24 | Loan Agreement dated as of April 29, 2012 between Isramco Inc. and I.O.C. Israel Oil Company, Ltd. ($10.0 million) filed as an Exhibit to 10-Q for the quarter ended June 30, 2012 and incorporated herein by reference. |
| 10.25 | Employment Agreement dated effective June 1, 2014, between Isramco Inc. and Edy Francis, filed as an Exhibit to Form 8-K dated September 11, 2014 and incorporated herein by reference. |
| 10.26 | Consulting Agreement dated effective June 1, 2014, between Isramco Inc. and Goodrich Global Ltd., filed as an Exhibit to Form 8-K dated September 11, 2014 and incorporated herein by reference. |

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|---|---|
| 10.27 | Credit Agreement dated as of May 18, 2015, by and among Tamar Royalties LLC, as Borrower, Deutsche Bank Trust Company Americas, as administrative agent, the lenders party thereto, as Lenders, and Deutsche Bank Trust Company Americas, as collateral agent filed as an Exhibit to 8-K filed by the Company on May 22, 2015 and incorporated herein by reference. |
| 10.28 | Royalties Sale and Contribution Agreement dated May 18, 2015, by and between Isramco, Inc., as Seller, and Tamar Royalties, LLC, as Borrower filed as an Exhibit to 8-K filed by the Company on May 22, 2015 and incorporated herein by reference. |
| 10.29 | Pledge, Assignment and Security Agreement dated as of May 18, 2015, by and between Tamar Royalties LLC, as Borrower, and Deutsche Bank Trust Company Americas, as collateral agent filed as an Exhibit to 8-K filed by the Company on May 22, 2015 and incorporated herein by reference. |
| 10.30 | Intercompany Loan Agreement dated as of May 18, 2015, by and between Isramco, Inc., as Payor, and Tamar Royalties, LLC, as Payee filed as an Exhibit to 8-K filed by the Company on May 22, 2015 and incorporated herein by reference. |
| 10.31 | Credit Agreement dated as of June 30, 2015, by and among Isramco Onshore LLC, as Borrower, Société Générale, as Administrative Agent and Issuing Lender, SG Americas Securities LLC, as Sole Bookrunner, Lead Arranger and Documentation Agent, and the lenders party thereto from time to time, as Lenders filed as an Exhibit to 8-K filed by the Company on July 6, 2015 and incorporated herein by reference. |
| 14.1 | Code of Ethics, filed as an Exhibit to Form 10-K for the year ended December 31, 2003. |
| 23.1* | Consent of Cawley, Gillespie & Associates, Inc. |
| 23.2* | Consent of Netherland, Sewell & Associates, Inc. |
| 31.1* | Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act. |
| 31.2* | Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act |
| 31.3* | Certification of Chief Accounting Officer pursuant to Section 302 of Sarbanes-Oxley Act |
| 32.1* | Certification of Chief Executive and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 Of the Sarbanes-Oxley act of 2002 |
| 32.2* | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 Of the Sarbanes-Oxley act of 2002 |
| 32.3* | Certification of Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 Of the Sarbanes-Oxley act of 2002 |
| 99.1* | Cawley, Gillespie & Associates, Inc. Reserves Report |
| 99.2* | Netherland, Sewell & Associates, Inc. Reserves Report |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |

| | |
|---|---|
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

* Filed Herewith.
+ Management Agreement

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SIGNATURES

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

/S/ HAIM TSUFF
HAIM TSUFF,
CHAIRMAN OF THE BOARD,
CHIEF EXECUTIVE OFFICER
(PRINCIPAL EXECUTIVE OFFICER)

Date: March 13, 2017

/S/ EDY FRANCIS
EDY FRANCIS,
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL OFFICER)

Date: March 13, 2017

/S/ ZEEV KOLTOVSKOY
ZEEV KOLTOVSKOY,
CHIEF ACCOUNTING OFFICER
(PRINCIPAL ACCOUNTING OFFICER)

Date: March 13, 2017

Pursuant to the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Haim Tsuff<br>Haim Tsuff | Chairman of the Board &<br>Chief Executive Officer | March 13, 2017 |
| /s/ Josef From<br>Josef From | Director | March 13, 2017 |
| /s/ Max Pridgeon<br>Max Pridgeon | Director | March 13, 2017 |
| /s/ Frans Sluiter<br>Frans Sluiter | Director | March 13, 2017 |
| /s/ Nir Hasson | Director | March 13, 2017 |

Nir Hasson

| | | |
|---|---|---|
| /s/ Asaf Yarkoni<br>Asaf Yarkoni | Director | March 13, 2017 |

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INDEX TO FINANCIAL STATEMENTS

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MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Isramco, Inc. (the “Company”), including the Company’s Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company’s internal control system was designed to provide reasonable assurance to the Company’s Management and Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this evaluation, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2016.

MaloneBailey, LLP, the Company’s independent registered public accounting firm, has issued an attestation report on the effectiveness on our internal control over financial reporting as of December 31, 2016.

| | | |
|---|---|---|
| /s/ Haim Tsuff | /s/ Zeev Koltovskoy | /s/ Edy Francis |
| Haim Tsuff | Zeev Koltovskoy | Edy Francis |
| Chief Executive Officer | Chief Accounting Officer | Chief Financial Officer |

Houston, Texas
March 13, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Isramco, Inc.
Houston, Texas

We have audited the accompanying consolidated balance sheets of Isramco, Inc. and its subsidiaries (collectively the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity (deficit), and cash flows each of for the years ended December 31, 2016, 2015, 2014. We also have audited the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Isramco, Inc and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years ended December 31, 2016, 2015, and 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ MALONE BAILEY, LLP
www.malone-bailey.com
Houston, Texas
March 13, 2017

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ISRAMCO INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

| As of December 31 | 2016 | 2015 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $26,090 | $22,078 |
| Accounts receivable, net of allowances for doubtful accounts of $2,294 and $1,743 | 9,902 | 12,460 |
| Restricted and designated cash | 701 | 185 |
| Inventories | 697 | 871 |
| Prepaid expenses and other | 2,295 | 2,679 |
| Total Current Assets | 39,685 | 38,273 |
| | | |
| Property and Equipment, at cost – successful efforts method: | | |
| Oil and Gas properties | 244,158 | 243,855 |
| Advanced payment for equipment | 440 | 440 |
| Other | 57,292 | 56,490 |
| Total Property and Equipment | 301,890 | 300,785 |
| Accumulated depreciation, depletion, amortization and impairment | (246,390) | (235,194) |
| Net Property and Equipment | 55,500 | 65,591 |
| | | |
| Deferred tax assets and other | 38,735 | 35,496 |
| Deferred financing costs | - | 419 |
| Restricted cash – long term | 7,122 | 7,080 |
| Investments | 230 | 98 |
| Total assets | $141,272 | $146,957 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $11,840 | $13,122 |
| Bank overdraft | - | 350 |
| Short term debt and current maturities of long-term debt, net of discount of $789 and $820 | 9,147 | 9,602 |
| Payables and accrued interest due to related party | 90 | 63 |
| Accrued interest | 974 | 950 |
| Derivative liability | 916 | 1,171 |
| Total current liabilities | 22,967 | 25,258 |
| | | |
| Long term debt, net of discount of $2,959 and $3,748 | 95,441 | 104,252 |
| | | |
| Other Long-term Liabilities: | | |
| Asset retirement obligations | 20,748 | 19,884 |
| Derivative liability | 100 | 431 |
| Total liabilities | 139,256 | 149,825 |
| | | |
| Commitments and contingencies (Note 11) | | |
| | | |
| Shareholders' equity (deficit): | | |
| Common stock $0.01 par value; authorized 7,500,000 shares; issued 2,746,958 shares; outstanding 2,717,691 shares | 27 | 27 |

| | | |
|---|---|---|
| Additional paid-in capital | 23,853 | 23,853 |
| Accumulated deficit | (16,660) | (23,405) |
| Treasury stock, 29,267 shares at cost | (164) | (164) |
| Total Isramco, Inc. shareholders’ equity (deficit) | 7,056 | 311 |
| Non controlling interest | (5,040) | (3,179) |
| Total equity (deficit) | 2,016 | (2,868) |
| Total liabilities and shareholders’ equity (deficit) | $ 141,272 | $ 146,957 |

See notes to the consolidated financial statements.

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ISRAMCO INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

| Year Ended December 31 | 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenues and other | | | |
| Oil and gas sales | $40,409 | $42,198 | $62,018 |
| Production services | 12,752 | 22,465 | 29,979 |
| Office services | 569 | 634 | 623 |
| Gain on divestiture | 600 | 8,378 | 465 |
| Other | 612 | 834 | 813 |
| Total revenues and other | 54,942 | 74,509 | 93,898 |
| Operating expenses | | | |
| Lease operating expense, transportation and taxes | 8,925 | 14,828 | 19,066 |
| Depreciation, depletion and amortization | 6,667 | 9,944 | 10,826 |
| Impairments of oil and gas assets and equipment | 4,529 | 43,704 | 19,540 |
| Accretion expense | 897 | 856 | 874 |
| Production services | 14,494 | 21,802 | 23,861 |
| Loss (gain) from plug and abandonment | (3) | 91 | 49 |
| General and administrative | 5,366 | 6,140 | 5,309 |
| Total operating expenses | 40,875 | 97,365 | 79,525 |
| Operating income (loss) | 14,067 | (22,856) | 14,373 |
| Other expenses | | | |
| Interest expense, net | 4,817 | 2,432 | 2 |
| Interest expense – related party, net | - | 2,878 | 6,771 |
| Loss from derivative contracts, net | 657 | 1,988 | - |
| Capital (gain) loss | 70 | 85 | (388) |
| Total other expenses | 5,544 | 7,383 | 6,385 |
| Income (loss) before income taxes | 8,523 | (30,239) | 7,988 |
| Income tax benefit (expense) | (3,634) | 9,251 | (2,859) |
| Net income (loss) | $4,889 | $(20,988) | $5,129 |
| Net (loss) attributable to non-controlling interests | (1,856) | (3,678) | (33) |
| Net income (loss) attributable to Isramco | $6,745 | $(17,310) | $5,162 |
| Earnings (loss) per share – basic: | $2.48 | $(6.37) | $1.90 |
| Earnings (loss) per share – diluted: | $2.48 | $(6.37) | $1.90 |
| Weighted average number of shares outstanding-basic: | 2,717,691 | 2,717,691 | 2,717,691 |
| Weighted average number of shares outstanding-diluted: | 2,717,691 | 2,717,691 | 2,717,691 |

See notes to the consolidated financial statements.

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ISRAMCO INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

| Year Ended December 31 | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net income (loss) | $4,889 | $(20,988) | $5,129 |
| Comprehensive income (loss) | 4,889 | (20,988) | 5,129 |
| Comprehensive income (loss) attributable to non-controlling interests | (1,856) | (3,678) | (33) |
| Comprehensive income (loss) attributable to Isramco | $6,745 | $(17,310) | $5,162 |

See notes to the consolidated financial statements.

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ISRAMCO INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 and 2014
(in thousands, except share amounts)

| | Common stock | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Additional Paid-In Capital | Accumulated other comprehensive income (loss) | Retained Earnings (Accumulated Deficit) | Treasury stock | Non-controlling interests | Total Shareholders' Equity (Deficit) |
| Balance of January 1, 2014 | 2,717,691 | $ 27 | $ 23,268 | $ - | $ (11,257) | $ (164) | $ 617 | $ 12,491 |
| Distribution to non-controlling interests | | | | | | | (85) | (85) |
| Credits from short swing profits | | | 585 | | | | | 585 |
| Net income (loss) | | | | | 5,162 | | (33) | 5,129 |
| Balance of December 31, 2014 | 2,717,691 | $ 27 | $ 23,853 | $ - | $ (6,095) | $ (164) | $ 499 | $ 18,120 |
| Net loss | | | | | (17,310) | | (3,678) | (20,988) |
| Balance of December 31, 2015 | 2,717,691 | $ 27 | $ 23,853 | $ - | $ (23,405) | $ (164) | $ (3,179) | $ (2,868) |
| Distribution to non-controlling interests | | | | | | | (5) | (5) |
| Net income (loss) | | | | | 6,745 | | (1,856) | 4,889 |
| Balance of December 31, 2016 | 2,717,691 | $ 27 | $ 23,853 | $ - | $ (16,660) | $ (164) | $ (5,040) | $ 2,016 |

See notes to consolidated financial statements.

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ISRAMCO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| Year Ended December 31 | 2016 | 2015 | 2014 |
|---|---|---|---|
| Cash Flows From Operating Activities: | | | |
| Net income (loss) | $4,889 | $(20,988) | $5,129 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation, depletion, amortization | 6,667 | 9,944 | 10,826 |
| Impairment of oil and gas properties and equipment | 4,529 | 43,704 | 19,540 |
| Bad debt expense | 551 | 1,094 | 405 |
| Accretion expense | 897 | 856 | 874 |
| Gain on divestiture | (600) | (8,378) | (465) |
| Changes in deferred taxes | (3,239) | (15,915) | (3,890) |
| Net unrealized loss on derivative contracts | (586) | 1,602 | - |
| Loss on sale of equipment and other | 70 | 85 | 77 |
| Gain on insurance recovery from property casualty | - | - | (466) |
| Amortization of debt cost | 940 | 462 | - |
| Write off of debt cost | 299 | - | - |
| Changes in components of working capital and other assets and liabilities | | | |
| Accounts receivable | 2,007 | 3,712 | (2,916) |
| Prepaid expenses and other current assets | 639 | 1,787 | 656 |
| Due to related party | 27 | (4,786) | (9,103) |
| Inventories | 174 | (42) | (412) |
| Accounts payable and accrued expenses | (1,754) | (4,226) | (479) |
| Net cash provided by operating activities | 15,510 | 8,911 | 19,776 |
| | | | |
| Cash flows from investing activities: | | | |
| Addition to oil and gas property and equipment, net | (794) | (4,883) | (21,799) |
| Proceeds from sale of oil and gas properties | 600 | 7,506 | 477 |
| Proceeds from sale of equipment | 77 | - | - |
| Restricted cash and deposit, net | (558) | (7,205) | 1,500 |
| Insurance proceeds from property casualty | - | - | 466 |
| Investment in Apache Flats | (132) | (98) | - |
| Net cash used in investing activities | (807) | (4,680) | (19,356) |
| | | | |
| Cash flows from financing activities: | | | |
| Distributions to non-controlling interests | - | - | (85) |
| Proceeds from long term debt | - | 115,030 | - |
| Repayment of long term debt | (9,000) | (3,000) | - |
| Repayments on loans – related parties, net | - | (94,250) | (108) |
| Repayment of short-term debt | (1,341) | (1,810) | (1,580) |
| Payment of deferred financing costs | - | (478) | - |
| Borrowings of bank overdraft, net | (350) | 328 | (769) |
| Net cash provided by (used in) financing activities | (10,691) | 15,820 | (2,542) |
| | | | |
| Net increase (decrease) in cash and cash equivalents | 4,012 | 20,051 | (2,122) |
| Cash and cash equivalents at beginning of year | 22,078 | 2,027 | 4,149 |

| | | | |
|---|---|---|---|
| Cash and cash equivalents at end of year | $26,090 | $22,078 | $2,027 |

See notes to the consolidated financial statements.

ISRAMCO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

Isramco, Inc. and its subsidiaries and affiliated companies (together referred to as “We”, “Our”, “Isramco” or the “Company”) is predominately an independent oil and natural gas company engaged in the exploration, development and production of oil and natural gas properties located onshore in the United States and ownership of various royalty interests in oil and gas concessions located offshore Israel. The Company also operates a production services company that provides well maintenance and workover, well completion and recompletion services. The Company’s consolidated financial statements include the accounts of all majority-owned, controlled subsidiaries. All intercompany accounts and transactions have been eliminated. The Company has evaluated events or transactions through the date of issuance of this report in conjunction with the preparation of these consolidated financial statements.

Use of Estimates

In preparing financial statements in accordance with accounting principles generally accepted in the United States, management makes informed judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. Management evaluates its estimates and related assumptions regularly, including those related to the value of properties and equipment; proved reserves; intangible assets; asset retirement obligations; litigation reserves; environmental liabilities; liabilities, and costs; income taxes; and fair values. Changes in facts and circumstances or additional information may result in revised estimates, and actual results may differ from these estimates.

Fair Value Measurements

Certain of Isramco’s assets and liabilities are measured at fair value at each reporting date. Fair value represents the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants. This price is commonly referred to as the “exit price.” Fair value measurements are classified according to a hierarchy that prioritizes the inputs underlying the valuation techniques. This hierarchy consists of three broad levels:

- Level 1 – Inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. When available, Isramco measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

- Level 2 – Inputs consist of quoted prices that are generally observable for the asset or liability. Common examples of Level 2 inputs include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in markets not considered to be active.

- Level 3 – Inputs are not observable from objective sources and have the lowest priority. The most common Level 3 fair value measurement is an internally developed cash flow model.

Cash and Cash Equivalents

Isramco records as cash equivalents all highly liquid short-term investments with original maturities of three months or less.

Restricted and designated cash

Restricted cash deposits are held in favor of financial institutions or represent deposits with original maturity of longer than three months.

Allowance for Doubtful Accounts

The Company establishes provisions for losses on accounts receivable if it determines that it will not collect all or part of the outstanding balance. The Company regularly reviews collectability and establishes or adjusts the allowance as necessary by using both the specific identification method and/or general allowance as a percentage of outstanding accounts receivable balances.

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Oil and Gas Operations

The Company applies the successful efforts method of accounting for oil and gas properties. Under the successful efforts method, exploration costs such as exploratory geological and geophysical costs, delay rentals and exploration overhead are charged against earnings as incurred. Acquisition costs and costs of drilling exploratory wells are capitalized pending determination of whether proved reserves can be attributed to the area as a result of drilling the well. If management determines that commercial quantities of hydrocarbons have not been discovered, capitalized costs associated with exploratory wells are charged to exploration expense. Acquisition costs of unproved leaseholds are assessed for impairment during the holding period and transferred to proved oil and gas properties to the extent associated with successful exploration activities. Significant undeveloped leases are assessed individually for impairment, based on the Company's current exploration plans, and a valuation allowance is provided if impairment is indicated.

Depreciation, depletion and amortization of the cost of proved oil and gas properties are calculated using the unit-of-production method. The reserve base used to calculate depreciation, depletion and amortization is the sum of proved developed reserves and proved undeveloped reserves for leasehold acquisition costs and the cost to acquire proved properties. With respect to lease and well equipment costs, which include development costs and successful exploration drilling costs, the reserve base includes only proved developed reserves. Estimated future dismantlement, restoration and abandonment costs, net of salvage values, are taken into account.

Amortization rates are updated to reflect: 1) the addition of capital costs, 2) reserve revisions (upwards or downwards) and additions, 3) property acquisitions and/or property dispositions and 4) impairments.

The Company reviews its property and equipment in accordance with Accounting Standard Codification (ASC) 360, Property, Plant, and Equipment ("ASC 360"). ASC 360 requires the Company to evaluate property and equipment as an event occurs or circumstances change that would more likely than not reduce the fair value of the property and equipment below the carrying amount. If the carrying amount of property and equipment is not recoverable from its undiscounted cash flows, then the Company would recognize an impairment loss for the difference between the carrying amount and the discounted cash flow.

In 2016, 2015 and 2014, we reported an impairment charge of $4,529,000, $33,138,000, and $19,540,000, respectively, relating to our oil and gas properties. Impairments of oil and gas assets of $4,529,000 in 2016 were a result of lower estimated future production in a few fields. Impairments of oil and gas assets of $33,138,000 in 2015 were a result of lower estimated future crude oil, natural gas and NGLs prices which are basis for an impairment calculation and a decrease in production volumes in certain fields 2015. Impairments of oil and gas assets of $19,540,000 in 2014 were a result of lower estimated future crude oil, natural gas and NGLs prices which are basis for an impairment calculation and a decrease in production volumes in certain fields in 2014.

Gain on divestiture – During the year ended December 31, 2016 the Company sold deep rights in one field for a gain of $600,000. The property sold had no net book value. During year ended December 31, 2015 the Company sold several leases for a net gain of $8,378,000. The gain consists of $7,506,000 cash plus $1,035,000 in relieved asset retirement obligation offset by a net book value of $163,000. During the year ended December 31, 2014 the Company sold several leases for a net gain of $465,000. The gain consists of $477,000 cash plus $16,000 in relieved asset retirement obligation and accounts offset by a net book value of $28,000.

Inventory

Inventory is valued at the lower of cost or market. Cost is determined by using average method. The Company provides a reserve for obsolete and slow-moving inventory. As of December 31, 2016 and 2015 no reserve has been recorded.

Investments

Investments are recorded at historical costs.

Property, Plant and Equipment Other than Oil and Natural Gas Properties

Property and equipment are carried at cost less accumulated depreciation and impairment. Depreciation is provided for our assets over the estimated depreciable lives of the assets using the straight-line method. Depreciation expense for the years ended December 31, 2016, 2015 and 2014 was $3,569,000, $4,275,000, and $3,251,000 respectively. We depreciate our operational assets over their depreciable lives to their salvage value, which is a fair value higher than the assets' value as scrap. Salvage value approximates 15% of an operational asset's acquisition cost. When an operational asset is stacked or taken out of service, we review its physical condition, depreciable life and ultimate salvage value to determine if the asset is no longer operable and whether the remaining depreciable life and salvage value should be adjusted. When we scrap an asset, we accelerate the depreciation of the asset down to its salvage value. When we dispose of an asset, a gain or loss is recognized.

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As of December 31, 2016, the estimated useful lives of our asset classes are as follows:

| Description | Years |
|---|---|
| Production services rigs and components | 15 |
| Oilfield trucks, vehicles and related equipment | 5 - 10 |
| Production services auxiliary equipment | 7 - 15 |
| Furniture and equipment | 3 - 7 |

A long-lived asset or asset group should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. For purposes of testing for impairment, we group our long-lived assets along our lines of business based on the services provided, which is the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. We record an impairment charge, reducing the net carrying value to an estimated fair value, if the asset group's estimated future cash flows were less than its net carrying value. Events or changes in circumstance that cause us to evaluate our fixed assets for recoverability and possible impairment may include changes in market conditions, such as adverse movements in the prices of oil and natural gas, or changes of an asset group, such as its expected future life, intended use or physical condition, which could reduce the fair value of certain of our property and equipment. The development of future cash flows and the determination of fair value for an asset group involves significant judgment and estimates. During the year ended December 31, 2015 we recorded an impairment of $10,566,000 in relation to our production services segment equipment. We had no such impairment loss in 2016 or 2014.

Asset Retirement Obligation

ASC 410, Asset Retirement and Environmental Obligations (ASC 410) requires that the fair value of an asset retirement cost, and corresponding liability, should be recorded as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The Company records asset retirement obligations to reflect the Company's legal obligations related to future plugging and abandonment of its oil and natural gas wells and gas gathering systems. The Company estimates the expected cash flow associated with the obligation and discounts the amounts using a credit-adjusted, risk-free interest rate. At least annually, the Company reassesses the obligation to determine whether a change in the estimated obligation is necessary. The Company evaluates whether there are indicators that suggest the estimated cash flows underlying the obligation have materially changed. Should those indicators suggest the estimated obligation may have materially changed on an interim basis (quarterly), the Company will accordingly update its assessment. Additional retirement obligations increase the liability associated with new oil and natural gas wells as these obligations are incurred. See Note 12 "Asset Retirement Obligations."

Concentrations of Credit Risk

Through our wholly-owned subsidiary, we operate a substantial portion of our domestic oil and natural gas properties. As the operator of a property, the Company makes full payment of the costs associated with each property and seeks reimbursement from the other working interest owners in the property for their share of those costs. Isramco's joint interest partners consist primarily of independent oil and natural gas producers. If the oil and natural gas exploration and production industry in general were adversely affected, the ability of the Company's joint interest partners to reimburse the Company could be adversely affected.

The purchasers of the Company's oil and natural gas production consist primarily of independent marketers, major oil and natural gas companies and gas pipeline companies. During the years ended December 31, 2016 and 2015, no purchaser, marketer, or major oil and gas or pipeline company accounted for 10% or more of Isramco's consolidated revenues. During the year ended December 31, 2014 only one purchaser, Sunoco Logistics Partners L.P., accounted for 13% of Isramco's consolidated revenues. The Company has not experienced any significant losses from uncollectible accounts as to its sales of oil and gas production. The Company does not believe the loss of any one of its purchasers would materially affect the Company's ability to sell the oil and natural gas it produces. The Company believes other purchasers are available in the Company's areas of operations.

The Company's overriding royalty interest in the Tamar field is paid monthly by Isramco Negev 2 Limited Partnership, a related party. During the twelve months ended December 31, 2016, 2015, and 2014, income from this source accounted for 50%, 34%, and 27% respectively of the Company's consolidated revenues. If Isramco Negev 2 Limited Partnership were to stop receiving revenue from its working interest in the Tamar Field, we would not receive revenue from our overriding royalty interest. Loss of payments from this source would have significant financial consequences on the Company.

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Our production service subsidiary customers include major oil and natural gas production companies and independent oil and natural gas production companies. We perform credit evaluations of our customers and usually do not require collateral. We maintain reserves for potential credit losses when necessary. During the twelve months ended December 31, 2016, 2015 and 2014, no one individual customer accounted for 10% or more of consolidated revenues. The Company believes the loss of one or more customers of our production service subsidiary would not have a significant effect on this Segment because the Company believes that it can employ its rigs with other existing customers or new customers to the extent it has in the past in such circumstances.

Revenue Recognition

Revenues from the sale of oil and natural gas are recognized when the products are sold to a purchaser at a fixed or determinable price, delivery has occurred and title has transferred, and collectability of the revenue is reasonably assured. The Company follows the sales method of accounting for recording oil and gas revenues. Under this method, the company records revenue based on the actual sale of volumes to purchasers.

Revenues from our production services activities are recognized when all of the following criteria have been met: (i) evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed and determinable and (iv) collectability is reasonably assured.

- Evidence of an arrangement exists when a final understanding between us and our customer has occurred, and can be evidenced by a completed customer purchase order, field ticket, supplier contract, or master service agreement.

- Delivery has occurred or services have been rendered when we have completed requirements pursuant to the terms of the arrangement as evidenced by a field ticket.

- The price to the customer is fixed and determinable when the amount that is required to be paid is agreed upon. Evidence of the price being fixed and determinable is evidenced by contractual terms, our price book, a completed customer purchase order, or a field ticket.

- Collectability is reasonably assured when we screen our customers and provide goods and services to customers according to determined credit terms that have been granted based on credit evaluation and assessment.

We present our revenues net of any sales taxes collected by us from our customers that are required to be remitted to local or state governmental taxing authorities.

Price Risk Management Activities

The Company follows ASC 815, Derivatives and Hedging. From time to time, the Company may hedge a portion of its forecasted oil and natural gas production. Derivative contracts entered into by the Company consist of transactions in which the Company hedges the variability of cash flow related to a forecasted transaction. The Company elected to not designate any of its positions for hedge accounting. Accordingly, the Company records the net change in the mark-to-market valuation of these positions, as well as payments and receipts on settled contracts, in “Net gain (loss) on derivative contracts” on the Company’s consolidated statements of operations.

As of the date of this report there are no open hedge positions related to commodity prices.

Deferred Financing Costs

Deferred financing costs are amortized over the life of the underlying credit agreement or the expected remaining life of the underlying credit agreement.

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Income Taxes

We account for deferred income taxes using the asset and liability method and provide deferred taxes for all significant temporary differences. Management determines our current tax liability as well as taxes incurred as a result of current operations, but which are deferred until future periods. Current taxes payable represent our liability related to our income tax returns for the current year, while net deferred tax expense or benefit represents the change in the balance of deferred tax assets and liabilities reported on our consolidated balance sheets. Management estimates the changes in both deferred tax assets and liabilities using the basis of assets and liabilities for financial reporting purposes and for enacted rates that management estimates will be in effect when the differences reverse. Further, management makes certain assumptions about the timing of temporary tax differences for the differing treatments of certain items for tax and accounting purposes or whether such differences are permanent. The final determination of our tax liability involves the interpretation of local tax laws, tax treaties, and related authorities in each jurisdiction as well as the significant use of estimates and assumptions regarding the scope of future operations and results achieved and the timing and nature of income earned and expenditures incurred.

We establish valuation allowances to reduce deferred tax assets if we determine that it is more likely than not (e.g., a likelihood of more than 50%) that some portion or all of the deferred tax assets will not be realized in future periods. To assess the likelihood, we use estimates and judgment regarding our future taxable income, as well as the jurisdiction in which this taxable income is generated, to determine whether a valuation allowance is required. Such evidence can include our current financial position, our results of operations, both actual and forecasted results, the reversal of deferred tax liabilities, and tax planning strategies as well as the current and forecasted business economics of our industry. Additionally, we record uncertain tax positions at their net recognizable amount, based on the amount that management deems is more likely than not to be sustained upon ultimate settlement with the tax authorities in the domestic and international tax jurisdictions in which we operate.

See “Note 5 Income Taxes” for further discussion of accounting for income taxes, changes in our valuation allowance, components of our tax rate reconciliation and realization of loss carryforwards.

Legal Contingencies

When estimating our liabilities related to litigation, we take into account all available facts and circumstances in order to determine whether a loss is probable and reasonably estimable.

Various suits and claims arising in the ordinary course of business are pending against us. We conduct business throughout the continental United States and offshore Israel and may be subject to jury verdicts or arbitrations that result in outcomes in favor of the plaintiffs. We continually assess our contingent liabilities, including potential litigation liabilities, as well as the adequacy of our accruals and our need for the disclosure of these items. We establish a provision for a contingent liability when it is probable that a liability has been incurred and the amount is reasonably estimable.

Earnings per Share

The Company’s basic earnings per share (EPS) amounts have been computed based on the average number of shares of common stock outstanding for the period and include the effect of any participating securities as appropriate. Diluted EPS includes the effect of the Company’s outstanding stock options, restricted stock awards, restricted stock units and performance-based stock awards if the inclusion of these items is dilutive.

For the years ended December 31, 2016, 2015, & 2014, Isramco did not have any outstanding stock options, restrictive stock awards, restricted stock units, or performance-based awards.

Noncontrolling Interests

Noncontrolling interests represent third-party ownership in the net assets of the Company's consolidated subsidiary and are presented as a component of equity.

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Environmental

The Company accrues for losses associated with environmental remediation obligations when such losses are probable and can be reasonably estimated. Accruals for estimated losses from environmental remediation obligations are recognized no later than the time of the completion of the remediation feasibility study or remediation plan. These accruals are adjusted as additional information becomes available or as circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

Recently Issued Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board (FASB) issued guidance regarding the classification and presentation of changes in restricted cash on the statement of cash flows. The guidance requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents using a retrospective approach. The guidance is effective for interim and annual periods beginning after December 15, 2017. We are currently evaluating the impact of this guidance on our financial statements.

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Inventory”, which updates previously issued standards to improve the income tax consequences of intra-entity transfers of assets other than inventory. This ASU is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating what impact this standard will have on our consolidated financial statements.

In May 2014, the FASB issued guidance regarding the accounting for revenue from contracts with customers. In April 2016, May 2016 and December 2016, the FASB issued additional guidance, addressed implementation issues and provided technical corrections. The guidance may be applied retrospectively or using a modified retrospective approach to adjust retained earnings (deficit). The guidance is effective for interim and annual periods beginning after December 15, 2017. We are currently evaluating the impact of this guidance on our financial statements.

In February 2016, the FASB issued guidance regarding the accounting for leases. The guidance requires recognition of most leases on the balance sheet. The guidance requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The guidance is effective for interim and annual periods beginning after December 15, 2018. We are currently evaluating the impact of this guidance on our financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall,” which requires separate presentation of financial assets and liabilities on the balance sheet and requires evaluation of the need for valuation allowance of deferred tax assets related to available-for-sale securities. ASU 2016-01 is effective for annual reporting periods beginning after December 15, 2017, with early adoption not permitted. We do not expect the adoption of this guidance will have a material effect on our consolidated financial statements.

2. Transactions with Affiliates and Related Parties

On November 17, 2008, the Company and Goodrich entered into an Amended and Restated Agreement, as subsequently amended on November 24, 2008, and January 1, 2011 (the “Goodrich Agreement”). The Goodrich Agreement replaced the consulting agreement entered into in May 1996 between the Company and Goodrich which terminated on May 31, 2008, pursuant to which the Company paid $240,000 per annum in installments of $20,000 per month. Under the Goodrich Agreement, as of June 1, 2008, the Company pays Goodrich $360,000 per annum in installments of $30,000 per month in addition to reimbursing Goodrich for all reasonable expenses incurred in connection with services rendered to the Company. The Company’s payment of $360,000 per year under the Goodrich

Agreement is herein reflected as the salary of Haim Tsuff, the Company's Chairman, Chief Executive Officer and President. The Goodrich Agreement had an initial term through May 31, 2011, and automatically extended by its terms for an additional three-year period. The Goodrich Agreement contains certain customary confidentiality and non-compete provisions. The Company and Goodrich entered into a Consulting Agreement dated effective June 1, 2014 (the "2014 Consulting Agreement"), which replaced the Goodrich Agreement. However, the 2014 Consulting Agreement will continue the payment to Goodrich of $360,000 per annum in installments of $30,000 per month, in addition to reimbursing Goodrich for all reasonable business expenses, including automobile expenses, incurred by Mr. Tsuff in connection with services rendered on behalf of the Company, in exchange for management services performed by Mr. Tsuff as the Company's Chairman, Chief Executive Officer and President. The 2014 Consulting Agreement has an initial term through May 31, 2017, and will be automatically extended by its terms for an additional three-year period unless the Company or Goodrich elects otherwise prior to such extension. The Consulting Agreement also contains certain customary confidentiality and non-compete provisions which are identical to those contained in the Goodrich Agreement.

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As previously disclosed, on May 18, 2015, Tamar Royalties LLC, a newly formed, wholly-owned, special purpose subsidiary of the Company, entered into a term loan credit agreement with Deutsche Bank Trust Company Americas, as facility agent for the lenders and as collateral agent for the secured parties, and with the lenders party thereto. Pursuant to the terms of the transaction, the Amended and Restated Borrower LLC Agreement of Tamar Royalties LLC requires management by N.M.A. Energy Resources Ltd, a related party of the Company, and an independent manager, Donald J. Puglisi. As consideration for its management of Tamar Royalties LLC, the Company pays twenty thousand dollars ($20,000) per month to N.M.A. Energy Resources Ltd. As noted herein, Isramco Inc. owns all ownership interests in Tamar Royalties LLC, subject to its management by the aforementioned parties. All overriding royalty payments received in Tamar Royalties LLC are paid by Isramco Negev 2 Limited Partnership, a company affiliated by common ownership.

3. Financial Instruments and Fair Value

Pursuant to ASC 820, Fair Value Measurements and Disclosures (ASC 820) the Company's determination of fair value incorporates not only the credit standing of the counterparties involved in transactions with the Company resulting in receivables on the Company's consolidated balance sheets, but also the impact of the Company's nonperformance risk on its own liabilities. ASC 820 defines fair value as 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 (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs.

On June 16, 2015, Tamar Royalties LLC, a wholly owned subsidiary of the Company, engaged in an interest rate swap agreement ("IRS Agreement") with the Deutsche Bank AG London Branch ("DBAG"). An interest rate swap is an agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified notional principal amount. Interest rate swaps often exchange fixed interest payments for floating interest payments that are linked to interest rates.

As previously disclosed on the Company's Form 8-K filed May 22, 2015, Tamar Royalties LLC entered into a $120,000,000 credit facility with Deutsche Bank, which facility is discussed further in Note 4 "Long-Term Debt and Interest Expense". Under the terms of this facility, Tamar Royalties LLC, is required to hedge at least seventy-five percent (75%) of the outstanding balance under this Facility against fluctuations in LIBOR, with at least thirty seven and one-half percent (37.5%) of the outstanding balance being hedged through swaps. The notional value of these hedges corresponds to the amortization schedule covering the facility and previously disclosed in the aforementioned Form 8-K. Accordingly, on June 16, 2015, Tamar Royalties LLC and DBAG entered into the IRS agreement whereby Tamar Royalties LLC hedged $119,250,000 of the $120,000,000 initial borrowing as follows:

(a) Tamar Royalties LLC hedged 37.5% of the perpetual outstanding balance under the facility, being an initial notional amount of $45,000,000, with a fixed rate swap whereby the Company will pay DBAG a fixed interest rate of 4.63%, and DBAG will pay the Company a monthly floating interest rate of USD-LIBOR-BBA plus a spread of 2.75%.

(b) Tamar Royalties hedged the remaining 62.5% of the perpetual outstanding balance less $750,000, being an initial notional amount of $74,250,000, against fluctuations in LIBOR by capping the fluctuations in LIBOR at 1.50%. Pursuant to the IRS agreement, the Company will pay DBAG a fixed interest rate of 0.91%, and the Bank will pay the Company the greater of (i) USD-LIBOR-BBA minus a cap strike of 1.5% and (ii) zero.

Financial Instruments as of December 31, 2016 and December 31, 2015 consisted of the following (in thousands):

| Financial Instrument | Fair Value Input Level | December 31, 2016 Carrying Value | December 31, 2016 Fair Value | December 31, 2015 Carrying Value | December 31, 2015 Fair Value |
|---|---|---|---|---|---|
| ST Liabilities: | | | | | |
| Interest rate swaps | Level 2 | $(916) | $(916) | $(1,171) | $(1,171) |
| LT Liabilities: | | | | | |
| Interest rate swaps | Level 2 | (100) | (100) | (431) | (431) |
| | | $(1,016) | $(1,016) | $(1,602) | $(1,602) |

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Level 2 Financial Instruments

Our interest rate swaps are measured at fair value using Level 2 inputs. The fair of our interest rate swaps is based on the net present value of expected future cash flows related to both variable and fixed-rate legs of the swap agreement. This measurement is computed using the forward London Interbank Offered Rate ("LIBOR") yield curve, a market-based observable input.

4. Long-Term Debt and Interest Expense

Long-term debt as of December 31, 2016 and December 31, 2015 consisted of the following (in thousands):

| | As of December 31, 2016 | As of December 31, 2015 |
|---|---|---|
| Bank loan | | |
| Principal amount | $ 108,000 | $ 117,000 |
| Less: unamortized discount and debt costs | (3,748 ) | (4,568 ) |
| Total long-term debt | 104,252 | 112,432 |
| Less: current maturities and current discount amortization | (8,811 ) | (8,180 ) |
| Long-term debt, net of current maturities | $ 95,441 | $ 104,252 |

Bank Loan and Credit Facility

The Deutsche Bank Facility

On May 18, 2015, Tamar Royalties LLC ("Tamar Royalties"), a newly formed, wholly-owned, special purpose subsidiary of the Company, entered into a term loan credit agreement (the "DB Facility") with Deutsche Bank Trust Company Americas ("Deutsche Bank"), as facility agent for the lenders and as collateral agent for the secured parties, and with the lenders party thereto. The DB Facility provides for borrowings in the amount of $120,000,000 on a committed basis and is secured by, among other things, an overriding royalty interest in the Tamar Field, a natural gas field in the Mediterranean Sea, equal to 1.5375%, but is subject to increase to 2.7375% upon the Tamar project payout (the "Royalty Interest"). In connection with the DB Facility, and pursuant to a royalties sale and contribution agreement, the Company contributed the Royalty Interest to Tamar Royalties in exchange for all of the ownership units of Tamar Royalties. Pursuant to the terms of its governing documents, Tamar Royalties will be managed by N.M.A. Energy Resources Ltd, a related party of the Company, and an independent manager, Donald J. Puglisi.

Pursuant to the terms of the DB Facility, Tamar Royalties borrowed $120,000,000 in its initial borrowing under this facility. The initial borrowing under the DB Facility bears annual interest based on the LIBOR for a three-month interest period plus a spread of 2.75%. The $120,000,000 initial borrowing under the DB Facility will be repaid over eight (8) years commencing July 1, 2015, in accordance with an amortization profile based on projected cash flows from the Royalty Interest. Tamar Royalties' obligations under the Facility are secured by a first ranking pledge of the shares of Tamar Royalties, first ranking pledge of all rights under the agreements creating the Royalty Interest, and a first priority security interest over the accounts created under the DB Facility.

So long as any amounts remain outstanding to the Lenders under the DB Facility, Tamar Royalties must, from and after the end of the Availability Period (as defined in the DB Facility), have a Historical Debt Service Coverage Ratio (as defined in the DB Facility) of not less than 1.00:1.00, a Loan Life Coverage Ratio (as defined in the DB Facility) of at least 1.1:1.00, and maintain a Required Reserve Amount (as defined in the DB Facility). The initial Required Reserve Amount was $4,680,000. As of December 31, 2016 the Amount is $7,122,000 and recorded as "Restricted cash- long-term" on the Consolidated Balance Sheets. In addition, Tamar Royalties is required under the DB facility to hedge against fluctuations in LIBOR as reflected in Note 3 "Financial Instruments and Fair Value".

On January 1, 2016 the Company made a payment in the amount of $2,750,000 consisting of $1,800,000 and $950,000 in principal and interest respectively.

On April 1, 2016 the Company made a payment in the amount of $3,347,000 consisting of $2,400,000 and $947,000 in principal and interest respectively.

On July 1, 2016 the Company made a payment in the amount of $3,362,000 consisting of $2,400,000 and $962,000 in principal and interest respectively.

On October 5, 2016 the Company made a payment in the amount of $3,400,000 consisting of $2,400,000 and $1,000,000 in principal and interest respectively.

On January 3, 2017 the Company made a payment in the amount of $3,374,000 consisting of $2,400,000 and $974,000 in principal and interest respectively.

The Company incurred debt costs in obtaining the facility in the amount of $2,011,000 and $2,959,000 in fees were retained by the lenders. These costs totaling $4,970,000 are recorded as a reduction of the principal loan balance and are being amortized over the life of the loan using the effective interest method. Amortization of these costs for the period ended December 31, 2016 and 2015 totaled $820,000 and $402,000 respectively.

As of December 31, 2016 and 2015, Tamar Royalties was in compliance with the financial covenants required under the DB Facility.

The Société Générale Facility

On June 30, 2015, Isramco Onshore LLC (“Isramco Onshore”), a newly formed, wholly-owned, subsidiary of Isramco, Inc. (the “Company”), entered into a secured Credit Agreement (the “SG Facility”) with The Société Générale, as Administrative Agent and Issuing Lender, SG Americas Securities LLC, as Sole Bookrunner, Lead Arranger and Documentation Agent, and the lenders party thereto from time to time, as Lenders. The SG Facility provides for a commitment by The Société Générale of $150,000,000, subject to an initial borrowing base of $40,000,000. The tenor of the SG Facility was four (4) years and the SG Facility was secured by certain onshore United States oil and gas properties. Pricing under the SG Facility was as follows: (i) for EuroDollar Rate (as defined in the SG Facility) loans range from the EuroDollar rate plus 1.75% to the EuroDollar rate plus 2.75% depending on borrowing base utilization; and (ii) for Reference Rate (as defined in the SG Facility) loans ranges from the Reference Rate plus 0.75% to the Reference Rate Spread plus 1.75% based on borrowing base utilization; (iii) a quarterly commitment fee (as defined in the SG Facility) ranging from an annual rate of 0.38% to 0.5% of the undrawn borrowing base.

The SG Facility provided that Isramco Onshore hedge at least seventy-five percent (75%) of its crude oil production before borrowing under the SG Facility. As of December 31, 2016 and as of the date of issuance Isramco Onshore has not entered into such hedge agreements nor has it made a draw under the SG Facility. The Company incurred $478,000 of financing costs in relation to this credit facility which were capitalized as a long-term asset and amortized over the term on the agreement on a straight-line basis until December 31, 2016 at which time the remaining balance totaling $299,000 was expensed.

Isramco Onshore had various financial and operating covenants required by the SG Facility, including, among other things, the requirement that, during the term of the SG Facility, Isramco Onshore must have a Minimum Current Ratio (as defined in the SG Facility) of not less than 1.00:1.00, a Maximum Leverage Ratio (as defined in the SG Facility) of not less than 4.00:1.00 and a Minimum Interest Coverage Ratio (as defined in the SG Facility) of at least 2.50:1.00. In addition, the SG Facility provided for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control.

On August 18, 2016 as a result of semi-annual borrowing base redetermination the borrowing base under SG Facility was reduced to zero. On February 28, 2017 the SG Facility was terminated.

Related Party Debt

On June 27, 2015 the Company used a portion of the proceeds secured from the DB Facility to repay the then-outstanding principal and interest balances of the related party debt. The final payment totaled $101,022,000 which included loan principal payments totaling $93,395,000 and interest payments totaling $7,267,000. The remaining portion of the payment equal to $360,000 repaid related party payables. As result all related party debt was repaid and the outstanding balance as of December 31, 2016 and 2015 was zero.

On March 27, 2015 the Company made a payment against the $12,000,000 I.O.C. Israel Oil Company, Ltd. Loan, a company which may be deemed to be controlled by Mr. Haim Tsuff, the Company's Chairman and Chief Executive Officer, in the amount of $1,030,000, consisting of $855,000 and $175,000 in principal and interest payments, respectively.

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I.O.C. Israel Oil Company, Ltd. ("IOC")

On February 27, 2007, Isramco obtained a loan in the principal amount of $12,000,000 from IOC, repayable at the end of five years. Interest accrues at a per annum rate of LIBOR plus 6%. Principal is due and payable in four equal annual installments, commencing on the second anniversary of the loan. Accrued interest is payable in equal annual installments. At any time Isramco can make prepayments without premium or penalty. The loan is not secured.

In July 2009, the Company entered into a loan transaction with IOC, a related party, pursuant to which the Company borrowed $6 million (the "IOC Loan"). Amounts outstanding under the IOC Loan bear interest at LIBOR plus 6.0%. The IOC Loan matures in five years, with accrued interest payable annually on each anniversary date of the loan. The IOC Loan may be prepaid at any time without penalty.

Effective February 1, 2009, the loan from IOC was amended and restated to extend the payment deadlines arising on and after February 2009, by two years.

On March 3, 2011, the Company entered into a Loan Agreement with IOC pursuant to which it borrowed the sum of $11,000,000. The loan bears interest at a rate of 10% per annum and is payable in quarterly payments of interest only until March 3, 2013, when all accrued interest and principal is due and payable. The loan may be prepaid at any time without penalty. The loan is unsecured. During September 2011, Isramco paid $4,544,000 of principal pursuant to this Loan agreement with IOC leaving outstanding principle of $6,456,000.

Subsequently, in October 2011 the agreement with IOC, pertaining to the above mentioned loan in the outstanding principal amount of $6,456,000 was renegotiated. The payoff of principal amount was extended by 6 month to September 9, 2013. Interest accrued per annum was determined on LIBOR+5.5% from initial 10%.

On March 29, 2012, the Company entered into a Loan Agreement with IOC pursuant to which it borrowed $3,500,000. The loan bears interest at a rate of Libor + 5.5% per annum and matures on March 29, 2013, when all accrued interest and principal is due and payable. The loan may be prepaid at any time without penalty or premium. The loan was unsecured.

On April 29, 2012, the Company entered into another Loan Agreement with IOC, pursuant to which it borrowed $10,000,000. The loan bears interest of Libor+5.5% per annum and matures on April 30, 2013, when all accrued interest and principal is due and payable. The loan may be prepaid at any time without penalty or premium. The loan was funded by IOC in three monthly installments starting April 2012. The loan is unsecured. The purpose of the loan was to provide funds to Isramco for the payment of amounts that were due to the Lenders under the Senior Credit Facility that was paid in full June 29, 2012.

On February 13, 2013, the Company entered into another Loan Agreement with IOC, pursuant to which it borrowed $1,500,000. The loan bears interest of Libor+6% per annum and matures on February 13, 2018, when all accrued interest and principal is due and payable. The loan may be prepaid at any time without penalty or premium. The loan is unsecured. The purpose of the loan was to provide funds to back up a Letter of Credit.

On March 1, 2013, all of the above-mentioned Loan agreements and notes with IOC except for the $1,500,000 loan agreement entered on February 13, 2013, were amended. The terms of all these loans and notes between the Company and IOC were amended extending the maturity to December 31, 2018. In addition the payment schedule was changed on the all of the loans and notes to require accrued interest only payments December 31, 2014, December 31, 2015, December 31, 2016, December 31, 2017 and final interest payment December 31, 2018 with outstanding principal paid in four equal installments with the first payment December 31, 2015 and a similar payment made December 31 in each of the following three years until the final payment on December 31, 2018. The other terms of the loan agreements and notes remained unchanged. In accordance with the amendment, as of December 31, 2013 the loans are classified as long-term on our consolidated balance sheets.

As noted above, on June 27, 2015 the Company used a portion of the proceeds secured from the DB Facility to repay the then-outstanding principal and interest balances of the related party debt. Accordingly, the IOC debts have been paid in full.

Mr. Haim Tsuff, Isramco’s Chief Executive Officer and Chairman and is a controlling shareholder of IOC.

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Naphtha Israel Petroleum Corp. Ltd., (“Naphtha”)

In connection with the Company’s purchase of certain oil and gas interests mainly in New Mexico and Texas in February 2007, the Company obtained loan from Naphtha, a related party, with terms and conditions as below:

On February 27, 2007, Isramco obtained a loan, in the principal amount of $11,500,000 from Naphtha, repayable at the end of seven years. Interest accrues at a per annum rate of LIBOR plus 6%. Principal is due and payable in four equal installments, commencing on the fourth anniversary of the date of the loan. Interest is payable annually upon each anniversary date of this loan. At any time Isramco can make prepayments without premium or penalty. The loan is not secured. Interest is payable at the end of each loan year. Principal plus any accrued and unpaid interest are due and payable on February 27, 2014. Interest after the maturity date accrues at the per annum rate of LIBOR plus 12% until paid in full. At any time, Isramco is entitled to prepay the outstanding amount of the loan without penalty or prepayment. To secure its obligations that may be incurred under the Loan Agreement, Jay Petroleum, LLC, a wholly owned subsidiary of Isramco, agreed to guarantee the indebtedness. Naphtha can accelerate the loan and exercise its rights under the collateral upon the occurrence any one or more of the following events of default: (i) Isramco’s failure to pay any amount that may become due in connection with the loan within five (5) days of the due date (whether by extension, renewal, acceleration, maturity or otherwise) or fail to make any payment due under any hedge agreement entered into in connection with the transaction, (ii) Isramco’s material breach of any of the representations or warranties made in the loan agreement or security instruments or any writing furnished pursuant thereto, (iii) Isramco’s failure to observe any undertaking contained in transaction documents if such failure continues for 30 calendar days after notice, (iv) Isramco’s insolvency or liquidation or a bankruptcy event or (v) Isramco’s criminal indictment or conviction under any law pursuant to which such indictment or conviction can lead to a forfeiture by Isramco of any of the properties securing the loan.

Effective February 1, 2009, the loan from Naphtha to the Company was amended and restated to extend all payment deadlines arising on and after February 2009, by two years.

On March 1, 2013, the terms of the existing loan and note between the Company and Naphtha was amended extending the maturity to December 31, 2018. The payment schedule was changed on the Naphtha loan and note to require interest only payments December 31, 2013, December 31, 2014, December 31, 2015, December 31, 2016, December 31, 2017 and the final interest payment December 31, 2018 with principal outstanding paid in four equal installments with the first payment December 31, 2015 and a similar payment made December 31 in each of the following three years until the final payment on December 31, 2018. The other terms of the loan agreement and note remained unchanged. In accordance with the amendment, as of December 31, 2013 the loan is classified as long-term on our balance sheet.

As noted above, on June 27, 2015 the Company used a portion of the proceeds secured from the DB Facility to repay the then-outstanding principal and interest balances of the related party debt. Accordingly, the Naphtha debts have been paid in full.

Mr. Haim Tsuff, Isramco’s Chief Executive Officer and Chairman and is a controlling shareholder of Naphtha.

Jerusalem Oil Exploration Ltd (“JOEL”)

In February and March, 2008 the Company obtained loans from JOEL in the aggregate principal amount of $48.9 million, repayable at the end of 4 months at an interest rate of LIBOR plus 1.25% per annum. Pursuant to a loan agreement signed in June 2009, the maturity date of this loan was extended for an additional period of seven years. Interest accrues at a per annum rate of LIBOR plus 6%. Principal and interest are due and payable in four equal annual installments, commencing on June 30, 2013. At any time, we can make prepayments without premium or penalty.

On June 30, 2013, the terms of an Amended and Restated Loan Agreement dated May 25, 2008, and note between the Company and Jerusalem Oil Exploration, Ltd. ("JOEL") were amended to extend the maturity date to June 30, 2017. The payment schedule of the loan agreement and note was amended to require principal and accrued interest to be paid in three (3) installments in the amounts reflected in Promissory Note due on June 30th of each year commencing June 30, 2015. The other terms of the loan agreement and note remained unchanged. In accordance with the amendment, as of December 31, 2013, the loans are classified as long-term on our consolidated balance sheets.

Mr. Jackob Maimon, Isramco's president at the time and a former director of the Company is a director of JOEL. Mr. Haim Tsuff, Isramco's Chief Executive Officer and Chairman, is a controlling shareholder of JOEL.

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As noted above, on June 27, 2015 the Company used a portion of the proceeds secured from the DB Facility to repay the then-outstanding principal and interest balances of the related party debt. Accordingly, the JOEL debts have been paid in full.

Isramco also had related party payables of $90,000 and $63,000 as of December 31, 2016 and 2015 respectively.

Short-Term Debt

As of December 31, 2016 and December 31, 2015 outstanding debt from short-term insurance financing agreements totaled $336,000 and $1,422,000 respectively. During the year ended December 31, 2016, the Company made cash payments totaling $1,341,000. The Company also decreased its bank overdraft by $350,000.

Debt Maturities

Aggregate maturities of long-term debt at December 31, 2016 are due in future years as follows (in thousands):

| | |
|---|---|
| 2017 | 9,600 |
| 2018 | 18,900 |
| 2019 | 21,900 |
| 2020 | 17,100 |
| 2021 | 14,700 |
| 2022 | 14,400 |
| 2023 | 11,400 |
| Total | $108,000 |

Interest Expense

The following table summarizes the amounts included in interest expense for the years ended December 31, 2016, 2015 and 2014:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (In thousands) | | |
| Current debt, long-term debt and other - banks | $4,817 | $2,432 | $2 |
| Long-term debt – related parties | - | 2,878 | 6,771 |
| | $4,817 | $5,310 | $6,773 |

5. Income Taxes

The Company operates through its various subsidiaries in the United States (“U.S.”); accordingly, income taxes have been provided based upon the tax laws and federal and state income tax rates in the U.S. as they apply to the Company’s current ownership structure.

The Company accounts for income taxes pursuant to Accounting Standards Codification (ASC) 740, Accounting for Income Taxes, which requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of events that have been recognized in Isramco’s financial statements or tax returns. The Company provides for deferred taxes on temporary differences between the financial statements and tax basis of its assets using the enacted tax rates that are expected to apply to taxable income when the temporary differences are expected to reverse.

The Company adopted Accounting Standards Codification (ASC) 740-10, effective January 1, 2007. The Company recognizes interest and penalties related to unrecognized tax benefits within the provision for income taxes on continuing operations. There were no unrecognized tax benefits that if recognized would affect the tax rate. There were no interest or penalties recognized as of the date of adoption or for the twelve months ended December 31, 2016. The Company's tax years subsequent to 2013 currently remain open and subject to examination by federal tax authorities and the tax authorities in Colorado, Louisiana, Michigan, New Mexico, Oklahoma, Texas, and Utah which are the jurisdictions in which the Company has had its principal operations. In certain of these jurisdictions, the Company operates through more than one legal entity, each of which may have different open years subject to examination. It is important to note that years are technically open for examination until the statute of limitations in each respective jurisdiction expires.

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The income tax provision differs from the amount of income tax determined by applying the Federal Income Tax Rate to pre-tax income from continuing operations due to the following items:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (In thousands) | | |
| Expected tax (benefit) expense | $2,889 | $(10,584) | $2,796 |
| Non-controlling interest in subsidiary | 650 | 1,287 | 27 |
| Other | 95 | 46 | 36 |
| Total tax expense (benefit) | $3,634 | $(9,251 ) | $2,859 |

Deferred tax assets at December 31, 2016 and 2015 are comprised primarily of future tax credits from Tamar field revenue withholdings, net operating loss carry forwards and book impairment from write down of assets. Deferred tax assets consist primarily of the difference between book and tax basis depreciation, depletion and amortization, and impairment. Book basis in excess of tax basis for oil and gas properties and equipment primarily results from differing methodologies for recording property costs and depreciation, depletion and amortization under accounting principles generally accepted in the United States and the applicable income tax statutes and regulations in the jurisdictions in which the Company operates. There is a net deferred tax asset and it is management's opinion that a valuation allowance is not needed, as it is more likely than not based on objective evidence that realization of the deferred tax assets is reasonably assured.

The principal components of the Company's deferred tax assets as of December 31 were as follows (in thousands):

| | 2016 | 2015 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for doubtful accounts | $803 | $610 |
| Unrealized Hedging Transactions | 35 | 410 |
| Foreign tax credit (1) | 24,189 | 17,318 |
| Unrealized Hedging Transactions | 321 | 151 |
| Book-tax differences in property basis | 3,848 | 8,319 |
| Other | 60 | 59 |
| Net operating loss carry-forwards | 9,479 | 8,629 |
| Deferred noncurrent tax assets | $38,735 | $35,496 |

(1) Total revenues net of marketing and transportation expenses from Tamar Field were $27,462,039. The Company paid $6,865,510 in foreign income taxes and as a result has created a foreign tax credit in the US to be used against future US income tax. The credit will expire in various amounts beginning in 2024 and ending in 2026.

Components of income (loss) from operations before income taxes are as follows (in thousands):

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Domestic | $(18,939) | $(55,390) | $(17,156) |
| Foreign | 27,462 | 25,151 | 25,144 |
| Total | 8,523 | (30,239) | 7,988 |

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The principal components of the Company's Income Tax Provision for the years indicated below were as follows (in thousands):

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current income tax: | | | |
| Federal | $- | $- | $56 |
| Foreign | 6,866 | 6,665 | 6,698 |
| State | - | 69 | 45 |
| Total current income tax | $6,866 | $6,734 | $6,799 |
| | | | |
| Deferred income tax | | | |
| Federal | $(3,232) | $(15,985) | $(3,940) |
| Foreign | - | - | - |
| State | - | - | - |
| Total deferred income tax | $(3,232) | $(15,985) | $(3,940) |
| Provision for income tax | $3,634 | $(9,251) | $2,859 |

At December 31, 2016 the Company has U.S. tax loss carry forwards of approximately $26,946,491 which will expire in various amounts beginning in 2028 and ending in 2036. Utilization of such loss carry forwards could be limited to the extent Isramco has an ownership change that triggers the limitation under Section 382 of Internal Revenue Code of 1986, as amended.

## 6. Earnings Per Share

The following table sets forth the computation of Net Income (Loss) Per Share Available to Common Stockholders for the years ended December 31 (in thousands, except per share data):

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Numerator for Basic and Diluted Earnings per Share - | | | |
| Net Income (loss) | $6,745 | $(17,310) | $5,162 |
| | | | |
| Denominator for Basic Earnings per Share - | | | |
| Weighted Average Shares | 2,717,691 | 2,717,691 | 2,717,691 |
| Potential Dilutive Common Shares - | - | - | - |
| Adjusted Weighted Average Shares | 2,717,691 | 2,717,691 | 2,717,691 |
| | | | |
| Net Income (Loss) Per Share Available to Common Stockholders – Basic | $2.48 | $(6.37) | $1.90 |
| Net Income (Loss) Per Share Available to Common Stockholders – Diluted | $2.48 | $(6.37) | $1.90 |

## 7. Stock Options

At the Annual Shareholders Meeting in 2011, the shareholders adopted the 2011 Stock Incentive Plan. That plan will be administered by the Compensation Committee of the Board of Directors and there are 200,000 shares under that plan that may be awarded. Independent members of the board of directors as well as employee of and consultants to the Company are eligible to receive awards. The awards can be in the form of stock options, restricted stock or other stock–based awards. The awards are intended to qualify as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code. There are no granted awards outstanding under the 2011 Stock Incentive Plan.

No stock options were granted during 2016, 2015 and 2014. Shares of common stock reserved for future issuance under the 2011 plan are 200,000 shares. There are no granted stock options outstanding under the 2011 Plan as of balance sheet date.

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8. Supplemental Cash Flow Information

Cash paid for interest and income taxes was as follows for the years ended December 31 (in thousands):

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Interest | $3,859 | $8,451 | $15,804 |
| Income taxes | $- | $- | $52 |

The consolidated statements of cash flows for the years ended December 31, 2016, 2015 and 2014 exclude the following non-cash transactions:

Increase in property and equipment of $1,000 due to additional asset retirement obligation in 2016.
Termination of $487,000 short-term insurance financing reduced prepaid insurance in 2016
Insurance premiums financed through issuance of short term debt of $742,000 in 2016.
Equipment of $457,000 included in accounts payable in 2016.
Equipment additions were offset by trade-ins valued at $75,000 in 2016.
Retirement of asset retirement obligations in the amount of $1,035,000 included in the gain on sale of oil and gas properties in 2015.
Oil and gas property of $1,347,000 removed from accounts payable due to title dispute in 2015.
Insurance premiums financed through issuance of short term debt of $1,954,000 in 2015.
Equipment of $84,000 included in accounts payable in 2015.
Increase in property and equipment of $17,000 due to additional asset retirement obligation in 2015.
Increase in debt discount of $235,000 deducted from loan proceeds in 2015.
Property and equipment of $3,765,000 included in accounts payable in 2014.
Deferred financing costs of $650,000 were included in accounts payable in 2014.
Proceeds from short swing profits from parent company of $585,000 recorded in additional paid-in capital. This resulted in a reduction of $585,000 due to related party accrued interest.
Insurance premiums financed through issuance of short term debt of $2,263,000 in 2014.

9. Concentrations of Credit Risk

Financial instruments, which potentially expose Isramco to concentrations of credit risk, consist primarily of cash equivalents, trade and joint interest accounts receivable. Isramco’s customer base includes several of the major United States oil and gas operating and production companies as well as major power companies in Israel. Although Isramco is directly affected by the well-being of the oil and gas production industry, management does not believe a significant credit risk existed as of December 31, 2016. Isramco continues to monitor and review credit exposure of its marketing counter-parties.

Our production services segment customers include major oil and natural gas production companies and independent oil and natural gas production companies. We perform ongoing credit evaluations of our customers and usually do not require material collateral. We maintain reserves for potential credit losses when necessary. Our results of operations and financial position should be considered in light of the fluctuations in demand experienced by oilfield service companies as changes in oil and gas producers’ expenditures and budgets occur. These fluctuations can impact our results of operations and financial position as supply and demand factors directly affect utilization and hours which are the primary determinants of our net cash provided by operating activities.

Isramco maintains deposits in banks, which may exceed the amount of federal deposit insurance available. Management periodically assesses the financial condition of the institutions and believes that any possible deposit loss is minimal.

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10. Segment Information

Isramco's primary business segments are vertically integrated within the oil and gas industry. These segments are separately managed due to distinct operational differences, unique technology, distribution and marketing requirements. The Company's two reporting segments are oil and gas exploration and production and production services. The oil and gas exploration and production segment explores for and produces natural gas, crude oil, condensate, and NGLs. The production services segment is engaged in rig-based and workover services, well completion and recompletion services, plugging and abandonment of wells and other ancillary oilfield services.

Oil and Gas Exploration and Production Segment

Our Oil and Gas segment is engaged in the exploration, development and production of oil and natural gas properties located onshore in the United States and ownership of various royalty interests in oil and gas concessions located offshore Israel. We own varying working interests in oil and gas wells in Louisiana, Texas, New Mexico, Oklahoma, Wyoming, Utah and Colorado and currently serve as operator of approximately 515 producing wells located mainly in Texas in New Mexico.

Production services Segment

Our rig-based services include the completion of newly drilled wells, workover and recompletion of existing oil and natural gas wells, well maintenance, and the plugging and abandonment of wells at the end of their useful lives.

The completion and recompletion services provided by our rigs prepare a newly drilled well, or a well that was recently extended through a workover, for production. The completion process may involve selectively perforating the well casing to access production zones, stimulating and testing these zones, and installing tubular and downhole equipment. We typically provide a production services rig and may also provide other equipment to assist in the completion process. The completion process usually takes a few days to several weeks, depending on the nature of the completion.

The workover services that we provide are designed to enhance the production of existing wells and generally are more complex and time consuming than normal maintenance services. Workover services can include deepening or extending wellbores into new formations by drilling horizontal or lateral wellbores, sealing off depleted production zones and accessing previously bypassed production zones, converting former production wells into injection wells for enhanced recovery operations and conducting major subsurface repairs due to equipment failures. Workover services may last from a few days to several weeks, depending on the complexity of the workover.

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The maintenance services that we provide with our rig fleet are generally required throughout the life cycle of an oil or natural gas well. Examples of these maintenance services include routine mechanical repairs to the pumps, tubing and other equipment, removing debris and formation material from wellbores, and pulling the rods and other downhole equipment from wellbores to identify and resolve production problems. Maintenance services generally take less than 48 hours to complete. Our rig fleet is also used in the process of permanently shutting-in oil or natural gas wells that are at the end of their productive lives. These plugging and abandonment services generally require auxiliary equipment in addition to a production servicing rig. The demand for plugging and abandonment services is not significantly impacted by the demand for oil and natural gas because well operators are required by state and federal regulations to plug wells that are no longer productive.

| thousands | Oil and Gas Exploration & Production | Production services | Eliminations | Total |
|---|---|---|---|---|
| Year Ended December 31, 2016: | | | | |
| Sales revenues | | | | |
| United States | $ 12,947 | $ 12,752 | $ - | $ 25,699 |
| Israel | 27,462 | - | - | 27,462 |
| Office services and other | 1,901 | - | (120) | 1,781 |
| Total revenues and other | 42,310 | 12,752 | (120) | 54,942 |
| Operating costs and expenses | 14,304 | 15,495 | (120) | 29,679 |
| Depreciation, depletion, and amortization | 3,474 | 3,193 | - | 6,667 |
| Impairment | 4,529 | - | - | 4,529 |
| Interest expenses, net and other | 1,509 | 3,308 | - | 4,817 |
| Loss on derivative contracts | 657 | - | - | 657 |
| Other expense, net | 34 | 36 | | 70 |
| Total expenses and other | 24,507 | 22,032 | (120) | 46,419 |
| Income (loss) before income taxes | $ 17,803 | $ (9,280) | $ - | $ 8,523 |
| Net income (loss) | 11,571 | (6,682) | - | 4,889 |
| Net loss attributable to noncontrolling interests | - | (1,856) | - | (1,856) |
| Net income (loss) attributable to Isramco | 11,571 | (4,826) | - | 6,745 |
| Total Assets | $ 103,956 | $ 37,316 | $ - | $ 141,272 |
| Expenditures for Long-lived Assets | $ 233 | $ 908 | $ - | $ 1,141 |

| thousands | Oil and Gas Exploration & Production | Production services | Eliminations | Total |
|---|---|---|---|---|
| Year Ended December 31, 2015: | | | | |
| Sales revenues | | | | |
| United States | $ 17,047 | $ 22,465 | $ - | $ 39,512 |
| Israel | 25,151 | - | - | 25,151 |
| Office services and other | 9,966 | - | (120) | 9,846 |
| Total revenues and other | 52,164 | 22,465 | (120) | 74,509 |

| | | | | |
|---|---|---|---|---|
| Operating costs and expenses | 20,581 | 23,256 | (120) | 43,717 |
| Depreciation, depletion, and amortization | 6,091 | 3,853 | - | 9,944 |
| Impairment | 33,138 | 10,566 | - | 43,704 |
| Interest expenses, net and other | 2,156 | 3,154 | - | 5,310 |
| Loss on derivative contracts | 1,988 | - | - | 1,988 |
| Other expense, net | 59 | 26 | | 85 |
| Total expenses and other | 64,013 | 40,855 | (120) | 104,748 |
| Income (loss) before income taxes | $ (11,849) | $ (18,390) | $ - | $ (30,239) |
| Net income (loss) | (7,747) | (13,241) | - | (20,988) |
| Net loss attributable to noncontrolling interests | - | (3,678) | - | (3,678) |
| Net income (loss) attributable to Isramco | (7,747) | (9,563) | - | (17,310) |
| Total Assets | $ 104,067 | $ 42,890 | $ - | $ 146,957 |
| Expenditures for Long-lived Assets | $ 2,929 | $ 2,310 | $ - | $ 5,239 |

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| thousands | Oil and Gas Exploration & Production | Production services | Eliminations | Total |
|---|---|---|---|---|
| Year Ended December 31, 2014: | | | | |
| Sales revenues | | | | |
| United States | $ 36,874 | $ 29,979 | $ - | $ 66,853 |
| Israel | 25,144 | - | - | 25,144 |
| Intersegment revenues | - | 955 | (955) | - |
| Office services and other | 2,021 | - | (120) | 1,901 |
| Total revenues and other | 64,039 | 30,934 | (1,075) | 93,898 |
| Operating costs and expenses | 24,793 | 25,441 | (1,075) | 49,159 |
| Depreciation, depletion, and amortization | 7,811 | 3,015 | - | 10,826 |
| Impairment | 19,540 | - | - | 19,540 |
| Interest expenses, net and other | 4,203 | 2,570 | - | 6,773 |
| Other income, net | (460) | 72 | | (388) |
| Total expenses and other | 55,887 | 31,098 | (1,075) | 85,910 |
| Income (loss) before income taxes | $ 8,152 | $ (164) | $ - | $ 7,988 |
| Net income (loss) | 5,247 | (118) | - | 5,129 |
| Net loss attributable to noncontrolling interests | - | (33) | - | (33) |
| Net income (loss) attributable to Isramco | 5,247 | (85) | - | 5,162 |
| Total Assets | $ 100,019 | $ 58,845 | $ - | $ 158,864 |
| Expenditures for Long-lived Assets | $ 8,643 | $ 17,015 | $ - | $ 25,658 |

11. Commitments and Contingencies

Commitments

Isramco has a few immaterial lease agreements.

Contingencies

From time to time, the Company may be a plaintiff or defendant in a pending or threatened legal proceeding arising in the normal course of its business. All known liabilities are accrued based on the Company's best estimate of the potential loss. In the opinion of management, Isramco's ultimate liability, if any, in these pending actions would not have a material adverse effect on the financial position, operating results or liquidity of Isramco.

12. Asset Retirement Obligation

If a reasonable estimate of the fair value of an obligation to perform site reclamation, dismantle facilities or plug and abandon wells can be made, the Company records a liability (an asset retirement obligation or ARO) on the consolidated balance sheets and capitalizes the asset retirement cost in oil and natural gas properties in the period in which the retirement obligation is incurred. In general, the amount of an ARO and the costs capitalized will be equal to the estimated future cost to satisfy the abandonment obligation using current prices that are escalated by an assumed inflation factor up to the estimated settlement date, which is then discounted back to the date that the abandonment obligation was incurred using an assumed cost of funds for the company. After recording these amounts, the ARO is accreted to its future estimated value using the same assumed cost of funds and the additional capitalized costs are depreciated on a unit-of-production basis.

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The following table presents the reconciliation of the beginning and ending aggregate carrying amount legal obligations associated with the retirement of oil and gas properties at December 31 (in thousands):

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Liability for asset retirement obligation at the beginning of the year | $19,884 | $20,046 | $18,814 |
| Liabilities Incurred | 1 | 17 | 423 |
| Liabilities settled and divested | (34) | (1,035) | (65) |
| Accretion expense | 897 | 856 | 874 |
| Liability for asset retirement obligation at the end of the year | $20,748 | $19,884 | $20,046 |

13. Supplemental Oil and Gas Information (Unaudited)

The following supplemental information regarding the oil and gas activities of Isramco for 2016, 2015 and 2014 is presented pursuant to the disclosure requirements promulgated by the Securities and Exchange Commission and ASC 932, "Disclosures About Oil and Gas Producing Activities." Capitalized costs relating to oil and gas activities and costs incurred in oil and gas property acquisition, exploration and development activities for each year are shown below.

CAPITALIZED COST OF OIL AND GAS PRODUCING ACTIVITIES (IN THOUSANDS)

| As of December 31 | 2016 United States | 2015 United States |
|---|---|---|
| Unproved properties not being amortized | $- | $- |
| Proved property being amortized | 244,158 | 243,855 |
| Accumulated depreciation, depletion amortization and impairment | (221,257) | (213,630) |
| Net capitalized costs | 22,901 | 30,225 |

COSTS INCURRED IN OIL AND GAS PROPERTY ACQUISITION, EXPLORATION, AND DEVELOPMENT ACTIVITIES (IN THOUSANDS)

| As of December 31 | 2016 | 2015 | 2014 |
|---|---|---|---|
| Property acquisition costs—proved and unproved properties | $ - | $- | $- |
| Exploration costs | $ - | $- | $- |
| Development costs | $ - | $1,230 | $4,943 |

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OIL AND GAS RESERVES

Reserves

Users of this information should be aware that the process of estimating quantities of “proved” and “proved developed” oil and natural gas reserves is very complex, requiring significant subjective decisions in the evaluation of all available geological, engineering and economic data for each reservoir. The data for a given reservoir may also change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. As a result, revisions to existing reserve estimates may occur from time to time. Although every reasonable effort is made to ensure reserve estimates reported represent the most accurate assessments possible, the subjective decisions and variances in available data for various reservoirs make these estimates generally less precise than other estimates included in the financial statement disclosures.

Economic producibility of reserves is dependent on the crude oil and natural gas prices used in the reserves estimate. We based our December 31, 2016, 2015, and 2014 reserves estimates on 12-month average commodity prices, unless contractual arrangements designate the price to be used, in accordance with SEC rules. However, commodity prices are volatile. Declines in crude oil or natural gas prices could result in negative reserves revisions.

The following definitions apply to our categories of proved reserves:

Proved Oil and Gas Reserves Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

Developed Oil and Gas Reserves Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the cost of a new well.

Undeveloped Oil and Gas Reserves  Proved undeveloped oil and gas reserves (PUDs) are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

Our current reserve reports covering United States properties do not reflect any significant or material proved undeveloped reserves (“PUD”).  Nevertheless, we note that the Company owns legacy assets, some of which may include some development potential which has not yet been fully evaluated.  Accordingly, the Company does not currently have a long-term development plan in place for these assets and, therefore, most major expenditures are made on a case-by-case basis.  By rule, reserves cannot be classified as PUDs in the reserve report if a development plan has not been adopted.

For complete definitions of proved natural gas, natural gas liquids and crude oil reserves, refer to SEC Regulation S-X, Rule 4-10(a)(6), (22) and (31).

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Geographic Areas

Our supplemental disclosures are grouped by geographic area, which include the United States and Israel.

The following table illustrates the Company's estimated net proved reserves, including changes, and proved developed reserves for the periods indicated, as estimated by our independent reserve engineering firms, Netherland, Sewell & Associates, Inc. and Cawley, Gillespie & Associates, Inc.

| | Oil Bbls United States | Israel | Total | Gas Mcf United States | Israel | Total |
|---|---|---|---|---|---|---|
| December 31, 2013 | 2,873,535 | - | 2,873,535 | 19,690,125 | 199,261,513 | 218,951,638 |
| Revisions of previous estimates | 286,685 | - | 286,685 | 1,994,302 | (1,874,617) | 119,685 |
| Extensions, discoveries, and other additions | 124,886 | - | 124,886 | 198,914 | - | 198,914 |
| Acquisition of minerals in place | - | - | - | - | - | - |
| Sales of minerals in place | - | - | - | - | - | - |
| Production | (286,301) | - | (286,301) | (1,835,766) | (4,268,000) | (6,103,766) |
| December 31, 2014 | 2,998,805 | - | 2,998,805 | 20,047,575 | 193,118,896 | 213,166,471 |
| Revisions of previous estimates | (836,981) | - | (836,981) | (5,889,831) | (410,862) | (6,300,693) |
| Extensions, discoveries, and other additions | 8,014 | - | 8,014 | 23,489 | - | 23,489 |
| Acquisition of minerals in place | | - | | - | - | - |
| Sales of minerals in place | (29,344) | - | (29,344) | (51,896) | - | (51,896) |
| Production | (256,774) | - | (256,774) | (1,640,485) | (4,505,000) | (6,145,485) |
| December 31, 2015 | 1,883,720 | - | 1,883,720 | 12,488,852 | 188,203,034 | 200,691,886 |
| Revisions of previous estimates | (70,134) | - | (70,134) | (1,298,250) | 369,348 | (928,902) |
| Extensions, discoveries, and other additions | 11,189 | - | 11,189 | 25,057 | - | 25,057 |
| Acquisition of minerals in place | - | - | - | - | - | - |
| Sales of minerals in place | - | - | - | - | - | - |
| Production | (215,256) | - | (215,256) | (1,417,252) | (5,101,795) | (6,519,047) |
| December 31, 2016 | 1,609,519 | - | 1,609,519 | 9,798,407 | 183,470,587 | 193,268,994 |
| Proved Developed Reserves | | | | | | |
| December 31, 2016 | 1,609,519 | - | 1,609,519 | 9,798,407 | 138,511,587 | 148,309,994 |
| December 31, 2015 | 1,883,720 | - | 1,883,720 | 12,488,852 | 167,303,034 | 179,791,886 |
| December 31, 2014 | 2,998,805 | - | 2,998,805 | 20,047,575 | 173,118,896 | 193,166,471 |
| Proved Undeveloped Reserves | | | | | | |
| December 31, 2016 | - | - | - | - | 44,959,000 | 44,959,000 |
| December 31, 2015 | - | - | - | - | 20,900,000 | 20,900,000 |
| December 31, 2014 | - | - | - | - | 20,000,000 | 20,000,000 |

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| | NGL Bbls United States | Israel | Total | Total BOE United States | Israel | Total |
|---|---|---|---|---|---|---|
| December 31, 2013 | 1,462,398 | 259,040 | 1,721,438 | 7,617,621 | 33,469,292 | 41,086,913 |
| Revisions of previous estimates | 53,320 | (2,635 ) | 50,685 | 672,389 | (315,071 ) | 357,318 |
| Extensions, discoveries, and other additions | 2,332 | - | 2,332 | 160,370 | - | 160,370 |
| Acquisition of minerals in place | - | - | - | - | - | - |
| Sales of minerals in place | - | - | - | - | - | - |
| Production | (107,093 ) | (5,350 ) | (112,443 ) | (699,355 ) | (716,683 ) | (1,416,038 ) |
| December 31, 2014 | 1,410,957 | 251,055 | 1,662,012 | 7,751,025 | 32,437,538 | 40,188,563 |
| Revisions of previous estimates | (680,340 ) | (395 ) | (680,735 ) | (2,498,961) | (68,873 ) | (2,567,834 ) |
| Extensions, discoveries, and other additions | 4,889 | - | 4,889 | 16,818 | - | 16,818 |
| Acquisition of minerals in place | - | - | - | - | - | - |
| Sales of minerals in place | - | - | - | (37,993 ) | - | (37,993 ) |
| Production | (92,733 ) | (6,074 ) | (98,807 ) | (622,921 ) | (756,907 ) | (1,379,828 ) |
| December 31, 2015 | 642,773 | 244,586 | 887,359 | 4,607,968 | 31,611,758 | 36,219,726 |
| Revisions of previous estimates | (42,316 ) | (1,944 ) | (44,260 ) | (328,824 ) | 59,614 | (269,210 ) |
| Extensions, discoveries, and other additions | 1,334 | - | 1,334 | 16,699 | - | 16,699 |
| Acquisition of minerals in place | - | - | - | - | - | - |
| Sales of minerals in place | - | - | - | - | - | - |
| Production | (76,964 ) | (6,882 ) | (83,846 ) | (528,429 ) | (857,181 ) | (1,385,610 ) |
| December 31, 2016 | 524,827 | 235,760 | 760,587 | 3,767,414 | 30,814,191 | 34,581,605 |
| Proved Developed Reserves | | | | | | |
| December 31, 2016 | 524,827 | 177,760 | 702,587 | 3,767,414 | 23,263,024 | 27,030,438 |
| December 31, 2015 | 642,773 | 244,586 | 887,359 | 4,607,968 | 28,128,425 | 32,736,393 |
| December 31, 2014 | 1,410,957 | 251,055 | 1,662,012 | 7,751,025 | 29,104,205 | 36,855,230 |
| Proved Undeveloped Reserves | | | | | | |
| December 31, 2016 | - | 58,000 | 58,000 | - | 7,551,167 | 7,551,167 |
| December 31, 2015 | - | - | - | - | 3,483,333 | 3,483,333 |
| December 31, 2014 | - | - | - | - | 3,333,333 | 3,333,333 |

(1) Gas reserves are converted to BOE at the rate of six Mcf per Bbl of oil, based upon the approximate relative energy content of gas and oil. This rate is not necessarily indicative of the relationship of natural gas and oil prices. Natural gas liquids reserves are converted to BOE on a one-to-one basis with oil.

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Extensions, discoveries, and other additions —

The increase in 2016, 2015 and 2014 of the United State reserves is from development of onshore assets, primarily in the Permian Basin.

Revisions of Previous Estimates —

2014 — Proved reserves must be estimated using the assumption that prices and costs remain constant for the duration of the reservoir life. The United State downward Revisions of Previous Estimates was due to significantly lower average first-day of the month NGLs prices calculated for the 12 months ended December 31, 2014 compared to prices as of December 31, 2013; decreased production volumes and increased production costs associated with operations in several of our leases.

2015 — Proved reserves must be estimated using the assumption that prices and costs remain constant for the duration of the reservoir life. The United State downward Revisions of Previous Estimates was due to significantly lower average first-day of the month NGLs prices calculated for the 12 months ended December 31, 2015 compared to prices as of December 31, 2014; decreased production volumes and increased production costs associated with operations in several of our leases.

2016 — Proved reserves must be estimated using the assumption that prices and costs remain constant for the duration of the reservoir life. The United State downward Revisions of Previous Estimates was due to lower average first-day of the month NGLs prices calculated for the 12 months ended December 31, 2016 compared to prices as of December 31, 2015 and decreased production volumes partially offset by overall decreased production costs associated with operations in several of our leases.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW

The following Standardized Measure of Discounted Future Net Cash Flow information has been developed utilizing ASC 932, Extractive Activities —Oil and Gas, (ASC 932) procedures and based on oil and natural gas reserve and production volumes estimated by our independent reserve engineering firms, Netherland, Sewell & Associates, Inc and Cawley, Gillespie & Associates, Inc. It can be used for some comparisons, but should not be the only method used to evaluate the Company or its performance. Further, the information in the following table may not represent realistic assessments of future cash flows, nor should the Standardized Measure of Discounted Future Net Cash Flow be viewed as representative of the current value of the Company.

The Company believes that the following factors should be taken into account when reviewing the following information:

- future costs and selling prices will probably differ from those required to be used in these calculations;
- due to future market conditions and governmental regulations, actual rates of production in future years may vary significantly from the rate of production assumed in the calculations;
- a 10% discount rate may not be reasonable as a measure of the relative risk inherent in realizing future net oil and natural gas revenues; and
- future net revenues may be subject to different rates of income taxation.

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Results of operations from producing activities were as follows for the years ended December 31 (in thousands):

| thousands | United States | Israel | Total |
|---|---|---|---|
| December 31, 2016 | | | |
| Revenues | $12,947 | $27,462 | $40,409 |
| Production costs | 8,922 | - | 8,922 |
| Depreciation, depletion, amortization and accretion | 3,995 | - | 3,995 |
| Income tax expense (benefit) | 10 | 9,612 | 9,622 |
| Results of operations from producing activities | 20 | 17,850 | 17,870 |

| thousands | United States | Israel | Total |
|---|---|---|---|
| December 31, 2015 | | | |
| Revenues | $17,047 | $25,151 | $42,198 |
| Production costs | 14,919 | - | 14,919 |
| Depreciation, depletion, amortization and accretion | 6,923 | - | 6,923 |
| Income tax expense (benefit) | (1,678 ) | 8,803 | 7,125 |
| Results of operations from producing activities | (3,117 ) | 16,348 | 13,231 |
| | | | |
| December 31, 2014 | | | |
| Revenues | $36,874 | $25,144 | $62,018 |
| Production costs | 19,323 | - | 19,323 |
| Depreciation, depletion, amortization and accretion | 8,678 | - | 8,678 |
| Income tax expense | 3,106 | 8,800 | 11,906 |
| Results of operations from producing activities | 5,767 | 16,344 | 22,111 |

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Estimates of future net cash flows from proved reserves of natural gas, oil, condensate, and NGLs for 2016, 2015, and 2014 are computed using the average first-day-of-the-month price during the 12-month period for the respective year. Prices used to compute the information presented in the tables below are adjusted only for fixed and determinable amounts under provisions in existing contracts. Estimated future net cash flows for all periods presented are reduced by estimated future development and production based on existing costs, assuming continuation of existing economic conditions, and by estimated future income tax expense. These estimates also include assumptions about the timing of future production of proved reserves, and timing of future development and production costs. Income tax expense, both U.S. and foreign, is calculated by applying the existing statutory tax rates, including any known future changes, to the pretax net cash flows, giving effect to any permanent differences and reduced by the applicable tax basis. The effect of tax credits is considered in determining the income tax expense. The 10% discount factor is prescribed by U.S. Generally Accepted Accounting Principles.

In thousands

| | United States | Israel | Total |
|---|---|---|---|
| December 31, 2016 | | | |
| Future cash inflows | $93,228 | $976,106 | $1,069,334 |
| Future development costs | (670) | - | (670) |
| Future production costs | (55,554) | (354,305) | (409,859) |
| Future income tax expenses | - | (186,783) | (186,783) |
| Future net cash flows | 37,004 | 435,018 | 472,022 |
| 10% annual discount for estimated timing of cash flows | (16,042) | (202,707) | (218,749) |
| Standardized measure of discounted future net cash flows | $20,962 | $232,311 | $253,273 |

| | United States | Israel | Total |
|---|---|---|---|
| December 31, 2015 | | | |
| Future cash inflows | $128,449 | $1,052,572 | $1,181,021 |
| Future development costs | (673) | - | (673) |
| Future production costs | (78,345) | (361,608) | (439,953) |
| Future income tax expenses | - | (210,326) | (210,326) |
| Future net cash flows | 49,431 | 480,638 | 530,069 |
| 10% annual discount for estimated timing of cash flows | (20,634) | (231,752) | (252,386) |
| Standardized measure of discounted future net cash flows | $28,797 | $248,886 | $277,683 |
| December 31, 2014 | | | |
| Future cash inflows | $405,533 | $1,155,986 | $1,561,519 |
| Future development costs | (877) | - | (877) |
| Future production costs | (201,264) | (389,960) | (591,224) |
| Future income tax expenses | (39,238) | (242,017) | (281,255) |
| Future net cash flows | 164,154 | 524,009 | 688,163 |
| 10% annual discount for estimated timing of cash flows | (73,614) | (256,244) | (329,858) |
| Standardized measure of discounted future net cash flows | $90,540 | $267,765 | $358,305 |

(1) The government of Israel imposes a tax or charge upon oil and gas revenues, including revenues from oil and gas produced from the Tamar well. Currently, such oil and gas revenues would be subject to a sliding scale of taxation, beginning with the imposition of a 20% charge on oil and gas revenues at such time as total revenues received equal 1.5 times the costs expended and increasing in steps to a 46.8% charge imposed at such time as revenues received equal 1.5 times the costs expended. The current tax law provides some relief for oil and gas revenues received from reservoirs developed before January 2014 by delaying the imposition of the charges; i.e. the 20% charge would become effective at such time as total revenues received equal 2 times the costs expended and the maximum 46.8% charge would not become effective until revenues received equaled 2.8 times costs expended. Isramco's overriding royalty would be subject to the above taxation at such time, and at the same rates, as the revenues attributable to the operating interest. The imposed Israeli tax is included in calculation of future gas revenues from Tamar Field.

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CHANGES IN STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

The following is a summary of the changes in the Standardized Measure of discounted future net cash flows for the Company's proved oil and natural gas reserves during each of the years in the three year period ended December 31, 2016

In thousands

Changes in Standardized Measure of Discounted Future Net Cash Flows
Relating to Proved Oil and Gas Reserves

| | United States | Israel | Total |
|---|---|---|---|
| 2016 | | | |
| Balance at January 1 | $28,797 | $248,886 | $277,683 |
| Sales and transfers of oil and gas produced, net of production costs | (4,022 ) | (27,462 ) | (31,484 ) |
| Net changes in prices and production costs | (2,585 ) | (26,275 ) | (28,860 ) |
| Changes in estimated future development costs, net of current development costs | - | - | - |
| Extensions, discoveries, additions, and improved recovery, less related costs | 379 | - | 379 |
| Development costs incurred during the period | - | - | - |
| Revisions of previous quantity estimates | (1,339 ) | 612 | (727 ) |
| Purchases of minerals in place | - | - | - |
| Sales of minerals in place | - | - | - |
| Accretion of discount | 2,613 | 33,347 | 35,960 |
| Net change in income taxes | - | 716 | 716 |
| Change in production rates and other | (2,881 ) | 2,487 | (394 ) |
| Balance at December 31 | $20,962 | $232,311 | $253,273 |
| 2015 | | | |
| Balance at January 1 | $90,540 | $267,765 | $358,305 |
| Sales and transfers of oil and gas produced, net of production costs | (2,219 ) | (25,151 ) | (27,370 ) |
| Net changes in prices and production costs | (62,407) | (27,548 ) | (89,955 ) |
| Changes in estimated future development costs, net of current development costs | - | - | - |
| Extensions, discoveries, additions, and improved recovery, less related costs | 37 | - | 37 |
| Development costs incurred during the period | - | - | - |
| Revisions of previous quantity estimates | (14,175) | (745 ) | (14,920 ) |
| Purchases of minerals in place | - | - | - |
| Sales of minerals in place | (465 ) | - | (465 ) |
| Accretion of discount | 9,775 | 36,064 | 45,839 |
| Net change in income taxes | 17,165 | 9,100 | 26,265 |
| Change in production rates and other | (9,454 ) | (10,599 ) | (20,053 ) |
| Balance at December 31 | $28,797 | $248,886 | $277,683 |
| 2014 | | | |
| Balance at January 1 | $93,766 | $261,189 | $354,955 |
| Sales and transfers of oil and gas produced, net of production costs | (17,808) | (25,144 ) | (42,952 ) |
| Net changes in prices and production costs | (3,407 ) | (5,281 ) | (8,688 ) |
| Changes in estimated future development costs, net of current development costs | (4,942 ) | - | (4,942 ) |

| | | | |
|---|---|---|---|
| Extensions, discoveries, additions, and improved recovery, less related costs | 5,907 | - | 5,907 |
| Development costs incurred during the period | - | - | - |
| Revisions of previous quantity estimates | 10,653 | (3,407 ) | 7,246 |
| Purchases of minerals in place | - | - | - |
| Sales of minerals in place | - | - | - |
| Accretion of discount | 9,648 | 34,253 | 43,901 |
| Net change in income taxes | (4,803 ) | (14,961 ) | (19,764 ) |
| Change in production rates and other | 1,526 | 21,116 | 22,642 |
| Balance at December 31 | $90,540 | $267,765 | $358,305 |

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Unaudited Quarterly Financial Information
(In Thousands, Except Per Share Data)

| Quarter Ended | March 31 | June 30 | September 30 | December 31 |
|---|---|---|---|---|
| 2016 | | | | |
| Total Revenues | $12,693 | $13,870 | $14,422 | $13,957 |
| Net income before taxes | 345 | 3,259 | 4,809 | 110 |
| Net income (loss) | 69 | 1,947 | 2,994 | (121) |
| Net loss attributable to noncontrolling interests | (442) | (485) | (379) | (550) |
| Net income attributable to Isramco | 511 | 2,432 | 3,373 | 429 |
| Earnings per share: | | | | |
| Attributable to common stockholders - basic | $0.19 | $0.89 | $1.24 | $0.16 |
| Attributable to common stockholders - diluted | $0.19 | $0.89 | $1.24 | $0.16 |
| Average number common shares outstanding - basic | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 |
| Average number common shares outstanding - diluted | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 |
| | | | | |
| 2015 | | | | |
| Total Revenues | $16,638 | $19,211 | $23,828 | $14,832 |
| Net income (loss) before taxes | 2,599 | 1,651 | (15,827) | (18,662) |
| Net income (loss) | 1,625 | 951 | (10,448) | (13,116) |
| Net loss attributable to noncontrolling interests | (181) | (353) | (459) | (2,685) |
| Net income (loss) attributable to Isramco | 1,806 | 1,304 | (9,989) | (10,431) |
| Earnings (loss) per share: | | | | |
| Attributable to common stockholders - basic | $0.66 | $0.48 | $(3.68) | $(3.84) |
| Attributable to common stockholders - diluted | $0.66 | $0.48 | $(3.68) | $(3.84) |
| Average number common shares outstanding - basic | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 |
| Average number common shares outstanding - diluted | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 |
| | | | | |
| 2014 | | | | |
| Total Revenues | $21,368 | $23,233 | $27,685 | $21,612 |
| Net income (loss) before taxes | 6,380 | 6,071 | 9,684 | (14,147) |
| Net income (loss) | 4,185 | 3,939 | 6,320 | (9,315) |
| Net income (loss) attributable to noncontrolling interests | 108 | (22) | 77 | (196) |
| Net income (loss) attributable to Isramco | 4,077 | 3,961 | 6,243 | (9,119) |
| Earnings (loss) per share: | | | | |
| Attributable to common stockholders - basic | $1.50 | $1.46 | $2.30 | $(3.36) |
| Attributable to common stockholders - diluted | $1.50 | $1.46 | $2.30 | $(3.36) |
| Average number common shares outstanding - basic | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 |
| Average number common shares outstanding - diluted | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 |