

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No

As of November 6, 2017, Isramco, Inc., had 2,717,691 outstanding shares of common stock, par value \$0.01 per share.

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Consolidated Financial Statements (unaudited)</u>	4
<u>Consolidated Balance Sheets at September 30, 2017 and December 31, 2016</u>	4
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016</u>	5
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and 2016</u>	6
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
Item 2. <u>Management's discussion and analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	28
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	29
Item 1A. <u>Risk Factors</u>	29
Item 2. <u>Changes in Securities and Use of Proceeds and Issuer Purchases of Equity Securities</u>	29
Item 3. <u>Defaults Upon Senior Securities</u>	30
Item 4. <u>(Removed and Reserved)</u>	30
Item 5. <u>Other Information</u>	30
Item 6. <u>Exhibits</u>	30
<u>Signatures</u>	31

Table of Contents

Forward Looking Statements

CERTAIN STATEMENTS MADE IN THIS QUARTERLY REPORT ON FORM 10-Q ARE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY TERMINOLOGY SUCH AS "MAY", "WILL", "SHOULD", "EXPECTS", "INTENDS", "ANTICIPATES", "BELIEVES", "ESTIMATES", "PREDICTS", OR "CONTINUE" OR THE NEGATIVE OF THESE TERMS OR OTHER COMPARABLE TERMINOLOGY AND INCLUDE, WITHOUT LIMITATION, STATEMENTS BELOW REGARDING EXPLORATION AND DRILLING PLANS, FUTURE GENERAL AND ADMINISTRATIVE EXPENSES, FUTURE GROWTH, FUTURE EXPLORATION, FUTURE GEOPHYSICAL AND GEOLOGICAL DATA, GENERATION OF ADDITIONAL PROPERTIES, RESERVES, NEW PROSPECTS AND DRILLING LOCATIONS, FUTURE CAPITAL EXPENDITURES, SUFFICIENCY OF WORKING CAPITAL, ABILITY TO RAISE ADDITIONAL CAPITAL, PROJECTED CASH FLOWS FROM OPERATIONS, OUTCOME OF ANY LEGAL PROCEEDINGS, DRILLING PLANS, THE NUMBER, TIMING OR RESULTS OF ANY WELLS, INTERPRETATION AND RESULTS OF SEISMIC SURVEYS OR SEISMIC DATA, FUTURE PRODUCTION OR RESERVES, LEASE OPTIONS OR RIGHTS, PARTICIPATION OF OPERATING PARTNERS, CONTINUED RECEIPT OF ROYALTIES, AND ANY OTHER STATEMENTS REGARDING FUTURE OPERATIONS, FINANCIAL RESULTS, OPPORTUNITIES, GROWTH, BUSINESS PLANS AND STRATEGY. BECAUSE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, THERE ARE IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS. ALTHOUGH THE COMPANY BELIEVES THAT EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, IT CANNOT GUARANTEE FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS. MOREOVER, NEITHER THE COMPANY NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THESE FORWARD-LOOKING STATEMENTS. THE COMPANY IS UNDER NO DUTY TO UPDATE ANY FORWARD-LOOKING STATEMENTS AFTER THE DATE OF THIS REPORT TO CONFORM SUCH STATEMENTS TO ACTUAL RESULTS.

Table of Contents

PART I - Financial Information

ITEM 1. Financial Statements

ISRAMCO INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	As of September 30, 2017	As of December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$31,482	\$26,090
Accounts receivable, net of allowances for doubtful accounts of \$2,294 and \$2,294	14,059	9,902
Restricted and designated cash	702	701
Inventories	537	697
Prepaid expenses and other	2,128	2,478
Total Current Assets	48,908	39,868
Property and Equipment, at cost – successful efforts method:		
Oil and Gas properties	243,732	244,158
Advanced payment for equipment	440	440
Other	59,426	57,292
Total Property and Equipment	303,598	301,890
Accumulated depreciation, depletion, amortization and impairment	(250,049)	(246,390)
Net Property and Equipment	53,549	55,500
Deferred tax assets and other	37,941	38,735
Restricted cash – long term	7,072	7,122
Investments	261	230
Total Assets	\$147,731	\$141,455
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$13,435	\$11,840
Short term debt and current maturities of long-term debt, net of discount of \$816 and \$789	15,620	9,330
Payables due to related party	114	90
Accrued interest	1,032	974
Derivative liability	667	916
Total Current Liabilities	30,868	23,150
Long term debt, net of discount of \$2,336 and \$2,959	82,863	95,441
Other Long-term Liabilities:		
Asset retirement obligations	21,436	20,748
Derivative liability	404	100
Total Liabilities	135,571	139,439

Commitments and contingencies

Shareholders' Equity:

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	(5,380)	(16,660)
Treasury stock, 29,267 shares at cost	(164)	(164)
Total Isramco, Inc. Shareholders' Equity	18,336	7,056
Non controlling interest	(6,176)	(5,040)
Total Equity	12,160	2,016
Total Liabilities and Shareholders' Equity	\$147,731	\$141,455

See notes to the unaudited consolidated financial statements.

Table of Contents

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Revenues and other				
Oil and gas sales	\$ 11,223	\$ 10,888	\$ 33,020	\$ 29,923
Production services	5,073	3,229	13,230	9,528
Office services	139	139	418	432
Gain on divestiture	25	-	2,703	600
Other	114	166	382	502
Total revenues and other	16,574	14,422	49,753	40,985
Operating expenses				
Lease operating expense, transportation and taxes	2,631	2,307	7,113	6,969
Depreciation, depletion and amortization	1,540	1,549	4,480	4,484
Impairment of oil and gas assets	-	-	-	583
Accretion expense	231	227	679	668
Production services	4,609	3,345	13,382	10,699
Loss (gain) from plug and abandonment	-	-	26	(24
General and administrative	1,103	1,093	3,491	3,353
Total operating expenses	10,114	8,521	29,171	26,732
Operating income	6,460	5,901	20,582	14,253
Other expenses				
Interest expense, net	1,216	1,235	3,611	3,615
Loss (gain) from derivative contracts, net	225	(181	) 777	2,170
Capital (gain) loss	(33	) 38	(33	) 55
Total other expenses	1,408	1,092	4,355	5,840
Income before income taxes	5,052	4,809	16,227	8,413
Income tax expense	(1,872	) (1,815	) (6,074	) (3,403
Net income	\$ 3,180	\$ 2,994	\$ 10,153	\$ 5,010
Net loss attributable to non-controlling interests	(296	) (379	) (1,127	) (1,306
Net income attributable to Isramco	\$ 3,476	\$ 3,373	\$ 11,280	\$ 6,316
Earnings per share – basic:	\$ 1.28	\$ 1.24	\$ 4.15	\$ 2.32
Earnings per share – diluted:	\$ 1.28	\$ 1.24	\$ 4.15	\$ 2.32
Weighted average number of shares outstanding basic:	2,717,691	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	2,717,691

See notes to the unaudited consolidated financial statements.

5

Table of ContentsISRAMCO INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Net income	\$3,180	\$2,994	\$10,153	\$5,010
Comprehensive income	3,180	2,994	10,153	5,010
Comprehensive loss attributable to non-controlling interests	(296)	(379)	(1,127)	(1,306)
Comprehensive Income attributable to Isramco	\$3,476	\$3,373	\$11,280	\$6,316

See notes to the unaudited consolidated financial statements.

Table of Contents

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

	Nine months Ended September 30,	
	2017	2016
Cash Flows From Operating Activities:		
Net income	\$10,153	\$5,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and impairment	4,480	5,067
Bad debt expense	120	258
Accretion expense	679	668
Gain on divestiture	(2,703)	(600)
Changes in deferred taxes	794	(1,753)
Net unrealized loss on derivative contracts	55	1,224
Loss (gain) on sale of equipment and other	(33)	55
Amortization of debt cost	596	707
Changes in components of working capital and other assets and liabilities		
Accounts receivable	(4,277)	2,824
Prepaid expenses, other receivables and other current assets	1,186	474
Due to related party	24	21
Inventories	160	153
Accounts payable and accrued expenses	1,609	(1,816)
Net cash provided by operating activities	12,843	12,292
Cash flows from investing activities:		
Addition to property and equipment, net	(2,503)	(547)
Proceeds from sale of oil and gas properties and equipment	2,705	600
Restricted cash and deposit, net	49	(670)
Proceeds from sale of equipment	49	77
Investment in Apache Flats	(31)	(120)
Net cash provided by (used in) investing activities	269	(660)
Cash flows from financing activities:		
Repayments of long term debt	(7,200)	(6,600)
Repayments of bank overdraft, net	-	(349)
Repayments of short - term debt, net	(520)	(935)
Net cash used in financing activities	(7,720)	(7,884)
Net increase in cash and cash equivalents	5,392	3,748
Cash and cash equivalents at beginning of period	26,090	22,078
Cash and cash equivalents at end of period	\$31,482	\$25,826

See notes to the unaudited consolidated financial statements.

Table of Contents

Isramco Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 - Financial Statement Presentation

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 services, well completion, and recompletion services.

The accompanying unaudited financial statements and notes of Isramco have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "Commission"). Pursuant to such rules and regulations, certain disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying financial statements and notes should be read in conjunction with the accompanying financial statements and notes included in Isramco's Annual Report on Form 10-K for the year ended December 31, 2016.

Certain reclassifications have been made to the prior periods to conform to the current period presentation.

The accompanying unaudited interim financial statements furnished in this report reflect all adjustments that are, in the opinion of management, necessary to fairly present Isramco's results of operations and cash flows for the nine-month periods ended September 30, 2017 and 2016 and Isramco's financial position as of September 30, 2017.

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.

Consolidated interim period results are not necessarily indicative of results of operations or cash flows for the full year and accordingly, certain information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States has been condensed or omitted. The Company has evaluated events or transactions through the date of issuance of these consolidated financial statements.

Concentrations of Credit Risk

Financial instruments, which potentially expose Isramco to concentrations of credit risk, consist primarily of interest rate swaps, 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 September 30, 2017. Isramco continues to monitor and review credit exposure of its marketing counter-parties.

Tamar Royalties LLC, a wholly owned subsidiary of Isramco Inc., entered into certain swap and cap agreements with Deutsche Bank AG London Branch to hedge the risk of interest rate volatility. See Note 3 for details.

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.

8

Table of Contents

Risk Management Activities

The Company follows Accounting Standards Codification (ASC) 815, Derivatives and Hedging. From time to time, the Company may hedge a portion of its forecasted oil and natural gas production or may hedge interest rates on variable interest rate loans. Derivative contracts entered into by the Company have consisted of transactions in which the Company hedges the variability of cash flow related to a forecasted transaction. The Company has elected not to 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 loss (gain) on derivative contracts" in the consolidated statements of operations. Currently, the Company has no derivative contracts in place to hedge against fluctuations in oil and natural gas prices.

Fair Value

Fair value accounting applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements. Fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, these accounting requirements establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs might include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the asset or liability, and are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. We utilize the fair value hierarchy in our accounting for interest rate swaps (Level 2).

Consolidation

The consolidated financial statements include the accounts of Isramco and its subsidiaries. Inter-company balances and transactions have been eliminated in consolidation.

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 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.

9

Table of Contents

Gain on divestiture

In 2017 the Company sold oil and gas property for a net gain of \$2,703,000. The gain consists of \$2,705,000 cash plus \$18,000 in relieved asset retirement obligation offset by relieved accounts receivable of \$10,000 and a net book value of \$10,000.

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.

Aggregate maturities of contractual obligations at September 30, 2017 are due in future years as follows (in thousands):

Principal Payments on Long-term debt:

2017	2,400
2018	18,900
2019	21,900
2020	17,100
2021	14,700
2022	14,400
2023	11,400
Total	\$100,800

Note 2 - Supplemental Cash Flow Information

The Israeli taxing authority withheld taxes of \$5,261,000 and \$5,154,000 during the nine months ended September 30, 2017 and 2016 respectively.

Cash payments for interest were \$2,980,000 and \$2,859,000 for the nine-month periods ended September 30, 2017 and 2016 respectively.

The consolidated statement of cash flows for the nine-month period ended September 30, 2017 excludes the following non-cash transactions:

Net additions to equipment of \$33,000 included in accounts payable.

Increase in property and equipment of \$27,000 due to additional asset retirement obligation.

Asset retirement obligation relieved of \$18,000 due to sale of oil and gas properties.

Insurance premiums financed through issuance of short term debt of \$835,000.

The consolidated statement of cash flows for the nine-month period ended September 30, 2016 excludes the following non-cash transactions:

Increase in property and equipment of \$1,000 due to additional asset retirement obligation.

Termination of \$487,000 short-term insurance financing reduced prepaid insurance.

Note 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 non-performance 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 believes that it 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 ("Tamar Royalties"), 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.

Table of Contents

As previously disclosed on the Company's Form 8-K filed May 22, 2015, Tamar Royalties 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, 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 and DBAG entered into the IRS Agreement whereby the Company hedged \$119,250,000 of the \$120,000,000 initial borrowing as follows:

- (a) Tamar Royalties 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 DBAG will pay the Company the greater of (i) USD-LIBOR-BBA minus a cap strike of 1.5% and (ii) zero.

As a result of these financial instruments, the Company recorded a net loss from derivative contracts in the amount of \$777,000 consisting of \$55,000 of unrealized loss and \$722,000 loss in cash settlements for the nine months ended September 30, 2017. The Company recorded a net loss from derivative contracts in the amount of \$2,170,000 consisting of \$1,224,000 of unrealized loss and \$946,000 in cash settlements for the nine months ended September 30, 2016.

Financial Instruments as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

Financial Instrument	Fair Value Input Level	September 30, 2017		December 31, 2016	
		Carrying Value	Fair Value	Carrying Value	Fair Value
ST Liabilities:					
Interest rate swaps	Level 2	\$(667)	\$(667)	\$(916)	\$(916)
LT Liabilities:					
Interest rate swaps	Level 2	(404)	(404)	(100)	(100)
		\$(1,071)	\$(1,071)	\$(1,016)	\$(1,016)

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.

Note 4 - Long-Term Debt and Interest Expense

Long-term debt as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	As of September 30, 2017	As of December 31, 2016
Bank loan		
Principal amount	\$ 100,800	\$ 108,000
Less: unamortized discount and debt costs	(3,152)	(3,748)
Total long-term debt	97,648	104,252
Less: current maturities, net of current unamortized discount	(14,785)	(8,811)
Long-term debt, net of current maturities	\$ 82,863	\$ 95,441

Table of Contents

Bank Loan and Credit Facility

The Deutsche Bank Facility

On May 18, 2015, 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 DB 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. 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 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.

On April 3, 2017 the Company made a payment in the amount of \$3,389,000 consisting of \$2,400,000 and \$989,000 in principal and interest respectively.

On July 3, 2017 the Company made a payment in the amount of \$3,417,000 consisting of \$2,400,000 and \$1,017,000 in principal and interest respectively.

On October 3, 2017 the Company made a payment in the amount of \$3,432,000 consisting of \$2,400,000 and \$1,032,000 in principal and interest respectively.

The Company incurred debt costs in obtaining the DB Facility in the amount of \$2,011,000. Additionally the lenders retained \$2,959,000 in fees. 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 nine-month period ended September 30, 2017 and 2016 totaled \$596,000 and \$617,000 respectively.

As of September 30, 2017, 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 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 tenure 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 range from the Reference Rate plus 0.75% to the Reference Rate Spread plus 1.75% based on borrowing base utilization; and (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 September 30, 2017 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.

12

Table of Contents

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.

Short-Term Debt

As of September 30, 2017 and December 31, 2016 outstanding debt from short-term insurance financing agreements totaled \$835,000 and \$520,000 respectively. During the nine months ended September 30, 2017, the Company secured new insurance financing of \$835,000 and made cash payments totaling \$520,000.

Interest Expense

The following table summarizes the amounts included in interest expense for the nine months ended September 30, 2017, and 2016:

	Nine Months Ended September 30, 2017 2016 (In thousands)	
Current debt, long-term debt and other - banks	\$3,611	\$3,615

Note 5 - Tamar Field Proceeds

We own 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. For additional information, please see the disclosure related to the Tamar Royalty set forth in the ITEM 1. BUSINESS section included in our Annual Report on Form 10-K for the year ended December 31, 2016, which disclosure is hereby incorporated herein by reference thereto.

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-LP, Delek Drilling, Avner Oil & Gas, and Dor Gas (the "Tamar Consortium"), two leases (the "Leases"). 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. On March 31, 2013 the Tamar Field commenced its initial production of the natural gas.

Since Isramco's interest in the Tamar Field is an overriding royalty interest, there are no amounts capitalized with respect to Tamar Field.

During the nine months ended September 30, 2017, Tamar Field net sales attributable to Isramco amounted to 4,058,476 Mcf of natural gas and 5,306 Bbl of condensate with prices of \$5.37 per Mcf and \$44.28 per Bbl of condensate. Total revenues net of marketing and transportations expenses were \$21,920,000. The Israeli Tax Authority withheld \$5,261,000 of this revenue which is recognized as a future tax credit, an asset on the Company's consolidated balance sheets.

During the nine months ended September 30, 2016, Tamar Field net sales attributable to Isramco amounted to 3,819,354 Mcf of natural gas and 5,234 Bbl of condensate with prices of \$5.36 per Mcf and \$35.54 per Bbl of condensate. Total revenues net of marketing and transportations expenses were \$20,614,000. The Israeli Tax Authority withheld \$5,154,000 of this revenue which is recognized as a future tax credit, an asset on the Company's consolidated balance sheets

13

Table of Contents

With regard to the payout of the Tamar Field, a disagreement between the Company and Isramco Negev 2-LP has emerged as to whether the financing costs of Isramco Negev 2-LP should be included in the calculation of payout. The disagreement largely stems from the fact that the agreements governing the creation of 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 contends financing costs should not be included in the calculation and thus should be paid approximately Fifteen Million Dollars (\$15,000,000) in additional net royalties. No amounts have been accrued in relation to this potential increase in revenue. Under the terms of the agreements creating the Tamar Royalty, the dispute was submitted for arbitration in Israel on March 1, 2017. The arbitration process is ongoing and currently in its discovery phase.

Note 6 - 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 natural gas liquids ("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 422 producing wells located mainly in Texas in New Mexico.

Production Services Segment

The Company began production services operations in October 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 Service. 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 recompleate 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.

Fluid Services. We own and operate fluid service trucks each equipped with an average fluid hauling capacity of up to 130 barrels. 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 for 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.

Table of Contents

We typically bill clients for our production servicing on an hourly basis for the period that the rig is actively working. As of September 30, 2017, our fleet of production servicing rigs totaled 33 rigs, which we operate through 5 locations in Texas and New Mexico.

(in thousands)	Oil and Gas Exploration & Production	Production Services	Eliminations	Total
Three Months Ended September 30, 2017:				
Sales revenues				
United States	\$ 3,597	\$ 5,073	\$ -	\$8,670
Israel	7,626	-	-	7,626
Office services and other	308	-	(30)	278
Total revenues and other	11,531	5,073	(30)	16,574
Operating costs and expenses				
Depreciation, depletion, and amortization	3,798	4,806	(30)	8,574
Interest expenses, net	762	778	-	1,540
Loss on derivative contracts	227	989	-	1,216
Capital loss	225	-	-	225
	(33)	-	-	(33)
Total expenses and other	4,979	6,573	(30)	11,522
Income (loss) before income taxes	\$ 6,552	\$ (1,500)	\$ -	\$5,052
Net Income (loss)	4,258	(1,078)	-	3,180
Net loss attributable to noncontrolling interests	-	(296)	-	(296)
Net income (loss) attributable to Isramco	4,258	(782)	-	3,476
Total Assets	\$ 108,218	\$ 39,513	\$ -	\$147,731
Expenditures for Long-lived Assets	\$ 271	\$ 1,666	\$ -	\$1,937

(in thousands)	Oil and Gas Exploration & Production	Production Services	Eliminations	Total
Three Months Ended September 30, 2016:				
Sales revenues				
United States	\$ 3,382	\$ 3,229	\$ -	\$6,611
Israel	7,506	-	-	7,506
Office services and other	335	-	(30)	305
Total revenues and other	11,223	3,229	(30)	14,422
Operating costs and expenses				
Depreciation, depletion, and amortization	2,731	2,815	(30)	5,516
Interest expenses, net	1,546	1,459	-	3,005
Gain on derivative contracts	421	814	-	1,235
Capital loss	(181)	-	-	(181)
	2	36	-	38

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Total expenses and other	4,519	5,124	(30)	9,613
Income (loss) before income taxes	\$ 6,704	\$ (1,895)	\$ -	\$4,809
Net Income (loss)	4,358	(1,364)	-	2,994
Net loss attributable to noncontrolling interests	-	(379)	-	(379)
Net income (loss) attributable to Isramco	4,358	(985)	-	3,373
Total Assets	\$ 106,823	\$ 37,490	\$ -	\$144,313
Expenditures for Long-lived Assets	\$ 84	\$ -	\$ -	\$84

15

Table of Contents

(in thousands)	Oil and Gas Exploration & Production	Production Services	Eliminations	Total
Nine Months Ended September 30, 2017:				
Sales revenues				
United States	\$ 11,100	\$ 13,230	\$ -	\$24,330
Israel	21,920	-	-	21,920
Office services and other	3,593	-	(90)	3,503
Total revenues and other	36,613	13,230	(90)	49,753
Operating costs and expenses				
Depreciation, depletion, and amortization	10,919	13,862	(90)	24,691
Interest expenses, net	2,222	2,258	-	4,480
Loss on derivative contracts	820	2,791	-	3,611
Capital gain	777	-	-	777
	(33)	-	-	(33)
Total expenses and other	14,705	18,911	(90)	33,526
Income (loss) before income taxes	\$ 21,908	\$ (5,681)	\$ -	\$16,227
Net Income (loss)	14,240	(4,087)	-	10,153
Net loss attributable to noncontrolling interests	-	(1,127)	-	(1,127)
Net income (loss) attributable to Isramco	14,240	(2,960)	-	11,280
Total Assets	\$ 108,218	\$ 39,513	\$ -	\$147,731
Expenditures for Long-lived Assets	\$ 454	\$ 2,049	\$ -	\$2,503
(in thousands)	Oil and Gas Exploration & Production	Production Services	Eliminations	Total
Nine months Ended September 30, 2016:				
Sales revenues				
United States	\$ 9,309	\$ 9,528	\$ -	\$18,837
Israel	20,614	-	-	20,614
Office services and other	1,624	-	(90)	1,534
Total revenues and other	31,547	9,528	(90)	40,985
Operating costs and expenses				
Impairment expense	583	-	-	583
Operating costs and expenses	10,382	11,373	(90)	21,665
Depreciation, depletion, and amortization	2,299	2,185	-	4,484
Interest expenses, net	1,150	2,465	-	3,615
Loss from derivative contracts, net	2,170	-	-	2,170
Capital loss	19	36	-	55
Total expenses and other	16,603	16,059	(90)	32,572
Income (loss) before income taxes	\$ 14,944	\$ (6,531)	\$ -	\$8,413

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Net Income (Loss)	9,712	(4,702)	-	5,010
Net loss attributable to noncontrolling interests	-	(1,306)	-	(1,306)
Net income (loss) attributable to Isramco	9,712	(3,396)	-	6,316
Total Assets	\$ 106,823	\$ 37,490	\$ -	\$144,313
Expenditures for Long-lived Assets	\$ 283	\$ 308	\$ -	\$591

16

Table of Contents

ITEM 2. Management's 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 REPORT ON FORM 10-Q. 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," "ESTIMATE," "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 REPORT ON FORM 10-Q. ISRAMCO INC. DISCLAIMS ANY OBLIGATION TO UPDATE SUCH FORWARD LOOKING STATEMENTS.

Overview

Isramco 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, workover services, well completion and recompletion services. Our properties are primarily located in Texas, New Mexico and Oklahoma. We also act as the operator of a certain number of these 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.

We own 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. For additional information, please see the disclosure related to the Tamar Royalty set forth in the ITEM 1. BUSINESS section included in our Annual Report on Form 10-K for the year ended December 31, 2016, which is incorporated by reference herein.

As noted above in Note 5 to the Company's consolidated financial statements, in 2009 two natural gas discoveries known as "Tamar" and "Dalit" were made within the area covered by the Michal and Matan Licenses respectively and are known as the Tamar Field. In December 2009 the Israeli Petroleum Commissioner granted Noble Energy, Inc. ("Noble") and its partners, Isramco Negev 2-LP, Delek Drilling, Avner Oil & Gas, and Dor Gas (the "Tamar Consortium"), two leases (the "Leases"). The Leases are scheduled to expire in December 2038. 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. On March 31, 2013, the Tamar Field began its initial production of the natural gas.

During the nine months ended September 30, 2017, Tamar Field net sales attributable to Isramco amounted to 4,058,476 Mcf of natural gas and 5,306 Bbl of condensate with prices of \$5.37 per Mcf and \$44.28 per Bbl of condensate. Total revenues net of marketing and transportations expenses were \$21,920,000. The Israeli Tax

Authority withheld \$5,261,000 of this revenue which is recognized as a future tax credit, an asset on the Company's consolidated balance sheets.

During the nine months ended September 30, 2016, Tamar Field net sales attributable to Isramco amounted to 3,819,354 Mcf of natural gas and 5,234 Bbl of condensate with prices of \$5.36 per Mcf and \$35.54 per Bbl of condensate. Total revenues net of marketing and transportations expenses were \$20,614,000. The Israeli Tax Authority withheld \$5,154,000 of this revenue which is recognized as a future tax credit, an asset on the Company's consolidated balance sheets.

Our financial results depend upon many factors, but are largely driven by the volume of our oil and natural gas production and the prices received 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, 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.

Table of Contents

With regard to the payout of the Tamar Field, a disagreement between the Company and Isramco Negev 2-LP has emerged as to whether the financing costs of Isramco Negev 2-LP should be included in the calculation of payout. The disagreement largely stems from the fact that the agreements governing the creation of 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 contends financing costs should not be included in the calculation and thus should be paid approximately Fifteen Million Dollars (\$15,000,000) in additional net royalties. No amounts have been accrued in relation to this potential increase in revenue. Under the terms of the agreements creating the Tamar Royalty, the dispute was submitted for arbitration in Israel on March 1, 2017. The arbitration process is ongoing and currently in its discovery phase.

Concentrations of Credit Risk

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.

Liquidity and Capital Resources

Our primary source of cash during the nine months ended September 30, 2017 was 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 and continue growth. We expect to fund our future capital requirements through internally generated cash flows. Long-term cash flows are subject to a number of variables, including the level of production, prices, amount of work orders received, and any potential commodity price hedging activities, as well as various economic conditions that have historically affected the oil and natural gas industry.

On May 18, 2015, the Company entered into a term loan credit agreement 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 variable. 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 to the Company's consolidated financial statements.

During the nine months ended September 30, 2017, our cash increased by \$5.4 million. Specifically, the net cash provided by operating activities of \$12.8 million and proceeds from sale of oil and gas properties of \$2.7 million was partially offset by an investment of \$2.5 million in production services equipment and oil and gas properties, \$7.2

million in repayments of long term debt, and \$0.5 million in repayments of short-term debt.

Debt:

	As of September 30, 2017	As of December 31, 2016		
In thousands				
Long – term debt net of discount and bank fees	\$ 82,863	\$ 95,441		
Current maturities of long-term debt, short-term debt, current portion of discount and debt cost and bank overdraft	15,620	9,147		
Total debt	\$ 98,483	\$ 104,588		
Stockholders' equity	\$ 12,160	\$ 2,016		
Debt to capital ratio	89	%	98	%

As of September 30, 2017, our total debt was \$98,483,000, compared to total debt of \$104,588,000 at December 31, 2016.

18

Table of Contents

Contractual Obligations

Aggregate maturities of contractual obligations at September 30, 2017 are due in future years as follows (in thousands):

Principal Payments on Long-term debt:

2017	2,400
2018	18,900
2019	21,900
2020	17,100
2021	14,700
2022	14,400
2023	11,400
Total	\$100,800

Cash Flow

Our primary source of cash during the nine months ended September 30, 2017 was cash flow from operating activities. In the first nine months of 2017, cash received from operations was primarily used for investments in production services equipment, oil and gas properties, and repayment of short term and long term loans. Our primary source of cash during the nine months ended September 30, 2016 was cash flow from operating activities. In 2016, cash received from operations was primarily used for investments in production services equipment, oil and gas properties, increase of restricted cash deposit and repayment of short term and long term loans.

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 and summary of the impact of prices and volumes on sales.

	Nine months Ended September 30,	
	2017	2016
	(In thousands)	
Cash flows provided by operating activities	\$12,843	\$12,292
Cash flows provided by (used in) investing activities	269	(660)
Cash flows used in financing activities	(7,720)	(7,884)
Net increase in cash	\$5,392	\$3,748

Operating Activities. During the nine months ended September 30, 2017, compared to the same period in 2016, net cash flow provided by operating activities increased by \$551,000 to \$12,843,000. The increase was primarily attributable to changes in our working capital components, increased revenues from U.S. based operations due to increased prices for crude oil, natural gas and NGLs, increased revenues from our production services and increased revenues from royalties in Israel which was offset by lower volumes received for our United States oil, natural gas,

and NGL sales.

Investing Activities. Net cash flows provided by (used in) investing activities for the nine months ended September 30, 2017 and 2016 were \$269,000 and (\$660,000), respectively. During the first nine months of 2017, the Company invested \$2,503,000, consisting of \$454,000 for oil and gas properties and \$2,049,000 in production services equipment. The Company also decreased restricted cash by \$49,000, received proceeds from sale of equipment of \$49,000, invested \$31,000 in Apache Flats LLC, and received cash proceeds of \$2,705,000 from divestiture of oil and gas properties. During the first nine months of 2016, the Company invested \$1,337,000, consisting of \$211,000 for oil and gas properties, \$336,000 in production services equipment, a \$120,000 investment in Apache Flats and a \$670,000 increase in restricted cash. The Company received cash proceeds of \$600,000 from divestiture and \$77,000 from sale of equipment.

Financing Activities. Net cash flows used in financing activities were \$7,720,000 and \$7,884,000 for the nine months ended September 30, 2017 and 2016, respectively. During the first nine months of 2017 the Company made payments on long term debt of \$7,200,000, made payments on short term debt in the amount of \$520,000. During the first nine months of 2016 the Company made payments on long term debt of \$6,600,000, made payments on short term debt and bank overdraft in the amount of \$1,284,000.

19

Table of Contents

Results of Operations

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Selected Data

	Three Months Ended September 30, 2017 2016 (In thousands except per share and BOE amounts)	
Financial Results		
Oil and Gas sales		
United States	\$3,597	\$3,382
Israel	7,626	7,506
Production Services	5,073	3,229
Gain on divestiture	25	-
Other	253	305
Total revenues and other	16,574	14,422
Cost and expenses	10,114	8,521
Other expenses	1,408	1,092
Income tax expense	1,872	1,815
Net income attributable to common shareholders	3,180	2,994
Net loss attributable to non-controlling interests	(296)	(379)
Net income attributable to Isramco	3,476	3,373
Earnings per common share – basic	\$1.28	\$1.24
Earnings per common share – diluted	\$1.28	\$1.24
Weighted average number of shares outstanding- basic	2,717,691	2,717,691
Weighted average number of shares outstanding- diluted	2,717,691	2,717,691
Operating Results		
Adjusted EBITDAX (1)	\$8,044	\$7,343
Sales volumes United States (MBOE)	123	131
Sales volumes Israel (MBOE)	235	235
Average cost per BOE United States: (2)		
Production (excluding transportation and taxes)	\$17.67	\$13.52
General and administrative (oil and gas production segment)	\$7.63	\$7.01
Depletion	\$6.22	\$6.28

See Adjusted EBITDAX for a description of Adjusted EBITDAX, which is not a Generally Accepted Accounting

(1) Principles (GAAP) measure, and a reconciliation of Adjusted EBITDAX to income from operations before income taxes, which is presented in accordance with GAAP.

(2) There are no costs associated with revenues from Israeli operations since the Company owns overriding royalty which is free of operating expenses.

Financial Results

Net income in the third quarter of 2017 was \$3,476,000 or \$1.28 per share. This compares to net income in the third quarter of 2016, which was \$3,373,000 or \$1.24 per share.

This increase was primarily due to increased revenues from the Tamar field.

20

Table of Contents

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

During the three months ended September 30, 2017 the Tamar Field net sales attributable to Isramco amounted to 1,400,293 Mcf of natural gas and 1,835 Bbl of condensate with prices of \$5.41 per Mcf and \$46.17 per Bbl of condensate. Total revenues net of marketing and transportations expenses were \$7,626,000.

During the three months ended September 30, 2016 the Tamar Field net sales attributable to Isramco amounted to 1,398,342 Mcf of natural gas and 1,947 Bbl of condensate with prices of \$5.33 per Mcf and \$39.24 per Bbl of condensate. Total revenues net of marketing and transportations expenses were \$7,506,000.

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

Sales Revenues

In thousands except percentages	Three Months Ended September 30,		
	2017	2016	D vs. 2016
Gas sales	\$966	\$968	NM %
Oil sales	2,260	2,123	6
Natural gas liquid sales	371	291	27
Total	\$3,597	\$3,382	6 %

The Company's sales revenues from U.S. based oil and gas operations for the third quarter of 2017 increased by 6% when compared to same period in 2016 due to higher prices received for oil, natural gas, and NGLs, partially offset by lower volumes produced of crude oil, natural gas, and NGLs.

Volumes and Average Prices

	Three Months Ended September 30,		
	2017	2016	D vs. 2016
Natural Gas			
Sales volumes Mmcf	337.2	369.3	(9) %
Average Price per Mcf	\$2.87	\$2.62	9
Total gas sales revenues (thousands)	\$966	\$968	NM%
Crude Oil			
Sales volumes MBbl	49.3	51.3	(4) %
Average Price per Bbl	\$45.82	\$41.40	11
Total oil sales revenues (thousands)	\$2,260	\$2,123	6 %
Natural gas liquids			
Sales volumes MBbl	17.1	18.2	(6) %
Average Price per Bbl	\$21.72	\$15.97	36
Total natural gas liquids sales revenues (thousands)	\$371	\$291	27 %

In the United States the Company's natural gas sales volumes decreased by 9%, crude oil sales volumes decreased by 4%, and natural gas liquids sales volumes decreased by 6% for the third quarter of 2017 compared to the same period

of 2016.

The Company's average natural gas price received for the third quarter of 2017 increased by 9%, or \$0.25 per Mcf, when compared to the same period of 2016. The Company's average crude oil price for the second quarter of 2017 increased by 11%, or \$4.42 per Bbl, when compared to the same period of 2016. Our average natural gas liquids price for the third quarter of 2017 increased by 36%, or \$5.75 per Bbl, when compared to the same period of 2016.

21

Table of Contents

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 United States sales revenues for the three months ended September 30, 2017 compared to the same period of 2016.

In thousands	Natural Gas	Oil	Natural gas liquids
2016 sales revenues	\$ 968	\$2,123	\$ 291
Changes associated with sales volumes	(84)	(81)	(18)
Changes in prices	82	218	98
2017 sales revenues	\$ 966	\$2,260	\$ 371

Operating Expenses (excluding production services segment)

In thousands except percentages	Three Months Ended September 30,		
	2017	2016	D vs. 2016
Lease operating expense, transportation and taxes	\$2,631	\$2,307	14 %
Depreciation, depletion and amortization of oil and gas properties	762	823	(7)
Accretion expense	231	227	2
General and administrative	935	919	2
	\$4,559	\$4,276	7 %

During the three months ended September 30, 2017, our operating expenses increased by 7% when compared to the same period of 2016 due to the following factors:

Lease operating expense, transportation cost and taxes increased by 14%, or \$324,000, in 2017 when compared to 2016 due to increased repair work completed on operated properties. On a per unit basis, lease operating expenses (excluding transportation and taxes) increased by \$4.15 per MBOE to \$17.67 per MBOE in 2017 from \$13.52 per MBOE in 2016.

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 7%, or \$61,000 in 2017 when compared to 2016 primarily due to lower production and a lower depletable base used to calculate DD&A. On a per unit basis, depletion expense decreased by \$0.06 per MBOE to \$6.22 per MBOE in 2017 from \$6.28 per BOE in 2016.

The increase in general and administrative expenses was primarily due to increase in professional fees and uncollectable accounts.

Production Services Segment

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	Three Months Ended September 30,		
In thousands except percentages	2017	2016	D vs. 2016
Production Services	\$5,073	\$3,229	57 %
Operating expenses	4,609	3,345	38
Depreciation	778	726	7
General and administrative	198	204	(3)
Operating loss	\$(512)	\$(1,046)	(51)%

Table of Contents

Our sales revenues from production services operations for the third quarter of 2017 increased by 57% or \$1,844,000 when compared to same period in 2016 due to an increase the number of rigs and trucks deployed as a result of higher demand for our services.

Operating expenses from production services operations for the third quarter of 2017 increased by 38% or \$1,264,000 when compared to the same period in 2016 as a result of an increase in the number of rigs and trucks deployed.

Production service equipment depreciation – the amounts represent depreciation of production service rigs and auxiliary equipment for our production services subsidiary. The depreciation expenses for the third quarter of 2017 totaled \$778,000, an increase of \$52,000 compared to the same period in 2016.

General and administrative expenses from production services operations for the third quarter of 2017 totaled \$198,000, a decrease of \$6,000 compared to the same period in 2016 as a result of decreased legal fees and allowance for bad debt.

Other expenses

	Three Months Ended September 30,			
In thousands except percentages	2017	2016		D vs. 2016
Interest expense, net	\$1,216	\$1,235	(2)	%
Loss (gain) on interest rate swap	225	(181)	224	
Capital (gain) loss	(33)	38	187	
	\$1,408	\$1,092	29	%

Interest expense. Isramco's interest expense decreased by 2%, or \$19,000, for the three months ended September 30, 2017 compared to the same period of 2016.

Unrealized loss on interest rate swaps. For the third quarter of 2017 we recorded a loss as a result of changes in fair value of the derivative in the amount of \$225,000, comprised of a cash settlement loss of \$220,000 and loss of \$5,000 as a result of changes in the fair value. For the third quarter of 2016 we recorded a gain as a result of changes in fair value of the derivative in the amount of \$181,000, comprised of a cash settlement of \$296,000 and gain of \$477,000 as a result of changes in the fair value.

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. The company believes that 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.

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.

	Three Months Ended September 30,	
In thousands except percentages	2017	2016
Income from operations before income taxes	\$5,052	\$4,809
Depreciation, depletion and amortization expense	1,540	1,549
Interest expense	1,216	(477)
Unrealized loss on interest rate swap	5	1,235
Accretion expense	231	227
Consolidated Adjusted EBITDAX	\$8,044	\$7,343

Table of Contents

Results of Operations

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Selected Data

	Nine Months Ended September 30, 2017 2016 (In thousands except per share and BOE amounts)	
Financial Results		
Oil and Gas sales		
United States	\$11,100	\$9,309
Israel	21,920	20,614
Production Services	13,230	9,528
Gain on divestiture	2,703	-
Other	800	1,534
Total revenues and other	49,753	40,985
Cost and expenses	29,171	26,732
Other expenses	4,355	5,840
Income tax expense	6,074	3,403
Net income attributable to common shareholders	10,153	5,010
Net loss attributable to non-controlling interests	(1,127)	(1,306)
Net income attributable to Isramco	11,280	6,316
Earnings per common share – basic	\$4.15	\$2.32
Earnings per common share – diluted	\$4.15	\$2.32
Weighted average number of shares outstanding- basic	2,717,691	2,717,691
Weighted average number of shares outstanding- diluted	2,717,691	2,717,691
Operating Results		
Adjusted EBITDAX (1)	\$25,052	\$18,987
Sales volumes United States (MBOE)	369	405
Sales volumes Israel (MBOE)	682	642
Average cost per BOE United States: (2)		
Production (excluding transportation and taxes)	\$15.37	\$13.65
General and administrative (oil and gas production segment)	\$8.41	\$6.83
Depletion	\$6.03	\$5.67

See Adjusted EBITDAX for a description of Adjusted EBITDAX, which is not a Generally Accepted Accounting

(1) Principles (GAAP) measure, and a reconciliation of Adjusted EBITDAX to income from operations before income taxes, which is presented in accordance with GAAP.

(2) There are no costs associated with revenues from Israeli operations since the Company owns overriding royalty which is free of operating expenses.

Financial Results

Net income in the nine months ended September 2017 was \$11,280,000 or \$4.15 per share. This compares to net income of \$6,316,000 or \$2.32 per share, for the same period of 2016.

This increase was primarily due to the increase in gain on divestiture, the increase in Tamar field proceeds, the increase in crude oil, natural gas and NGLs sales in United States as a result of increased prices, and an increase in revenues from production service activities. This increase was partially offset by lower production volumes in the United States and increased operating expenses.

Table of Contents

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

During the nine months ended September 30, 2017, Tamar Field net sales attributable to Isramco amounted to 4,058,476 Mcf of natural gas and 5,306 Bbl of condensate with prices of \$5.37 per Mcf and \$44.28 per Bbl of condensate. Total revenues net of marketing and transportations expenses were \$21,920,000.

During the nine months ended September 30, 2016 the Tamar Field net sales attributable to Isramco amounted to 3,819,354 Mcf of natural gas and 5,234 Bbl of condensate with prices of \$5.36 per Mcf and \$35.54 per Bbl of condensate. Total revenues net of marketing and transportations expenses were \$20,614,000.

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

Sales Revenues

In thousands except percentages	Nine Months Ended September 30,		
	2017	2016	D vs. 2016
Gas sales	\$3,027	\$2,293	32 %
Oil sales	6,966	6,142	13
Natural gas liquid sales	1,107	874	27
Total	\$11,100	\$9,309	19 %

The Company's sales revenues from U.S. based oil and gas operations for the nine month period ending September 30, 2017 increased by 19% when compared to same period in 2016 due to higher prices received for oil, natural gas, and NGLs.

Volumes and Average Prices

	Nine Months Ended September 30,		
	2017	2016	D vs. 2016
Natural Gas			
Sales volumes Mmcf	1,017	1,091	(7) %
Average Price per Mcf	\$2.98	\$2.10	42
Total gas sales revenues (thousands)	\$3,027	\$2,293	32 %
Crude Oil			
Sales volumes MBbl	148	165	(10) %
Average Price per Bbl	\$47.10	\$37.26	26
Total oil sales revenues (thousands)	\$6,966	\$6,142	13 %
Natural gas liquids			
Sales volumes MBbl	51	59	(14) %
Average Price per Bbl	\$21.61	\$14.85	46
Total natural gas liquids sales revenues (thousands)	\$1,107	\$874	27 %

In the United States the Company's natural gas sales volumes decreased by 7%, crude oil sales volumes decreased by 10%, and natural gas liquids sales volumes decreased by 14% for the first nine months of 2017 compared to the same period of 2016.

The Company's average natural gas price received for the first nine months of 2017 increased by 42%, or \$0.88 per Mcf, when compared to the same period of 2016. The Company's average crude oil price for the first nine months of 2017 increased by 26%, or \$9.84 per Bbl, when compared to the same period of 2016. Our average natural gas liquids price for the first nine months of 2017 increased by 46%, or \$6.76 per Bbl, when compared to the same period of 2016.

Table of Contents

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 United States sales revenues for the nine months ended September 30, 2017 compared to the same period of 2016.

In thousands	Natural		
	Gas	Oil	gas liquids
2016 sales revenues	\$2,293	\$6,142	\$874
Changes associated with sales volumes	(156)	(632)	(113)
Changes in prices	890	1,456	346
2017 sales revenues	\$3,027	\$6,966	\$1,107

Operating Expenses (excluding production services segment)

In thousands except percentages	Nine Months Ended		
	September 30,		
	2017	2016	D vs. 2016
Lease operating expense, transportation and taxes	\$7,113	\$6,969	2 %
Depreciation, depletion and amortization of oil and gas properties	2,222	2,299	(3)
Impairment of oil and gas properties	-	583	(100)
Accretion expense	679	668	2
Loss (gain) from plugging and abandonment of wells	26	(24)	NM
General and administrative	3,101	2,768	12
	\$13,141	\$13,263	(1)%

During the nine months ended September 30, 2017, our operating expenses decreased by 1% when compared to the same period of 2016 due to the following factors:

Lease operating expense, transportation cost and taxes increased by 2%, or \$144,000 in 2017 when compared to 2016. On a per unit basis, lease operating expenses (excluding transportation and taxes) increased by \$1.72 per MBOE to \$15.37 per MBOE in 2017 from \$13.65 per MBOE in 2016.

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 3%, or \$77,000 in 2017 when compared to 2016. On a per unit basis, depletion expense increased by \$0.36 per MBOE to \$6.03 per MBOE in 2017 from \$5.67 per MBOE in 2016.

Impairment of oil and gas properties in the amount of \$583,000 occurred in the nine months of 2016 as a result of a decrease in commodity futures prices. For the same period of 2017 there was no such impairment.

The increase in general and administrative expenses was primarily due to increase in professional fees and uncollectable accounts.

Production Services Segment

In thousands except percentages	Nine Months Ended September 30,		
	2017	2016	D vs. 2016
Production Services	\$13,230	\$9,528	39 %
Operating expenses	13,382	10,699	25
Depreciation	2,258	2,185	3
General and administrative	480	675	(29)
Operating loss	\$(2,890)	\$(4,031)	(28)%

Table of Contents

Our sales revenues from production services operations for the first nine months of 2017 increased by 39% or \$3,702,000 when compared to same period in 2016 due to an increase in the number of rigs and trucks deployed as a result in higher demand for our services.

Operating expenses from production services operations for the first nine months of 2017 increased by 25% or \$2,683,000 when compared to the same period in 2016 as a result of an addition in the number of rigs and trucks deployed.

Production service equipment depreciation – the amounts represent depreciation of production services rigs and auxiliary equipment for our production services subsidiary. The depreciation expenses for the first nine months of 2017 totaled \$2,258,000, an increase of \$73,000 compared to the same period in 2016.

General and administrative expenses from production services operations for the first nine months of 2017 decreased to \$480,000, compared to \$675,000 for the same period in 2016 as a result of decreased legal fees and allowance for bad debt.

Other expenses

	Nine Months Ended September 30,		
			D vs.
In thousands except percentages	2017	2016	2016
Interest expense, net	\$3,611	\$3,615	NM %
Loss on interest rate swap	777	2,170	(64)
Capital (gain) loss	(33)	55	(160)
	\$4,355	\$5,840	(25)%

Interest expense. Isramco's interest expense decreased by 0.1%, or \$4,000 for the nine months ended September 30, 2017 compared to the same period of 2016. This decrease was primarily due to lower outstanding principal during the first nine months of 2017 compared to 2016.

Loss on interest rate swap. During the first nine months of 2017 we recorded a loss as a result of changes in fair value of the derivative in the amount of \$55,000 and cash settlements of \$722,000. In 2016 we recorded a loss as a result of changes in fair value of the derivative in the amount of \$1,224,000 and cash settlements of \$946,000.

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. The Company believes that 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.

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.

	Nine Months Ended September 30,	
In thousands except percentages	2017	2016
Income from operations before income taxes	\$16,227	\$8,413
Depreciation, depletion and amortization expense	4,480	4,484
Impairment of oil and gas properties	-	583
Interest expense	3,611	3,615
Unrealized loss on interest rate swap	55	1,224
Accretion expense	679	668
Consolidated Adjusted EBITDAX	\$25,052	\$18,987

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Derivative Instruments and Hedging Activity

We are exposed to various risks, including risks associated with energy commodity price. 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 allows 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. Currently, we have no open positions or contracts in place in relation to commodity prices.

When such contracts are in place, we are exposed to market risk on our open derivative contracts and counterparty performance risk with respect to our counterparties. However, we usually do not expect such non-performance because our contracts are usually with major financial institutions with investment grade credit ratings.

We are also exposed to interest rate risk on our variable interest rate debt. If interest rates increase, our interest expense would increase and our available cash flow would decrease. 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. 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.

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. The Company has elected not to designate any of its positions for hedge accounting. See Item 1. Consolidated Financial Statements.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

In accordance with Exchange Act Rule 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer concluded that our disclosure controls and procedures were effective as of September 30, 2017 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II - Other Information

ITEM 1. 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.

Pursuant to a settlement between the Company and Mr. Holifield, the parties agreed to release and dismiss all claims against the other in the above litigation, and to file a Joint Notice of Nonsuit with Prejudice with the Court (the "Joint Notice"). On October 30, 2017, in response to the Joint Notice, the Court entered an order dismissing all claims between the parties with prejudice. Accordingly, the lawsuit between Isramco and its former general counsel, Dennis Holifield, has settled. After Mr. Holifield reviewed the evidence, he came to the conclusion that there is no basis for his accusations against Isramco, its directors, its officers, and its employees. Mr. Holifield regrets any harm caused to Isramco, Haim Tsuff, Edy Francis, and Amir Sanker.

As noted above, the Company owns an overriding royalty interest of 1.5375% in the Tamar Field, which will increase to 2.7375% after payout (the "Tamar Royalty"). A disagreement between the Company and Isramco Negev 2-LP regarding the payout calculation of the Tamar Royalty has emerged as to whether the financing costs of Isramco Negev 2-LP should be included in the calculation of payout. The disagreement largely stems from the fact that the agreements governing the creation of 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 total scope of the

disagreement is approximately Fifteen Million Dollars (\$15,000,000). On February 26, 2017, Isramco Negev 2-LP reported the dispute concerning the Tamar Royalty in its filing with the stock exchange in Israel. Pursuant to the agreements creating the Tamar Royalty, this dispute will be resolved through arbitration proceedings. The Company and Isramco Negev 2-LP have arranged to conduct the arbitration through the Center for Arbitration and Dispute Resolution (CADR) in Israel and have agreed upon the appointment of retired judge Itzhak Inbar to preside over the proceeding. The preliminary arbitration hearing in the matter occurred on August 13, 2017 and the case is now in its discovery phase. The Company believes that its interpretation of the agreements governing the creation of the Tamar Royalty is the correct interpretation and, accordingly, intends to vigorously pursue its case in the aforementioned arbitration proceedings.

ITEM 1A. Risk Factors

None

ITEM 2. Change in Securities & Use of Proceeds

None

Table of Contents

ITEM 3. Default Upon Senior Securities

None

ITEM 4. Removed and Reserved

None

ITEM 5. Other Information

None

ITEM 6. Exhibits

Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to Section 31 2 of Sarbanes-Oxley Act
- 31.2 Certification of Chief Financial Officer pursuant to Section 31 2 of Sarbanes-Oxley Act
- 31.3 Certification of Chief Accounting Officer pursuant to Section 31 2 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
- 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

Table of Contents

SIGNATURES

Pursuant to the requirements 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.

ISRAMCO, INC

Date: NOVEMBER 6, 2017 By: /s/ HAIM TSUFF
HAIM TSUFF
CHIEF EXECUTIVE OFFICER
(PRINCIPAL EXECUTIVE OFFICER)

Date: NOVEMBER 6, 2017 By: /s/ EDY FRANCIS
EDY FRANCIS
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL OFFICER)

Date: NOVEMBER 6, 2017 By: /s/ ZEEV KOLTOVSKOY
ZEEV KOLTOVSKOY
CHIEF ACCOUNTING OFFICER
(PRINCIPAL ACCOUNTING OFFICER)