



Delek Drilling

2020

INTERIM FINANCIAL
STATEMENTS
AS OF 30.09.2020



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Delek Drilling

2020

photographed by: Albatross



Partnership Description

30.09.2020



2020

**Update to Chapter A (Description of the Partnership's Business)
of the 2019 Periodic Report**

of Delek Drilling – Limited Partnership (the “Partnership”)¹

1. **Section 4 of the Periodic Report – profit distribution**

On November 17, 2020, the Board of Directors of the Partnership's General Partner decided, after receiving the recommendation of the Financial Statements Review Committee of the Partnership's General Partner, on a profit distribution in the sum total of 65 million U.S. dollars (“\$”), while the record date for the distribution will be November 25, 2020. The profit distribution as aforesaid will be performed in December 2020.

2. **Sections 6.9, 7.2.10(b)6, 7.3.11(a)4, 7.3.11(a)5 and 7.3.11(a)6 of the Periodic Report – the spread of COVID-19 and the possible impact thereof on the Partnership's business**

Further to the Partnership's immediate report of May 13, 2020 (Ref. No.: 2020-01-042940), Section 1 of the Q1/2020 Report and Section 1 of the Q2/2020 Report, regarding the outbreak of COVID-19, and the possible impact thereof on the Partnership's business and forecasts, see Note 1D to the financial statements attached below.

1. **Section 7.1 of the Periodic Report – General information on the field of business**

With respect to the Partnership's notice regarding the closing of a merger transaction between Noble Energy Inc., the parent company of Noble Energy Mediterranean Ltd. (“Noble”) and Chevron Corporation, see the Partnership's immediate report of October 6, 2020 (Ref. No.: 2020-01-108618), the details appearing in which are incorporated herein by reference.

2. **Sections 7.5 and 7.26.11 of the Periodic Report – the 405/New Ofek license (the “New Ofek License”)**

Further to Section 3 of the Q2/2020 Report, the operator of the New Ofek License updated the Partnership that on October 29, 2020, the approval of the Petroleum Commissioner at the Ministry of Energy (in this section: the “Commissioner”) was received to change the dates of performance of the work plan in the New Ofek License, including postponement of the date of

¹ The update includes material news or changes that occurred in the Partnership's business during Q3/2020 until close to the date of release of this report on any matter that is required to be described in the Periodic Report, other than updates which were included in the Q1 report as of March 31, 2020, as released on June 28, 2020 (Ref. No. 2020-01-058762) (the “Q1/2020 Report”), and in the Q2 report as of June 30, 2020, as released on August 20, 2020 (Ref. No.: 2020-01-091527) (the “Q2/2020 Report”). The update refers to the section numbers in Chapter A (Description of the Partnership's Business) in the 2019 Periodic Report, as released on March 30, 2020 (Ref. No. 2020-01-032010) (the “Periodic Report”) unless stated otherwise.

commencement of performance of production tests in the area of the New Ofek License (in this section: the “**Production Tests**”) to December 15, 2020. However, the operator in the New Ofek License informed the Partnership that on November 10, 2020, it submitted an application to the Commissioner to update the dates for performance of the work plan, including postponement of the date of commencement of performance of the Production Tests. As of the report release date, the Commissioner’s decision on the said application has not yet been received. It is noted that in September 2020, the partners in the New Ofek License made a decision regarding participation in the performance of the Production Tests with a budget of between approx. \$10 million and approx. \$13 million (100%, the Partnership’s share is between approx. \$7.5 million and approx. \$8.5 million).

3. **Section 7.7 of the Periodic Report – the 367/Alon D license (the “Alon D License”)**

Further to Section 4 of the Q2/2020 Report regarding a petition to the Supreme Court sitting as the High Court of Justice which was filed by the Partnership and Noble (the “**Partners in the Alon D License**”), it is noted that a hearing of the petition has been scheduled for December 20, 2020.

In addition, further to Section 4 of the Q2/2020 Report, the Partners in the Alon D License have submitted a bid in the competitive process that was declared by the Ministry of Energy on June 23, 2020 for the granting of a natural gas and oil exploration license in Block 72, over the area of which the Alon D License extended (“**Block 72**”).

In this context it is noted that on October 21, 2020, a demand was received at the Partnership’s offices from the Competition Authority for information and documents in connection with Block 72.

4. **Sections 7.9 and 7.26.12 of the Periodic Report – the I/16 Tanin and I/17 Karish leases**

Further to Section 7 of the Q1/2020 Report, on November 10, 2020, Energean plc (“**Energean**”) released an update on the volume of resources attributed to the Karish, Tanin and Karish North reservoirs (in this section: the “**Reservoirs**”) in accordance with a resources and reserves report prepared therefor by DeGolyer and MacNaughton², reclassifying contingent resources (2C) as reserves (2P), such that the Reservoirs have natural gas reserves (2P) of approx. 98.2 BCM and hydrocarbon liquids of approx. 99.6 million barrels (compared with natural gas resources (2C+2P) of approx. 98.6 BCM and hydrocarbon liquids of approx. 82 million barrels, according to Energean’s release of April 2020). Energean further stated that the development plan for the Karish North reservoir had been approved by the Ministry of Energy, and that a final investment decision for development of the Karish North reservoir

² It is clarified that the information stated above is based on a public report of Energean which did not include a report by an independent resource appraiser prepared according to the PRMS rules, and the Partnership is unable to independently verify the veracity thereof.

was expected to be adopted in Q4/2020, with production from the Karish North reservoir expected to begin in 2023. Energean also stated that the FPSO would reach maximum production capacity (approx. 8 BCM per year) at the end of 2023. Energean also released the volume of prospective resources for the areas of the licenses it holds in Israel's EEZ, including in the Karish and Tanin reservoirs.

For details regarding a very material valuation regarding the Partnership's right to royalties from the Karish and Tanin leases, see Note 4K to the financial statements attached below and Annex C to the Board of Directors' Report.

5. **Section 7.12.4(a)(4)(u) of the Periodic Report – dispute between the Partnership and Noble and the other Tamar partners**

- a. Further to Section 5 of the Q2/2020 Report regarding a dispute between the Partnership and Noble and the other Tamar partners in connection with the marketing of natural gas from the Tamar reservoir, see the Partnership's immediate report of September 7, 2020 (Ref. No. 2020-01-089191) regarding the notice of the Competition Authority whereby the Partnership and Isramco Negev 2, Limited Partnership, are required to act to nullify the veto right held thereby, and the Partnership's immediate report of October 14, 2020 (Ref. No. 2020-01-111918) regarding the Partnership's notice to the Competition Authority with respect to the manner of its action for nullification of the veto right held thereby, the details appearing in which are incorporated herein by reference. In this context it is noted that the Tamar partners are holding discussions for the purpose of formulating principles for separate marketing of natural gas from the Tamar reservoir, and that as of the report release date, they have not yet reached agreements on the matter.
- b. For details regarding an agreement that was signed between the Israel Electric Corp. Ltd. (the "IEC") and the other Tamar partners (in this section: the "**Agreement**"), and regarding the Partnership's position on the matter, see the Partnership's immediate reports of October 5, 2020 and October 14, 2020 (Ref. No.: 2020-01-108018 and 2020-01-111918, respectively), the details appearing in which are incorporated herein by reference. It is noted that it is the Partnership's position, based on its legal counsel, as of the report release date, that the IEC is acting in breach of the agreement for the supply of natural gas from the Leviathan reservoir to the IEC. It is further noted that the Partnership is continuing to examine the legal and commercial options with respect to the agreement and their potential impact.

In this context it is noted that on October 22, 2020, a demand was received at the Partnership's offices from the Competition Authority for information and documents, in connection with the agreement, in connection with the discussions being held between the Partnership and the other Tamar partners regarding separate marketing of gas and in connection with the purchase of gas by the IEC from the Leviathan reservoir.

6. **Sections 7.12.1, 7.12.4(a) and 7.12.4(b) of the Periodic Report – agreements for the sale of natural gas from the Tamar project and from the Leviathan project**

- a. On August 27, 2020, the Tamar partners, with the exception of the Partnership, signed agreements for the sale of natural gas from the Tamar reservoir to Oil Refineries Ltd. (“**ORL**”) and to ICL Group Ltd. (“**ICL**”), for a period ending July 1, 2022, with each one of ORL and ICL having an option to extend the term of the agreement by two 3-month periods each (in this section: the “**Supply Agreements**”). It is noted that the natural gas price determined in the Supply Agreements is fixed, with no linkage mechanisms, and that arrangements were determined between Noble and the other Tamar partners with respect to Noble’s share in the consideration for the gas that shall be sold under the Supply Agreements. On September 30, 2020, the Partnership signed the Supply Agreements after arrangements were determined between the Partnership and Noble with respect to the Partnership’s share in the consideration for the gas that shall be sold under the Supply Agreements. It is further noted that, as of the report release date, all of the conditions precedent for the taking effect of the Supply Agreements have been fulfilled.
- b. For details regarding the signing of an agreement for the supply of natural gas between the Leviathan partners and the Ramat Hovav Power Plant – Limited Partnership, see the Partnership’s immediate report of September 24, 2020 (Ref. No.: 2020-01-104538), the details appearing in which are incorporated herein by reference.
- c. Further to Section 7.12.4(b)(2) of the Periodic Report and Section 6 of the Q2/2020 Report, regarding the Leviathan partners’ approaching the IEC in connection with the IEC’s purchase of several LNG cargoes from an external source contrary, so the Leviathan partners claim, to the aforesaid agreement and in breach thereof, it is noted that the Partnership, together with the other Leviathan partners, is holding discussions vis-à-vis the IEC with the aim of reaching understandings on this issue.
- d. During Q3/2020 and until the report release date, the Partnership signed several additional agreements for the sale of natural gas with various customers in the Israeli market, both from the Tamar project and from the Leviathan project, for non-material volumes.

7. **Section 7.21 of the Periodic Report – financing**

- a. **Leviathan Bond Ltd. bonds (“Leviathan Bond Bonds”)**

With respect to the rating report for the Leviathan Bond Bonds released by Fitch Ratings, see the Partnership’s immediate report of August 23, 2020 (Ref. No.: 2020-01-092247), the details appearing in which are incorporated herein by reference.

b. Delek & Avner (Tamar Bond) Ltd. bonds (the “**Tamar Bond Bonds**”)

With respect to rating reports for the Tamar Bond Bonds released by S&P Global Ratings and S&P Maalot, see the Partnership’s immediate reports of October 9, 2020 (Ref. No.: 2020-01-110016 and 2020-01-110058, respectively), the details appearing in which are incorporated herein by reference.

c. The Partnership’s Series A bonds (the “**Series A Bonds**”)

- (1) Further to Section 8(b) of the Q2/2020 Report regarding approval of a plan for the acquisition of Series A Bonds and for the acquisition of Tamar Bond Bonds, until the report release date the Partnership has performed buybacks of ILS 11,413,393 par value of Series A Bonds in consideration for approx. \$3 million. For further details, see Section e.1 of Part One of the Board of Directors’ Report.
- (2) On November 17, 2020, the Board of Directors of the Partnership’s General Partner approved a plan for the acquisition of Series A Bonds at a total estimated cost of up to \$30 million, in accordance with the ISA’s directive of July 26, 2010 (Position 199-8) regarding the “safe harbor” protection in a corporation’s buyback of securities. The purchases will be made from time to time in the period between November 19, 2020 and December 31, 2020, in transactions on or off TASE. It is noted that this plan will replace the Buyback Plan referred to in Section 7(c)(1) above. For further details, see Section e.2 of Part One of the Board of Directors’ Report.
- (3) With respect to the rating report for the Series A Bonds released by Midroog, see the Partnership’s immediate report of October 15, 2020 (Ref. No.: 2020-01-103519), the details appearing in which are incorporated herein by reference.
- (4) Further to Section 7.21.2(a) of the Periodic Report, it is noted that the Partnership has met the financial covenants to which it committed in the public offering of the Series A Bonds, as stated in Section 7.21.1(g) of the Periodic Report, as specified below:³

³ For details on the method of calculation of the terms in the table, see Section 7.21.2(a) of the Periodic Report.

Financial covenant	The ratio checked as of September 30, 2020 and as of the report date
Economic capital of the Partnership	Approx. 3,679
Economic capital to debt ratio	Approx. 9
Distribution	-

8. **Section 7.22 of the Periodic Report – Taxation**

- a. Further to Section 9(a) of the Q2/2020 Report with respect to the filing of an originating application by the Partnership and the General Partner with the Tel Aviv District Court, in which the Court was moved, *inter alia*, to determine the appropriate arrangements for balancing between individuals and corporations holding participation units of the Partnership, in view of tax payments which the Partnership is required to pay under Section 19 of the Taxation of Profits from Natural Resources Law, 5771-2011, and to allow substitute service of process on the participation unit holders by releasing a public notice, see the Partnership's immediate reports of October 19, 2020 and November 8, 2020 (Ref. No.: 2020-01-113487 and 2020-01-111406, respectively), the details appearing in which are incorporated herein by reference.
- b. For details regarding the publication of the draft Income Tax Regulations (Rules for the Calculation of Tax due to the Holding and Sale of Participation Units in Oil Exploration Partnerships) (Amendment), 5781-2020 (the “**Draft Regulations**”), for public comment, and regarding the request by the Partnership's supervisor for comments from the participation unit holders on the Draft Regulations, see the Partnership's immediate reports of October 19, 2020 and October 22, 2020 (Ref. No.: 2020-01-113487 and 2020-01-115485, respectively). It is noted that on November 4, 2020, the Partnership submitted its comments on the Draft Regulations. For further details, see Note 4R to the financial statements attached below.
- c. Further to Section 7.22.3(c) of the Periodic Report and Section 9(c) of the Q2/2020 Report regarding the disputes that have arisen between the Partnership and the Israel Tax Authority, and disagreements regarding the amount of the Partnership's taxable income for 2016, it is noted that on September 15, 2020, the Partnership filed an appeal on the matter. In accordance with the court's decision, the last date for submission of the notice stating the grounds for the assessment by the assessing officer will be March 1, 2021.

9. **Sections 7.2.5, 7.13.2 and 7.17.1(a) of the Periodic Report – Phase 1A of the development plan for the Leviathan project**

- a. Further to Section 10(a) of the Q2/2020 Report with respect to the gradual ramp-up of the production capacity from the Leviathan project up to approx. 1,200 MMCF per day through the operation of the turbo expander systems, it is noted that on October 26, 2020, the approval of

the Ministry of Energy was received for the running-in of the turbo expander systems, subject to certain conditions. As of the report release date, the total production capacity from the Leviathan project is approx. 1,160 MMCF per day, and in accordance with the approval of the Ministry of Energy, the running-in of the turbo expander systems has begun. In Noble's estimation, upon completion of the running-in of the systems as aforesaid, the operation thereof is expected to begin during Q1/2021, subject to receipt of the approval of the Ministry of Energy.

- b. Further to Section 10(c) of the Q2/2020 Report with respect to Noble's update regarding maintenance work on the Leviathan platform, it is noted that the said work was completed on schedule on November 10, 2020, after five days, during which the piping of gas from the Leviathan platform was halted.

10. **Section 7.23.4 of the Periodic Report – environmental risk management policy**

- a. On October 30, 2020, the Ministry of Environmental Protection published, for public comment, a draft update to the existing emission permit of the Ashdod Onshore Terminal, which is valid until December 31, 2021, and whose purpose it is to regulate all of the activity carried out at the facility. It is noted that concurrently, a process is being carried out in which an application was submitted for the issuance of a new emission permit for the facility.
- b. On August 31, 2020, the Ministry of Environmental Protection published an emission permit for the Tamar platform, which was published after a process was carried out of a public hearing, in the context of which the draft permit as aforesaid was published for public comment. However, the final language of the permit that was issued includes material changes relative to the public draft that was published, without, so Noble claims, an opportunity being given to comment on the said changes. Therefore, immediately upon the publication of the permit, an exchange of letters began between Noble and the Ministry of Environmental Protection, and several meetings were held between them, at which, *inter alia*, Noble clarified its legal position with respect to defects in the process of formulation of the permit and the technical issues arising from the final language thereof. It is noted that Noble informed the Partnership that it is preparing to submit an application for modification of the permit in accordance with the Clean Air Law, 5768-2008, and concurrently reserves its legal rights on the issue.

11. **Section 7.23.6 of the Periodic Report – material legal or administrative proceedings in connection with the environment**

- a. Further to Section 7.23.6(b) of the Periodic Report and Section 11(a) of the Q2/2020 Report regarding an appeal filed on February 3, 2020 by the Homeland Guards Association (in this section: the "**Petitioner**") with the Supreme Court against the Ministry of Environmental Protection and officials therein, and against Noble and the Ministry of Energy, in

connection with the emission permit for the Leviathan platform, it is noted that the Supreme Court scheduled the appeal for a hearing on March 18, 2021, that on October 26, 2020, the Petitioner filed summations and that Noble's summations are due by January 27, 2021.

- b. Further to Section 7.23.6(c) of the Periodic Report, Section 16(a) of the Q1/2020 Report and Section 11(b) of the Q2/2020 Report, regarding an appeal that was filed with the Supreme Court by several local and regional councils (in this section: the "**Petitioners**") against the Head of the Air Quality Division at the Ministry of Environmental Protection and against Noble in connection with the Leviathan platform's emission permit, it is noted that in November 2020, the Petitioners filed a motion to bring the hearing forward, and that no decision has yet been issued on the motion.
- c. Further to Section 7.23.6(d) of the Periodic Report, Section 16(b) of the Q1/2020 Report and Section 11(c) of the Q2/2020 Report, regarding a notice received by Noble from the Ministry of Environmental Protection of an intention to impose an administrative financial penalty in a non-material amount, in connection with the sea discharge permit that was issued for the Leviathan platform, it is noted that on November 12, 2020, the decision of the Ministry of Environmental Protection was received, whereby it has been decided to cancel two of the four penalties which the Ministry had intended to impose, and to partially reduce the amount of the remaining two penalties.

12. **Section 7.24.3(b) of the Periodic Report – directives for the method of calculation of the royalty value at the wellhead**

Further to Section 18 of the Q1/2020 Report, it is noted that on September 6, 2020, the Director of Natural Resources at the Ministry of Energy released the "Petroleum Commissioner's directives regarding calculation of the royalty value at the wellhead – the Tamar lease" (in this section: the "**Specific Directives**"). For further details, see Note 4M to the financial statements attached below. As of the report release date, the Partnership is examining the implications deriving from publication of the Specific Directives.

13. **Section 7.24.5 of the Periodic Report – additional regulatory restrictions**

Further to Section 7.24.5(f) of the Periodic Report, Section 19(c) of the Q1/2020 Report and Section 12(b) of the Q2/2020 Report, regarding the Electricity Authority's notice of examination of the possibility of increasing the target for the production of electricity from renewable energy to 30% by 2030, the decision on policy principles of the Minister of Energy on increasing the target for the production of electricity from renewable energy of August 3, 2020, and the Minister of Energy's notice in connection with the decision on policy principles as aforesaid of August 11, 2020, it is noted that on October 25, 2020, a government resolution was adopted on the issue of "Promotion of renewable energy in the electricity sector and amendment of government

resolutions”⁴, *inter alia* in view of the policy principles determined by the Minister of Energy as aforesaid, whereby production of electricity from renewable energies will be 30% of the total consumption of electricity and production of electricity from natural gas will be 70%, by 2030. An update of the interim target was further determined, to 20% of electricity production from renewable energies by the end of 2025. In addition, in view of the changes in government policy in the field of renewable energies, amendments were made to the government resolutions regarding adoption of the main recommendations of the Committee for Examination of Government Policy on the issue of the natural gas sector in Israel (the Tzemach Committee’s report), such that the government shall examine, already in 2021, the natural gas export restrictions.

14. **Section 7.27 of the Periodic Report – legal proceedings**

- a. Further to Section 7.27.2 of the Periodic Report, Section 18(b) of the Q1/2020 Report and Section 13(b) of the Q2/2020 Report, regarding a claim filed by the Partnership and Noble (in this section: the “**Plaintiffs**”) against the State of Israel, through its representatives from the Ministry of Energy (in this section: the “**Defendant**”), which mainly includes the restitution of royalties overpaid by the Plaintiffs, and under protest, to the Defendant, in respect of revenues deriving from gas supply agreements which were signed between third-party customers and the Yam Tethys partners, it is noted that on September 13, 2020, the Plaintiffs filed a motion for an extension for the filing of the main summations on their behalf to November 30, 2020 (instead of September 30, 2020), and that on the same date, the court approved the Plaintiffs’ motion as aforesaid. In addition, on November 13, 2020, the Plaintiffs filed another motion for an extension for the filing of the main summations on their behalf until January 30, 2021 (instead of September 30, 2020), and on November 15, 2020, the court approved the Plaintiffs’ said motion. Accordingly, the Defendant may file responding summations on its behalf by April 30, 2021 (taking into consideration the court recess days), while the Plaintiffs will be entitled to file summations on their behalf in response to the Defendant’s summations by May 18, 2021.
- b. Further to Section 7.27.3 of the Periodic Report regarding a motion for class certification alleging that the merger transaction between the Partnership and Avner Oil Exploration – Limited Partnership (in this section: “**Avner**”) was approved in an unfair proceeding, and the consideration that was paid to the Avner minority unit holders, as was determined in the merger agreement, is unfair, it is noted that in accordance with the court’s decision of October 1, 2020, the trial hearings will be held on March 9, 2021 and March 10, 2021.
- c. Further to Section 7.27.5 of the Periodic Report and Section 13(c) of the Q2/2020 Report regarding a class action and a motion for certification

⁴ https://www.gov.il/he/departments/policies/dec465_2020.

thereof (in this section: the “**Certification Motion**”), which was filed with the Tel Aviv District Court (Economic Department) by a shareholder of Tamar Petroleum Ltd. (“**Tamar Petroleum**”) and by the Public Representatives Association (in this section: the “**Petitioners**”), against the Partnership, Tamar Petroleum, officers thereof and against Leader Issues (1993) Ltd. (in this section: the “**Respondents**”), in connection with the offering of shares of Tamar Petroleum in July 2017 (in this section: the “**Offering**”), it is noted that on September 29, 2020, the Petitioners filed an update notice whereby they would file a motion for amendment of the Certification Motion within 21 days by joining another petitioner which participated in the Offering. On September 30, 2020, the Respondents filed their objection to this notice, and the court has not yet issued its decision on the matter. On November 1, 2020, the Petitioners filed a motion for amendment of the Certification Motion (in this section: the “**Amendment Motion**”), which seeks to join to the Certification Motion another petitioner, which participated in the Offering, unlike the current Petitioners which did not take part in the Offering. In addition, the Amendment Motion seeks to increase the amount of the alleged damage to \$153 million. On November 2, 2020, the court ordered the Respondents to respond to the Amendment Motion by November 23, 2020, and on November 12, 2020, the Respondents filed a motion for extension of the timeframe for the filing of their responses to the Amendment Motion until December 23, 2020, and for extension of the timeframe for the filing of the petitioners’ reply to the responses until January 17, 2021, accordingly. On November 12, 2020, the court granted the said motion.

- d. Further to Section 7.27.6 of the Periodic Report and Section 13(d) of the Q2/2020 Report, regarding a class action and a motion for certification thereof, which was filed with the Tel Aviv District Court by a consumer of the IEC (in this section: the “**Certification Motion**” and the “**Petitioner**”, respectively) against the Partnership and Noble and against the other holders of the Tamar project and the Leviathan project (as parties against which no remedy is sought), in connection with the competitive process for the supply of natural gas conducted by the IEC and in connection with a possible amendment to the agreement for the supply of gas from the Tamar project to the IEC, as agreed by the other holders of the Tamar project, with no involvement on the part of the Partnership and Noble (for details see Section 7.12.4(a)4.t of the Periodic Report), it is noted that according to the court’s decision of September 14, 2020, all of the respondents are required to file their responses to the Certification Motion by December 15, 2020.
- e. Further to Section 7.27.7(b) of the Periodic Report and Section 13(e) of the Q2/2020 Report, regarding a complaint that was filed by the supervisor against the Partnership, the Partnership’s general partner and the royalty interest owners (which include Delek Group Ltd., Delek Energy Systems Ltd. and Delek Royalties (2012) Ltd.) (the “**Supervisor’s Claim**”) and a counter-complaint that was filed by the royalty interest owners, all in connection with the Investment Recovery

Date in the Tamar project, it is noted that on September 2, 2020, the royalty interest owners filed an agreed stipulation according to which the supervisors' evidence in the claim and the evidence of the royalty interest owners in the counterclaim will be filed by November 24, 2020, and the evidence of the defendants in the supervisors' claim and in the counterclaim will be filed by January 10, 2021. On September 2, 2020, the court approved the said stipulation and postponed the pretrial session to January 26, 2021.

- f. Further to Section 7.27.8 of the Periodic Report and Section 13(f) of the Q2/2020 Report, regarding an appeal that was filed by some of the Tamar partners (in this section: the "**Appellants**"), with the Supreme Court from the judgment of the Tel Aviv District Court dismissing the administrative petition that they filed against the IEC and the Leviathan partners in connection with the election of the Leviathan partners' bid as the winner of the competitive process for the supply of natural gas to the IEC (in this section: the "**Appeal**"), the Partnership announced in an immediate report of August 25, 2020 (Ref. No.: 2020-01-093126) that on August 24, 2020, the Supreme Court's judgment was issued, which denies the Appeal and charges the Appellants with the costs of the IEC and legal fees in the sum total of ILS 50,000.
- g. Further to Section 7.27.9 of the Periodic Report and Section 20(g) of the Q1/2020 Report, regarding an administrative appeal that was filed by Lobby 99 Ltd. (CIC) and Hatzlacha (R.A.) (collectively in this section: the "**Administrative Appellants**") against the Competition Commissioner (in this section: the "**Commissioner**") (as a respondent) and against EMED Pipeline B.V. ("**EMED**") and EMG (as formal respondents), with the Competition Court at the Jerusalem District Court, from the Commissioner's decision to conditionally approve the merger between EMG and EMED, it is noted that on July 20, 2020, the court partially granted the Administrative Appellants' motion for the filing of a supplementary affidavit to which were attached several preliminary forecasts with respect to the demand for natural gas in Egypt, current reports of gas producers in Israel and current oil prices. In addition, on November 5, 2020, the court ruled that a preliminary hearing on the administrative appeal would be held on December 15, 2020.
- h. Further to Section 20(h) of the Q1/2020 Report, regarding a class action and a motion for certification thereof that was filed by a holder of participation units of the Partnership (in this section: the "**Petitioner**") against the Partnership, the Partnership's general partner, Delek Group Ltd., Yitzhak Sharon (Tshuva), the directors of the Partnership's general partner (including the former chairman of the board) and the CEO of the Partnership's general partner (in this section: the "**Certification Motion**" and the "**Respondents**", respectively), with the Economic Department of the Tel Aviv District Court, in which it was claimed that the Respondents refrained from disclosing in the Partnership's reports the existence of a clause in agreements for the sale of natural gas from the Leviathan and Tamar reservoirs to Dolphinus Holdings Limited, it is

noted that according to the court's decision of September 13, 2020, the Respondents are required to file a response to the Certification Motion by December 31, 2020, and the Petitioner is required to file a reply to the response two months later.

- i. Further to Section 13(g) of the Q2/2020 Report, regarding a demand received at the Partnership's offices from the Israel Securities Authority (ISA) for information and documents in the context of an administrative inquiry vis-à-vis the Partnership, it is noted that on November 10, 2020, the Partnership submitted a response to the said demand.

15. **Section 7.28 of the Periodic Report – business strategy and targets**

- a. Further to Section 7.28.1 of the Periodic Report, as of the report release date, the Partnership is continuing to explore and promote, inter alia, various outlines for the splitting of the Partnership's assets for the purpose of listing thereof on a foreign stock exchange, including the split outline specified in the Partnership's immediate report of March 18, 2019 (Ref. no. 2019-01-022080), the information in which is incorporated herein by reference, in which context the Partnership is carrying out a preliminary examination of possibilities for the transfer of additional petroleum rights to a foreign corporation whose shares shall be listed on the London Main Market, by way of acquisition, merger or otherwise.
- b. Further to Section 7.28.7(a) of the Periodic Report, regarding the Partnership's strategy for increasing the demand for natural gas, it is noted that on October 29, 2020, the Partnership signed a (non-binding) collaboration agreement with the Italian energy company Snam S.p.A and with Dan Public Transportation Co. Ltd. for the promotion and implementation of technology in the field of clean energy for transportation, and mainly LNG-fueled transportation. In the Partnership's estimation, implementation of the technology underlying the collaboration as aforesaid (if and insofar as implemented) may lead to an increase in the potential demand for natural gas.

16. **Section 26 of Chapter D of the Periodic Report – the directors of the General Partner**

With respect to the appointment of Mr. Tamir Polikar as a director of the Partnership's general partner, in lieu of Mr. Barak Mashraki, from September 10, 2020, see the Partnership's immediate reports of September 10, 2020 (Ref. No.: 2020-01-090775, 2020-01-090787 and 2020-01-090793), the details appearing in which are incorporated herein by reference.

17. **Below is a table that includes natural gas and condensate production data in the first three quarters of 2020 in the Tamar project:**^{5, 6}

		Q1		Q2		Q3	
		Natural gas	Condensate	Natural gas	Condensate	Natural gas	Condensate
Total output (attributed to the holders of the equity interests of the Partnership) in the period (in MMCF for natural gas and in thousands of barrels for condensate)		15,651	20.4	10,687	14.2	18,588	24
Average price per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)		5.28	33.93	5.0	28.18	5.41	34.16
Average royalties (any payment derived from the output of the producing asset including from the gross income from the petroleum asset) paid per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)	The State	0.61	3.88	0.56	3.1	0.63	3.92
	Third Parties	0.18	1.11	0.22	1.2	0.25	1.6
	Interested Parties	0.31	1.96	0.22	1.21	0.24	1.53
Average production costs per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel) ^{7 8}		0.34	1.89	0.54	2.95	0.32	1.78
Average net proceeds per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)		3.84	25.01	3.46	19.72	3.97	25.33

⁵ The data presented in the table above with respect to the rate attributed to the holders of the equity interests of the Partnership at an average price per output unit, in the royalties paid, in the production costs and in the income, net, was rounded off to two digits after the decimal point.

⁶ The production data are based on the Partnership's direct holding in the Tamar project at the rate of 22%.

⁷ It is emphasized that the average production costs per output unit include current production costs only, and do not include the reservoir's exploration and development costs and tax payments that will be made in the future by the Partnership.

⁸ It is noted that the average production costs per output unit include costs for the transmission of natural gas through INGL's transmission system to EMG's terminal in Ashkelon for the purpose of supplying the gas to Egypt in the sum of approx. \$1.6 million in Q3/2020 (in 100% terms).

18. **Below is a table that includes natural gas and condensate production data in the first three quarters of 2020 in the Leviathan project:**^{9, 10}

		Q1	Q2	Q3
		Natural gas		
Total output (attributed to the holders of the equity interests of the Partnership) in the period (in MMCF for natural gas and in thousands of barrels for condensate)		26,058	22,829	35,873
Average price per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)		5.43	5.01	5.04
Average royalties (any payment derived from the output of the producing asset including from the gross income from the petroleum asset) paid per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)	The State	0.60	0.54	0.55
	Third Parties	0.07	0.13	0.13
	Interested Parties	0.14	0.07	0.07
Average production costs per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel) ^{11 12}		0.66	0.80	0.69
Average net proceeds per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)		3.96	3.47	3.60

Date: November 17, 2020

Delek Drilling – Limited Partnership
via Delek Drilling Management (1993) Ltd., General Partner
Signed by: Gabi Last, Chairman of the Board
and Yossi Abu, CEO

⁹ See Footnote 5 above.

¹⁰ Since the sum of the costs entailed by production of the condensate during the first three quarters of 2020 exceeded the sum of the revenues received in respect thereof, and since the condensate is a byproduct of natural gas production, separate figures were not presented in the above table in connection with the production of the condensate, and all of the costs and expenses in connection with production of the condensate were attributed to the production of the natural gas.

¹¹ It is emphasized that the average production costs per output unit include current production costs only, and do not include the reservoir's exploration and development costs and tax payments that will be made in the future by the Partnership.

¹² It is noted that the average production costs per output unit include costs for the transmission of natural gas through INGL's transmission system to EMG's terminal in Ashkelon for the purpose of supplying the gas to Egypt in the sum of approx. \$4.7 million in Q1/2020, approx. \$3.9 million in Q2/2020 and approx. \$7.3 million in Q3/2020 (all in 100% terms).



Board of Directors Report on the State of the Partnership's Affairs



2020

This report is a translation of Delek Drilling - Limited Partnership's Hebrew-language Board of Directors' Report of the General Partner. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

November 17, 2020

Delek Drilling Limited Partnership

Report of the Board of Directors of the General Partner for the Period Ended September 30, 2020

The board of directors of Delek Drilling Management (1993) Ltd. (the “**General Partner**”) hereby respectfully submits the board of directors’ report for the nine- and three-month periods ended September 30, 2020 (the “**Report Period**”).

Part One – Explanations of the Board of Directors on the State of the Partnership's Business

1. Main figures from the description of the Partnership's business

The limited partnership, Delek Drilling (the “**Partnership**” or “**Delek Drilling**”) was founded on July 1, 1993 according to a partnership agreement between the trustee, Delek Drilling Trusts Ltd. as limited partner of the first part, and Delek Drilling Management (1993) Ltd. as general partner of the second part.

Main changes that occurred in the Report Period:

For a comprehensive description of the main changes in the Partnership’s business in the Report Period, see the update to Chapter A (Description of the Partnership’s Business) of the periodic report for 2019 (the “**Periodic Report**”), the condensed interim financial statements as of March 31, 2020 and as of June 30, 2020 and the condensed interim financial statements as of September 30, 2020 (the “**Condensed Interim Financial Statements**”), which are attached below.

2. Results of operations

A. General

On December 31, 2019, the piping of natural gas from the Leviathan reservoir to the domestic market began, and in January 2020, the piping of natural gas began to Jordan and to Egypt.

In August 2020, the Partnership issued (through a special purpose company) bonds totaling \$2.25 billion which served primarily for the repayment of short-term loans (for further details see Note 4A to the Condensed Interim Financial Statements attached below and Note 10 to the annual financial statements).

As of the date of approval of the Condensed Interim Financial Statements, the Partnership’s primary business is exploration, development and production of natural gas, condensate and oil in Israel and Cyprus, as well as the promotion of various natural gas-based projects, with the aim of increasing the volume of natural gas sales from the Partnership’s assets. At the same time, the Partnership explores business opportunities in the exploration, development

and production of natural gas and oil in the Mediterranean Basin. According to the provisions of the Gas Framework (see Note 12L1 to the financial statements as of December 31, 2019), the Partnership is required to transfer, by December 2021, all of its interests in the Tamar I/12 and Dalit I/13 leases (collectively: “**Tamar and Dalit**”). Therefore, as of the date of approval of the Condensed Interim Financial Statements, the Partnership is examining and promoting several alternatives, including the sale of its holdings in the Tamar and Dalit leases to a third party, or a possible split of the Partnership’s assets, such that the assets and liabilities attributed to the Tamar and Dalit leases or all of the Partnership’s assets and liabilities that are not attributed to the Tamar and Dalit leases, shall be transferred to a public corporation, either Israeli or foreign, whose shares will be distributed to the holders of the participation units, and in this context, the Partnership is holding an initial examination for the possibility of transferring additional petroleum interests to a foreign corporation whose shares will be listed for trading in London’s Main Market, by way of an acquisition, merger or otherwise. For details regarding a possible outline for a split of the Partnership’s assets, which is being examined by the Partnership, see Note 1F to the financial statements as of December 31, 2019 and Note 1B to the financial statements attached below.

The Partnership’s net profit in the Report Period amounted to approx. \$222.7 million, compared with approx. \$145.3 million in the same period last year. The increase in profit mainly derives from commencement of the production of gas from the Leviathan reservoir to the domestic market and regional markets and from expenses in the sum of approx. \$36.6 million in connection with adjustment of the value of the investment in a company accounted for at equity (Tamar Petroleum Ltd.) to the market value thereof which were recorded in the same period last year. Conversely, in the Report Period, credit costs were recorded which were capitalized to the cost of the Leviathan project in the same period last year.

Net profit in Q3/2020 totaled approx. \$103.1 million, compared with approx. \$60.5 million in the same period last year. The increase in net profit chiefly derived from the production of gas from the Leviathan reservoir for the domestic market and the regional markets which was partially offset by credit costs that were capitalized to the cost of the Leviathan project in the same period last year.

B. Analysis of statements of comprehensive income

Below are main figures with regards to the Partnership's statements of comprehensive income (dollars in thousands):

	1-3/2020	4-6/2020	7-9/2020	1-9/2020	1-9/2019	7-9/2019	2019
Revenues:							
From natural gas and condensate sales	225,189	167,731	282,179	675,099	339,936	119,837	453,344
Net of royalties	38,510	27,509	(47,961)	(113,980)	67,730	24,295	94,318
Revenues, net	186,679	140,222	234,218	561,119	272,206	95,542	359,026
Expenses and costs:							
Cost of gas and condensate production	23,858	24,081	30,720	78,659	31,930	8,534	40,731
Depreciation, depletion and amortization expenses	24,574	28,248	30,699	83,521	50,106	22,504	67,581
Other general expenses	1,315	749	928	2,992	9,673	3,217	14,298
G&A expenses	2,641	3,254	5,154	11,049	8,166	2,441	11,130
Total expenses and costs	52,388	56,332	67,501	176,221	99,875	36,696	133,740
Other expenses	-	-	-	-	(474)	-	(474)
Partnership's share in the profits (losses) of a company accounted for at equity, net	5	-	(3,778)	(3,773)	(36,640)	-	(36,645)
Operating income	134,296	83,890	162,939	381,125	135,217	58,846	188,167
Financial expenses	(52,602)	(57,461)	(70,912)	(180,975)	(36,275)	(14,095)	(47,487)
Financial income	2,573	8,836	11,123	22,532	47,677	15,482	78,390
Financial income (expenses), net	(50,029)	(48,625)	(59,789)	(158,443)	11,402	1,387	30,903
Profit before levy	84,267	35,265	103,150	222,682	146,619	60,233	219,070
Oil and gas profit levy	-	-	-	-	(1,314)	304	4,620
Net profit	84,267	35,265	103,150	222,682	145,305	60,537	223,690
Other comprehensive profit (loss):							
Amounts which may subsequently be reclassified to profit or loss:							
Profit (loss) from cash flow hedging transactions	(6,486)	1,895	(166)	(4,757)	(6,187)	29	(5,150)
Carried to profit or loss in respect of cash flow hedging transactions	(42)	575	6,827	7,360	(1,271)	(50)	(1,830)
Amounts which will not be subsequently reclassified to profit or loss:							
Profit (loss) from investment in equity instruments designated for measurement at fair value through other comprehensive income	(35,975)	584	1,545	(33,846)	(36,416)	(8,817)	(41,256)
Total other comprehensive income (loss) for the period	(42,503)	3,054	8,206	(31,243)	(43,874)	(8,838)	(48,236)
Total comprehensive income	41,764	38,319	111,356	191,439	101,431	51,699	175,454
Gas sales in BCM¹	3.6	2.9	4.6	11.1	7.8	2.8	10.5
Condensate sales in thousands of barrels²	213	141	320	674	359	127	482

¹ The figures refer to natural gas sales (100%) from the Tamar and Leviathan projects (last year Tamar and Yam Tethys), rounded off to one tenth of the BCM.

² The figures refer to condensate sales (100%) from the Tamar and Leviathan projects (last year Tamar only), rounded off to thousands of barrels. Also see Notes 12D and 12E to the annual financial statements regarding agreements in relation to condensate sales from the Leviathan reservoir.

Net revenues in the Report Period amounted to approx. \$561.1 million, compared with approx. \$272.2 million in the same period last year, an increase of approx. 106%. The increase chiefly derives from the commencement of production from the Leviathan reservoir as noted above. In the Report Period, approx. 11.1 BCM of natural gas was sold from the Tamar and Leviathan reservoirs (100%), compared with approx. 7.8 BCM in the same period last year, approx. 8.4 BCM of which to the domestic market and approx. 2.7 BCM for export (in the same period last year, approx. 7.6 BCM to the domestic market and approx. 0.2 BCM for export).

The Partnership's net revenues from the Leviathan reservoir in the Report Period totaled approx. \$371.6 million and reflect a sales volume of approx. 5.3 BCM (the Partnership's share is approx. 2.4 BCM). The Partnership's net revenues from the Tamar reservoir in the Report Period totaled approx. \$189.5 million, and reflect a sales volume of approx. 5.8 BCM (the Partnership's share is approx. 1.3 BCM), compared with net revenues of approx. \$269 million from the Tamar reservoir in the same period last year, reflecting a sales volume of approx. 7.9 BCM (the Partnership's share is approx. 1.7 BCM). The decrease in revenues from the Tamar reservoir in the period mainly derived from the spread of COVID-19 (see Note 1D to the Condensed Interim Financial Statements attached below) and from commencement of production from the Leviathan reservoir.

Net revenues in Q3/2020 amounted to approx. \$234.2 million, compared with approx. \$95.5 million in the same period last year, an increase of approx. 145%. The increase chiefly derives from the commencement of production from the Leviathan reservoir as noted above. In Q3/2020, approx. 4.6 BCM of natural gas was sold from the Tamar and Leviathan reservoirs (100%), compared with approx. 2.8 BCM in the same period last year, approx. 3.3 BCM of which to the domestic market and approx. 1.3 BCM for export (in the same period last year, approx. 2.7 BCM to the domestic market and approx. 0.1 BCM for export).

The Partnership's net revenues from the Leviathan reservoir in Q3/2020 totaled approx. \$153.8 million and reflect a sales volume of approx. 2.3 BCM (the Partnership's share is approx. 1 BCM). The Partnership's net revenues from the Tamar reservoir in Q3/2020 totaled approx. \$80.4 million, reflecting a sales volume of approx. 2.4 BCM (the Partnership's share is approx. 0.5 BCM), compared with net revenues of approx. \$95.5 million from the Tamar reservoir in the same period last year, reflecting a sales volume of approx. 2.8 BCM (the Partnership's share is 0.6% BCM). The decrease in revenues from the Tamar reservoir in the period mainly derived from the reasons specified above.

For additional production figures see Sections 17-18 of Chapter A, which is attached above.

Cost of gas and condensate production mainly includes management and operating expenses in the Tamar and Leviathan projects which include, *inter alia*, expenses of haulage and transport, salaries, consulting, maintenance, insurance and transport of natural gas to Egypt. The cost of gas and

condensate production in the Report Period amounted to approx. \$78.7 million, compared with approx. \$31.9 million in the same period last year.

The increase in the Report Period mainly derives from the commencement of production from the Leviathan reservoir which was offset through a decrease of approx. \$14 million in the cost of gas production from the Tamar reservoir compared with the same period last year which mainly derived from a decrease in the expenses of upgrading equipment on the Tamar platform that was performed in the same period last year.

Cost of gas and condensate production in Q3/2020 amounted to approx. \$30.7 million, compared with approx. \$8.5 million in the same period last year. The increase primarily resulted from expenses in the sum of approx. \$24.5 million in respect of the cost of production and transport of gas from the Leviathan reservoir.

Depreciation, depletion and amortization expenses in the Report Period amounted to approx. \$83.5 million, compared with approx. \$50.1 million in the same period last year. The depreciation expenses in the Report Period include primarily depletion depreciation in the Tamar and Leviathan projects. The increase derives primarily from recording depletion depreciation in the Leviathan project for the first time, which was offset by a decrease in the depreciation, depletion and amortization expenses in the Tamar and Yam Tethys projects. For details regarding the effect of the change in the estimate of impairment of the reservoirs, see Note 2A to the financial statements attached below.

Depreciation, depletion and amortization expenses in Q3/2020 amounted to approx. \$30.7 million, compared with approx. \$22.5 million in the same period last year. Depreciation expenses in the Report Period include depletion depreciation primarily in the Tamar and Leviathan projects. The increase derives primarily from the above-specified reasons.

Other general expenses in the Report Period amounted to approx. \$3 million, compared with approx. \$9.7 million in the same period last year. The expenses include, *inter alia*, expenses of geologists, engineers and consulting, as well as G&A expenses of various projects. The decrease in the Report Period derives primarily from classification of administrative expenses of the Leviathan project operator under the “Cost of gas and condensate production” item due to the commencement of the production from the Leviathan reservoir.

Other general expenses in Q3/2020 amounted to approx. \$0.9 million, compared with approx. \$3.2 million in the same period last year. The decrease in Q3/2020 compared with the same quarter last year, mainly derives from the above-specified reason.

G&A expenses in the Report Period amounted to approx. \$11 million, compared with approx. \$8.2 million in the same period last year, and include, *inter alia*, expenses for professional services, expenses for management fees to the General Partner and payroll expenses. In addition, G&A expenses include expenses in the amount of approx. \$2.5 million (in the same period last year:

approx. \$1.5 million), which were recorded against a capital reserve for transactions between a corporation and a controlling interest holder thereof and which mainly derive from costs that are financed by the General Partner, which according to the partnership agreement, are not borne by the Partnership. The increase in G&A expenses in the Report Period mainly derived from an increase in expenses recorded against a capital reserve as aforesaid and from an increase in the partnership's D&O insurance expenses.

G&A expenses in Q3/2020 amounted to approx. \$5.2 million, compared with approx. \$2.4 million in the same period last year. The increase in Q3/2020 compared with the same quarter last year, derives from the above-specified reasons.

Other expenses in the same period last year in the sum of approx. \$0.5 million derived from the update of other long-term assets.

The Partnership's share in the profits (losses) of a company accounted for at equity, net, in the Report Period amounted to a loss of approx. \$3.8 million, compared with a loss of approx. \$36.6 million in the same period last year. The loss in the period derived from the company accounted for at equity EMED Pipeline B.V. ("**EMED**") which holds 39% of the shares of Eastern Mediterranean Gas Company S.A.E ("**EMG**"). The loss in the same period last year mainly derived from adjustment of the value of the investment in Tamar Petroleum to the market value thereof until the last date of treatment of the investment according to the equity method, as specified in Note 6A to the financial statements as of December 31, 2019.

In Q3/2020 loss from a company accounted for at equity was recorded in a sum of approx. \$3.8 million.

Financial expenses in the Report Period amounted to approx. \$181 million, compared with approx. \$36.3 million in the same period last year. Most of the financial expenses derived from interest in respect of bonds and liabilities to banking corporations in the sum of approx. \$178 million (last year approx. \$139 million out of which the Partnership capitalized for the Leviathan project a sum of approx. \$109 million).

The increase in financial expenses in the Report Period compared with the same period last year derives mainly from the discontinuation of capitalization of the credit costs for the Leviathan project upon completion of the construction stage and the commencement of gas production from the project and from depreciation of the balance of the cost of raising debt that was prepaid, including LIBOR interest hedging expenses.

With respect to the issuance of bonds of Leviathan Bond that was closed in August 2020, see Note 4A to the Condensed Interim Financial Statements attached below and Chapter Four below.

Financial expenses in Q3/2020 amounted to approx. \$71 million, compared with approx. \$14.1 million in the same period last year. Most of the financial expenses derived from interest in respect of bonds and liabilities to banking

corporations in the sum of approx. \$71 million (last year approx. \$19.7 million out of which the Partnership capitalized for the Leviathan project a sum of approx. \$9.3 million). The increase in financial expenses in the Report Period compared with the same period last year derives mainly from the above-specified reasons.

Financial income in the Report Period amounted to approx. \$22.5 million, compared with approx. \$47.7 million in the same period last year. The decrease in financial income mainly derives from a decrease in income from the revaluation of royalties and annual payments receivable that derived from the sale of the Partnership's interests in the Karish and Tanin leases, as well as from a dividend received in the same period last year from a company accounted for at equity.

In the Report Period, a revaluation as aforesaid was recorded in the sum of approx. \$19.1 million, compared with a revaluation in the sum of approx. \$31.2 million in the same period last year. For further details, see Note 4J to the Condensed Interim Financial Statements attached below.

Financial income in Q3/2020 amounted to approx. \$11.1 million, compared with approx. \$15.5 million in the same period last year. The decrease in financial income mainly derives from a decrease in deposits and investments interest which derived from a decrease in market interest compared with the same period last year. For further details, see Note 4J to the financial statements attached below.

Oil and gas profit levy – in the Report Period no gas was produced from the Yam Tethys reservoir and therefore no levy expenses were recorded. In the same period last year, the Partnership recorded expenses in respect of the oil and gas profit levy in the sum of approx. \$1.3 million, deriving from the Partnership's revenues from the Yam Tethys project.

3. Financial position, liquidity and financing sources

A. Financial position

Below is a specification of the main changes in the condensed interim statement of financial position as of September 30, 2020, compared with the statement of financial position as of December 31, 2019:

Total condensed statement of financial position as of September 30, 2020 amounts to approx. \$4,670.2 million, compared with approx. \$4,503.1 million as of December 31, 2019.

Current assets of the Partnership as of September 30, 2020 amount to approx. \$549 million, compared with approx. \$368.2 million as of December 31, 2019, as specified below:

- 1) **Cash and cash equivalents** as of September 30, 2020 total approx. \$209.1 million, compared with approx. \$171 million as of December 31, 2019. The increase during the Report Period derived primarily from proceeds of the issue of Leviathan bond (see Section C. below) and from revenues of the Partnership from the sale of natural gas and condensate which partially served for investments and operating expenses in the Partnership's assets, for interest payments and tax and balancing payments as specified in Note 13D to the financial statements as of December 31, 2019.
- 2) **Short-term investments** as of September 30, 2020 total approx. \$112.9 million, compared with approx. \$63.5 million as of December 31, 2019, and primarily include deposits serving as a safety cushion for the bonds of Tamar Bond in the sum of approx. \$60 million and a deposit serving as a safety cushion for the bonds of Leviathan Bond in the sum of approx. \$52.7 million. The increase in deposits as aforesaid mainly derived from income in respect of the sale of gas and condensate from the Leviathan reservoir.
- 3) **Trade receivables item** as of September 30, 2020 totals approx. \$161.3 million, compared with approx. \$46.9 million as of December 31, 2019. The increase in the trade receivables balance derives from trade receivables balance in the Leviathan project following commencement of production of the gas from the project.
- 4) **Other receivables item** as of September 30, 2020 totals approx. \$65.7 million, compared with approx. \$86.9 million as of December 31, 2019. The decrease derives primarily from a decrease in the balance of the operator of the joint ventures in the Leviathan project and from payments of current tax advances for the participation unit holders.

Non-current assets as of September 30, 2020 amount to approx. \$4,121.2 million, compared with approx. \$4,134.8 million on December 31, 2019, as specified below:

- 1) **Investments in oil and gas assets** as of September 30, 2020 total approx. \$3,450.9 million, compared with approx. \$3,429.2 million as of December 31, 2019. The increase mainly derives from investments in the Leviathan and Tamar projects in the sum of approx. \$92.3 million. Conversely, the Partnership recorded depreciation, depletion and amortization expenses in the Tamar and Leviathan projects in the sum of approx. \$76.8 million. See also Note 2A to the financial statements attached below regarding the change in the estimate of impairment of the reservoirs.
- 2) **Investment in a company accounted for at equity** as of September 30, 2020 totaled approx. \$71.2 million compared with a sum of approx. \$75 million as of December 31, 2019, and included the investment in shares of EMED. The decrease derived from the recording of a loss for an investment in a company accounted for at equity in the period that derived mainly from depreciation of the excess purchase cost. See Note 6B to the financial statements as of December 31, 2019.
- 3) **Long-term bank deposits** as of September 30, 2020 amount to approx. \$100.5 million, compared with approx. \$102.9 million as of December 31, 2019. The balance as of December 31, 2019 included a long-term deposit in the sum of approx. \$102 million, which served for partial prepayment of the principal of the bonds of Tamar Bond, in July 2020 as set forth in Section C1 below. The balance as of September 30, 2020 includes primarily a deposit in the sum of approx. \$100 million which serves as a safety cushion for the repayment of the bonds of Leviathan Bond issued in August 2020 as set forth in Note 4A to the financial statements attached below.
- 4) **Other long-term assets** as of September 30, 2020 totaled approx. \$498.6 million, compared with approx. \$527.7 million as of December 31, 2019. The decrease mainly derived from a drop in the share price of a financial asset at fair value through other comprehensive income in the sum of approx. \$33.8 million and classification of revenues receivables from the sale of the Karish leases in the sum of approx. \$14.3 for current assets. Conversely, there was an increase in receivables from a company accounted for at equity in the sum of approx. \$10.4 million and in fair value of royalties and revenues receivables from the Karish and Tanin leases in the sum of approx. \$19 million.

Current liabilities as of September 30, 2020 amount to approx. \$231.7 million, compared with approx. \$824.7 million as of December 31, 2019, as specified below:

- 1) **Bonds** – Current maturities of bonds of Tamar Bond which are due in December 2020, in the sum of approx. \$80 million (net of issue expenses) compared with approx. \$319.4 million (net of issue expenses) as of December 31, 2019. The decrease derives from prepayment made by the

Partnership in the sum of approx. \$240 million for the bonds of Tamar Bond, see also Section C1 below.

- 2) **Liabilities to banking corporations** – As of December 31, 2019, amounted to approx. \$296.9 million (net of debt-raising costs), which were due in December 2020. The loan was prepaid in August 2020 in the context of the issuance of the bonds of Leviathan Bond as set forth in Section C1 below and in Note 4A to the financial statements attached below.
- 3) **Trade and other payables** as of September 30, 2020 amounted to approx. \$102.7 million, compared with approx. \$174.7 million as of December 31, 2019. The decrease derives primarily from a decrease in the payables item in the context of the joint ventures in respect of the Leviathan and Tamar projects.
- 4) **Provision for tax and balancing payments** as of December 31, 2019 totaled approx. \$33.7 million, which was paid in January 2020.
- 5) **Other short-term liabilities** as of September 30, 2020 amounted to a sum of approx. \$49 million and they derive from a classification of part of the oil and gas asset retirement obligation in the Yam Tethys project as short term.

Non-current liabilities as of September 30, 2020 amount to approx. \$3,431.4 million, compared with approx. \$2,864.9 million as of December 31, 2019, as specified below:

- 1) **Bonds** – in the sum of approx. \$3,250.2 million include the bonds of Leviathan Bond in the sum of approx. \$2,218.2 million (net of issue expenses) which were issued in August 2020 as set forth in Note 4A to the financial statements attached below, the Series A bonds in the sum of approx. \$396.9 million (net of issue expenses) and the bonds of Tamar Bond in the sum of approx. \$635.1 million (net of issue expenses) (see Part Four below).
- 2) **Long-term liabilities to banking corporations** as of December 31, 2019 totaled approx. \$1,630.4 million (net of debt-raising costs) and were repaid in August 2020 in the context of the issue of the bonds of Leviathan Bond as set forth in Note 4A to the financial statements attached below.
- 3) **Other long-term liabilities** as of September 30, 2020 total approx. \$181.2 million, compared with approx. \$203.1 million as of December 31, 2019. The decrease mainly derives from a classification of a sum of approx. \$49 million of the oil and gas asset retirement obligation in the Yam Tethys project as current liabilities, while conversely, the oil and gas asset retirement obligations in the Yam Tethys, Tamar and Leviathan projects were updated, by a sum of approx. \$27.1 million.

The capital of the limited partnership as of September 30, 2020 totals approx. \$1,007.1 million, compared with approx. \$813.5 million as of

December 31, 2019. The increase in capital mainly derives from the profit in the Report Period in the sum of approx. \$222.7 million. Conversely, a loss was recorded from an investment in an equity instrument designated for measurement at fair value through other comprehensive income in the sum of approx. \$33.8 million, and a minimal distribution was performed to the trustee in the sum of approx. \$0.3 million.

B. Cash flow

Cash flows generated by the Partnership from operating activities in the Report Period amounted to approx. \$212.1 million, compared with approx. \$188.5 million in the same period last year. Most of the increase derives from the commencement of the production from the Leviathan project.

Cash flows generated by the Partnership from operating activities in Q3/2020 amounted to approx. \$78.1 million, compared with approx. \$80.7 million in the same period last year. Most of the decrease derived from an increase in trade receivables which was offset by the increase in the operating income upon the commencement of the production from the Leviathan project.

Cash flows used for investment activities in the Report Period amounted to approx. \$167.6 million, compared with approx. \$537.7 million in the same period last year. In the Report Period, the Partnership invested approx. \$146 million, mainly in the Leviathan and Tamar projects compared with approx. \$467.3 million in the same period last year. Short-term deposits that serve primarily as safety cushions for Tamar Bond and Leviathan Bond increased in the Report Period by approx. \$49.4 million, compared with a decrease of approx. \$102.5 million in the same period last year. In the Report Period, the Partnership invested \$100 million in a long-term deposit that serves as a safety cushion for the bonds of Leviathan Bond and conversely, it has repaid approx. \$100 million for a long-term deposit that served as a safety cushion for the bonds of Tamar Bond as part of the prepayment as specified in Section C2 below. Negative balances of the operator of the joint ventures decreased in approx. \$29.1 million, and approx. \$14.8 million was received on account of a loan that was given in the context of the transaction for the sale of the Karish and Tanin leases.

Cash flows derived from investment activities in Q3/2020 amounted to approx. \$57 million, compared with approx. \$209.1 million used for investment activities in the same period last year. In Q3/2020, the Partnership invested primarily in the Leviathan and Tamar projects approx. \$20.8 million compared with approx. \$151.8 million in the same period last year. Conversely it withdrew a sum of approx. \$76.1 million (net of deposits made) from short-term deposits that serve as a safety cushion for Tamar bond and for a loan for the financing of the Leviathan project.

Cash flows, net, used for financing activities in the Report Period amounted to approx. \$6.4 million, compared with approx. \$354.2 million deriving from financing activities in the same period last year.

Cash flows from the financing activities derived from bonds of Leviathan Bond (net of issue expenses) in the sum of approx. \$2,218 million that were issued against loans from banking corporations in the sum of approx. \$2,050 million. In addition, a partial prepayment of the bonds of Tamar Bond was made, in the sum of approx. \$241.4 million and tax and balancing payments in the sum of approx. \$33.8 million and conversely, received loans from banking corporations (which were repaid during the aforesaid period) in the sum of approx. \$103.8 million.

Cash flows used for financing activities in Q3/2020 total approx. \$12.8 million, compared with approx. \$63 million that derived from financing activities in the same period last year.

Cash flows from the financing activities in the Report Period derived mainly from completion of raising bonds of Leviathan Bonds (net of issue expenses) in the sum of approx. \$2,218 million and which served primarily for the repayment of loans from banking corporations, net, in the sum of approx. \$1,946.2 million. In addition, a partial prepayment of bonds of Tamar Bonds was made in the sum of approx. \$241.4 million.

Cash flows used for financing activities in Q3/2020, were mainly used for the repayment of loans to banking corporations, net, in the sum of approx. \$1,988 million and for the repayment of bonds in the sum of approx. \$241.4 million. Conversely, the Partnership issued bonds of Leviathan Bond (net of issue expenses) in the sum of approx. \$2,218 million.

C. Financing

- 1) August 18, 2020 saw the completion of the process of issuance of bonds offered by Leviathan Bond Ltd. (the “**Issuer**”), a special-purpose company (SPC) wholly held by the Partnership, in which bonds in the sum total of \$2.25 billion were issued in accordance with Rule 144A and Regulation S. For further details with respect to the terms and conditions of the bonds, see Note 4A to the financial statements attached below and Part Four below.
- 2) On July 15, 2020, Delek & Avner (Tamar Bond) Ltd. (a company wholly owned by the Partnership), made a partial prepayment of the third bond series of Tamar Bond in the sum of \$240 million (the “**Amount of the Principal**”), the original maturity date of which was December 30, 2020. The amount of the prepayment includes the Amount of the Principal, plus accrued interest in the sum total of approx. \$0.4 million, plus a prepayment fee in the sum of approx. \$4.2 million (the “**Prepayment Fee**”). It is noted that the amount of the Prepayment Fee is lower than the balance of the interest that Delek & Avner (Tamar Bond) Ltd. would have paid if the principal amount would have been repaid on the original maturity date.

Also see Part Four below.

D. Balancing payments and tax payments and a distribution to the limited partner

- 1) On January 9, 2020, the Partnership made a payment of approx. ILS 116.3 million (ILS 0.09909 per participation unit), which was approved by the board of directors of the General Partner and the trustee on December 12, 2019. The said payment includes tax payments to entitled individual holders and balancing payments to holders that are not individuals.
- 2) On February 12, 2020, the General Partner's board of directors approved a distribution to the limited partner in the sum of ILS 1 million, which distribution will be used for payment of the supervisor's fees and the trustee's fees and expenses, in accordance with the provisions of the trust agreement.
- 3) On November 1, 2020, the General Partner's board of directors approved a distribution to the limited partner in the sum of ILS 1 million, which distribution will be used for payment of the supervisor's fees and the trustee's fees and expenses, in accordance with the provisions of the trust agreement.
- 4) On November 17, 2020 the General Partner's board of directors, after receiving the recommendation of the Financial Statements Review Committee of the Partnership's General Partner, approved a distribution of profits in the sum of \$65 million (\$0.055375 per participation unit of the Partnership), the record date for which distribution is November 25, 2020. The said profit distribution will be carried out in December 2020.

E. Buyback plan:

1. At its meeting of July 26, 2020, the board of directors of the Partnership's General Partner adopted a buyback plan for bonds (Series A bonds and Tamar Bond bonds) (the "**Buyback Plan**"), to be executed from time to time at the discretion of the company's management by way of purchase on or off TASE during the period of the plan as specified below, at a total cost of up to U.S. \$50 million (Series A bonds and Tamar Bond bonds together). The buyback will be made from the funds in the Partnership's unpledged accounts. The Buyback Plan is valid starting from July 27, 2020 until December 31, 2021. The board of directors approved the Buyback Plan for the following main reasons:
 - a. In the current market situation, a buyback of the Partnership's bonds is a good business and economic opportunity for the Partnership.
 - b. At present, the Buyback Plan for the Partnership's bonds will enable the reduction of the Partnership's net debt, and is expected to contribute to the Partnership's debt repayment capacity.
 - c. It is noted that the bond Buyback Plan is consistent with the provisions of the Partnership's indentures, and that approval of the plan does not constitute a breach of the Partnership's undertakings to its bondholders.

- d. It is clarified that the bond buyback will be performed subject to completion of the refinancing (which was completed) of loans provided to the Partnership, *inter alia*, for the purpose of financing of the Leviathan project (the “**Refinancing**”), that the said decision does not obligate the Partnership to buy back any or all of the bonds, and that the Partnership's management is entitled to decide not to buy back bonds at all and/or to buy back less bonds than authorized.

It is clarified that the decision of the board of directors to approve the Buyback Plan does not obligate the Partnership to buy back bonds in the full amount of the Buyback Plan or any part thereof, and that the actual buyback is subject to the discretion of the company's management.

Following the decision of the board of directors as aforesaid, until the report approval date, the Partnership carried out buybacks of NIS 11,413,393 par value of Series A bonds in a total amount of approx. \$3 million.

2. At its meeting of November 17, 2020, the board of directors of the Partnership's General Partner adopted a plan to buy back Series A bonds for a total estimated cost of up to \$30 million (the "**Plan**"), according to the directive of the Israel Securities Authority of July 26, 2010 (Position 199-8) regarding the "safe harbor" protection in a corporation's buyback of securities (the "**Safe Harbor Directive**"). The purchases will be made from time to time in the period between November 19, 2020 and December 31, 2020, in transactions on or off TASE, by a trustee through a TASE member (the "**TASE Member**"), which has no material business ties with the Partnership, with which the Partnership will engage for implementation of the Plan, including by way of a blind trust, all according to the absolute discretion of the TASE Member and without the Partnership's involvement.

It is noted that this Plan replaces the Buyback Plan referred to in Section 1 above.

The board of directors approved by the purchase Plan for the following main reasons:

- a. In the current market situation, a buyback of the Partnership's bonds is a good business and economic opportunity for the Partnership.
- b. The Plan will enable the reduction of the Partnership's debt, and is expected to contribute to the Partnership's debt repayment capacity.
- c. The Plan meets the provisions of the Partnership's indenture on the basis of which the Partnership's Series A bonds were issued, and approval of the Plan does not constitute a breach of the Partnership's undertakings to the Partnership's Series A bondholders.
- d. The Plan meets the conditions set forth in the buyback procedure adopted by the Partnership, as well as the Safe Harbor Directive.

- e. Approval of the Plan under the Safe Harbor Directive will reduce the risk that decisions and actions taken thereunder will be interpreted as a breach of the law, including the prohibition on the use of inside information.

F. The spread of COVID-19 and its possible impact on the Partnership's business:

Further to Note 1G to the annual financial statements regarding the spread of COVID-19 and the possible impact thereof on the Partnership's business, in Q1/2020 sharp declines were recorded in the oil and natural gas prices in the international markets, which, in the Partnership's estimation, may be attributed to the COVID-19 crisis, as well as additional causes and factors that affect the demand for and supply of energy products.

From mid-March 2020 to the end of Q2/2020, a drop in demand has been recorded with a corresponding decrease in sales of natural gas produced from the Leviathan and Tamar reservoirs (the "**Reservoirs**"), relative to previous forecasts of the Partnership, which were updated in July 2020. As of the date of approval of the Condensed Interim Financial Statements, it is impossible to estimate the extent and duration of the COVID-19 crisis and therefore it is difficult to estimate at this stage its impact on demand and sales from the Reservoirs in the coming years.

However, it shall be noted that in Q3/2020 the rate of sales from the Reservoirs was higher than the average rate of sales in each one of first two quarters of 2020 (from the Tamar reservoir, of approx. 2.4 BCM, versus an average rate of sales in each one of the first two quarters of 2020 of approx. 1.7 BCM and from the Leviathan reservoir, approx. 2.25 BCM, versus an average rate of sales in each one of the first two quarters of 2020 of approx. 1.54 BCM). In the estimation of the Partnership, the said increase derived, *inter alia*, from the weather conditions.

Insofar as the COVID-19 crisis endures, it may adversely affect the Partnership and impair the various aspects of its activity, including a decline in demand for energy products and decrease in oil and natural gas prices in international and domestic markets, reduce demand for natural gas in markets relevant to the Partnership and impair the revenues of the Partnership from the Reservoirs and undermine the financial strength of the Partnership's customers and its partners.

It is stated that as of the date of approval of the Condensed Interim Financial Statements, there is no impairment to the operation of the Reservoirs.

For further details see Note 1D to the financial statements attached below.

Caution concerning forward-looking information – The Partnership's assessments regarding the possible consequences of COVID-19 constitute forward-looking information, as defined in Section 32A of the Securities Law, 5728-1968. Such information is based, *inter alia*, on the Partnership's assessments and estimates as of the date of this report and

on reports published in Israel and around the world on this issue and the directives of the relevant authorities, the materialization of which is uncertain and not in the Partnership's control.

G. Work plan for reducing operating and investment budgets:

As part of the strategy for dealing with the COVID-19 crisis, the Tamar partners, the Leviathan partners and the partners in Block 12 in Cyprus have acted for streamlining and reducing the operating budgets and postponing planned investment budgets to later years and accordingly, the partners in the aforesaid projects approved updated budgets for 2020, such that the total reduction amounted to approx. \$131 million (in terms of 100%, the Partnership's share is approx. \$41 million), as follows: in the Tamar project – a reduction of approx. \$63 million (100%, the Partnership's share approx. \$14 million); in the Leviathan project a reduction of approx. \$45 million (100%, the Partnership's share is approx. \$20 million); and in the Block 12 project in Cyprus, a reduction of approx. \$23 million (100%, the Partnership's share is approx. \$7 million). The Partnership is continuing to act, together with its other partners in the aforesaid projects, for expansion of the budgetary reduction plan to the upcoming years as well.

Part Two – Exposure to and Management of Market Risks

Over the course of the reported period, no change occurred in the areas of the Partnership's exposure or in the market risks, as reported in the board of directors' report for 2019, except as stated below:

1. Report on linkage bases in Dollars in thousands, as of September 30, 2020

	Financial Balances				
	In dollars or dollar- linked	In non- linked ILS	Non- linked	Non- financial balances	Total
<u>Assets</u>					
Cash and cash equivalents	206,529	2,602	-	-	209,131
Short-term investments	112,647	210	-	-	112,857
Trade receivables	160,534	-	-	-	160,534
Other receivables	35,342	-	-	30,314	65,656
Investments in oil and gas assets	-	-	-	3,450,903	3,450,903
Investment in company accounted for at equity	-	-	-	71,222	71,222
Long-term deposits	100,504	-	-	-	100,504
Other long-term assets	280,157	-	12,508	205,953	498,618
Total assets	896,495	2,812	12,508	3,758,392	4,670,207
<u>Liabilities</u>					
Trade and other payables	79,539	1,361	-	21,771	102,671
Other short-term liabilities	-	-	-	49,044	49,044
Bonds	3,330,166	-	-	-	3,330,166
Other long-term liabilities	-	-	-	181,203	181,203
Total liabilities	3,409,705	1,361	-	252,018	3,663,084
Total net balance sheet balance	(2,513,210)	1,451	12,508	3,506,374	1,007,123

2. Report on linkage bases in Dollars in thousands, as of December 31, 2019

	Financial Balances				
	In dollars or dollar-linked	In non-linked ILS	Non-linked	Non-financial balances	Total
<u>Assets</u>					
Cash and cash equivalents	147,806	23,240	-	-	171,046
Short-term investments	63,271	188	-	-	63,459
Trade receivables	46,862	-	-	-	46,862
Other receivables	78,586	-	-	8,295	86,881
Investments in oil and gas assets	-	-	-	3,429,178	3,429,178
Investment in company accounted for at equity	-	-	-	74,995	74,995
Long-term deposits	102,919	-	-	-	102,919
Other long-term assets	265,874	-	46,354	215,505	527,733
Total assets	705,318	23,428	46,354	3,727,973	4,503,073
<u>Liabilities</u>					
Trade and other payables	160,440	655	-	13,643	174,738
Provision for tax and balancing payments	-	-	-	33,657	33,657
Bonds	1,350,831	-	-	-	1,350,831
Liabilities to banking corporations	1,927,271	-	-	-	1,927,271
Other long-term liabilities	-	-	-	203,069	203,069
Total liabilities	3,438,542	655	-	250,369	3,689,466
Total net balance sheet balance	(2,733,224)	22,773	46,354	3,477,604	813,507

3. Sensitivity tests

In accordance with Amendment 5767 to the provisions of the Second Schedule to the Securities Regulations (Periodic and Immediate Reports) 5730-1970, the Partnership performed tests of sensitivity to changes in risk factors affecting the fair value of “sensitive instruments”.

Description of parameters, assumptions and models:

Parameters:

Parameter	Source/Treatment Method
ILS/Dollar exchange rate	Representative rate as of September 30, 2020
Dollar interest	According to the LIBOR curve

Analysis of sensitivity of the value of royalties and a loan to Energean from the sale of the Karish and Tanin leases to changes in the cap rate (\$ in thousands):

Sensitive Instrument	Profit/(Loss) from the Changes		Fair Value	Profit/(Loss) from the Changes	
	2%	1%		-1%	-2%
Royalties receivable from the Karish and Tanin leases	(18,028)	(9,409)	179,000	10,299	21,602
Loan to Energean as part of the sale of the Karish and Tanin leases	(3,910)	(2,003)	71,900	2,105	4,319
Total	(21,938)	(11,412)	250,900	12,404	25,921

Analysis of sensitivity of the value of contingent proceeds in connection with royalties receivable from the Karish and Tanin leases to changes in the price of natural gas and condensate (\$ in thousands):

Following the provisions of Section E. of Part One and Note 1D to the financial statements attached below regarding the spread of COVID-19 and the possible impact thereof on the Partnership's business, below are extended sensitivity tests in respect of a change in the natural gas and condensate prices when the other variables remain fixed, and the effect thereof on revaluation of the royalties receivable from the Karish and Tanin leases:

Sensitive instrument	Profit/(loss) from changes in natural gas prices				Fair Value	Profit/(loss) from changes in natural gas prices			
	30%	20%	10%	5%		-5%	-10%	-20%	-30%
Royalties receivable from the Karish and Tanin leases	20,323	15,641	5,837	971	179,000	(4,808)	(9,503)	(14,879)	(22,120)

Sensitive instrument	Profit/(loss) from changes in condensate prices				Fair Value	Profit/(loss) from changes in condensate prices			
	30%	20%	10%	5%		-5%	-10%	-20%	-30%
Royalties receivable from the Karish and Tanin leases	10,948	5,757	927	2,488	179,000	(2,454)	(4,752)	(9,387)	(10,597)

Tests of sensitivity to changes in the Dollar/ILS exchange rate (\$ in thousands):

Sensitive Instrument	Profit/(Loss) from the Changes		Fair Value	Profit/(Loss) from the Changes	
	10%	5%		-5%	-10%
	3.785	3.613		3.269	3.097
Cash and cash equivalents	(260)	(130)	2,602	130	260
Bank deposits	(21)	(11)	210	11	21
Trade and other payables	136	68	(1,361)	(68)	(136)
Total	(145)	(73)	1,451	73	145

Part Three – Disclosure in connection with the Corporation's Financial Reporting

1. Subsequent events

For material events after the date of the condensed statement of financial position, see Note 6 to the financial statements as of September 30, 2020, which are attached below.

2. Critical accounting estimates

No material change occurred in the Report Period compared with the report for 2019, except as stated in Note 2A to the financial statements attached below in connection with the update to the estimate used for the determination of the rate of impairment of the reservoirs of the Partnership.

Part Four – Details of bonds issued by Delek & Avner (Tamar Bond) Ltd., Leviathan Bond Ltd. and the issue of bonds by the Partnership (in ILS in thousands)

Tamar Bond Bonds Series^{3 4}	<u>2020⁵</u>	<u>2023</u>	<u>2025</u>
Par value on issue date	400,000	400,000	400,000
Issue date	May 19, 2014	May 19, 2014	May 19, 2014
Par value as of September 30, 2020	80,000	320,000	320,000
Linked par value as of September 30, 2020	80,000	320,000	320,000
Value in the Partnership's books as of September 30, 2020	80,851	322,180	321,283
TASE value as of September 30, 2020⁶	80,918	328,246	328,960
Fixed annual interest rate	4.435%	5.082%	5.412%
Principal payment date¹¹	December 30, 2020	December 30, 2023	December 30, 2025
Interest payment dates	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2014-2020	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2014-2023	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2014-2025
Linkage base: base index⁷	None		
Conversion right	None		
Right to prepayment or mandatory conversion⁸	Right to prepayment		

³ \$80 million was repaid in each one of the series as part of the sale of 9.25% (out of 100%) of the interests in the Tamar lease.

⁴ On July 26, 2020, the board of directors of the General Partner approved a buy-back plan in respect of Series A bonds and bonds of Delek & Avner (Tamar Bond) in the sum total of up to \$50 million.

⁵ On July 15, 2020 Delek & Avner (Tamar Bond) Ltd. made a partial prepayment of the third bond series of Tamar Bond in the sum of \$240 million. (See Section C2 of the First Part above.

⁶ The bonds are traded in Israel on "TACT-Institutional" on TASE.

⁷ The principal and interest of the bonds are in dollars.

Guarantee for payment of the liability	See Note 10B to the annual financial statements
Name of the trustee	HSBC BANK USA, NATIONAL ASSOCIATION
Name of person in charge at the trust company	Susie Moy
Trustee's address and e-mail	HSBC Bank USA, National Association, as TRUSTEE 452 5th Avenue, 8E6 New York, NY 10018 CTLANYDealManagement@us.hsbc.com
Rating as of the issue date⁹	Moody's: Baa3 Stable S&P: BBB- Midroog Ltd: Aa2 Stable Standard & Poor's Maalot: ilAA
Rating as of the report date¹⁰	Moody's: Baa3 Negative S&P: BBB- Negative Midroog Ltd: Aa2 Negative Standard & Poor's Maalot: ilAA Negative
Has the company fulfilled, by September 30, 2020 and during the report year, all of the conditions and obligations under the indenture	Yes
Is the bond series material¹¹	Yes
Have any conditions establishing cause for acceleration of the bonds been fulfilled	No
Pledges to secure the bonds	See Note 10B to the annual financial statements.

⁸ The Partnership is entitled to prepay the loan, in whole or in part, at any time, subject to a prepayment fee. Prepayment following events determined in the bonds may be performed without a prepayment fee.

⁹ See the Partnership's immediate reports of May 29, 2014 (Ref. No. 2014-01-077676), June 8, 2014 (Ref. No: 2014-01-084870) and June 17, 2014 (Ref. No. 2014-01-093135, 2014-01-093132), the information included in which is incorporated herein by reference.

¹⁰ See the Partnership's immediate reports of April 7, 2020 (Ref. No.: 2020-01-033091), of April 17, 2020 (Ref. No.: 2020-01-038931), of May 4, 2020 (Ref. No.: 2020-01-039325), and of October 9, 2020 (Ref. No. 2020-01-110016 and 2020-01-110058), the information included in which is incorporated herein by reference.

¹¹ The series of bond certificates will be deemed material if the total liabilities of the corporation thereunder at the end of the report year, as presented in the financial statements, constitute five percent or more of the total liabilities of the corporation.

<u>Bond series of Leviathan Bond</u>	<u>2023</u>	<u>2025</u>	<u>2027</u>	<u>2030</u>
Par value on the issue date	500,000	600,000	600,000	550,000
Issue date	August 18, 2020	August 18, 2020	August 18, 2020	August 18, 2020
Par value as of September 30, 2020	500,000	600,000	600,000	550,000
Linked par value as of September 30, 2020	500,000	600,000	600,000	550,000
Value in the Partnership's books as of September 30, 2020	499,700	597,160	595,086	542,966
TASE value as of September 30, 2020¹²	519,500	625,650	627,900	574,623
Fixed annual interest rate	5.750%	6.125%	6.500%	6.750%
Principal payment date¹¹	June 30, 2023	June 30, 2025	June 30, 2027	June 30, 2030
Interest payment dates	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2023	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2025	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2027	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2030
Linkage base: base index¹³	None			
Conversion right	None			
Right to prepayment or mandatory conversion¹⁴	Right to prepayment			
Guarantee for payment of the liability	See Note 10A to the financial statements attached below.			
Name of the trustee	HSBC Bank USA, National Association			
Name of person in charge at the trust company	Asma Alghofailey			
Trustee's address and e-mail	HSBC Bank USA, National Association, as TRUSTEE 452 5th Avenue, 8E6 New York, NY 10018 asma.x.alghofailey@us.hsbc.com			
Rating as of the issue date¹⁵	Fitch Rating: BB stable Moody's: Ba3 Stable S&P: BB- Stable Standard & Poor's Maalot: ilA+ stable			
Rating as of the report date¹⁶	Fitch Rating: BB stable Moody's: Ba3 Stable			

¹² The bonds are traded in Israel on the "TACT-institutional" system on TASE

¹³ The bonds' principal and interest are depicted in dollars.

¹⁴ The financing documents prescribe provisions regarding the prepayment of the bonds, including (1) prepayment initiated by the issuer, subject to a prepayment fee (make whole premium), and (2) mandatory prepayment in certain cases that were defined, including by way of a bond buy-back and/or an issuance of a purchase offer to all of the bond holders, including upon the sale of all or part of the rights in the Leviathan project.

¹⁵ See the Partnership's immediate reports of August 19, 2020 (Ref. No. 2020-01-090852 and 2020-01-091134), and of August 23, 2020 (Ref. No. 2020-01-092247), the information included in which is incorporated herein by reference.

	S&P: BB- Stable Standard & Poor's Maalot: ilA+ stable
Has the Partnership fulfilled, by September 30, 2020 and during the report year, all of the conditions and obligations under the indenture	Yes
Is the bond series material¹⁷	Yes
Have any conditions establishing cause for acceleration of the bonds been fulfilled	No
Pledges to secure the bonds	See Note 4A to the financial statements attached below.

The Bond Series	Series A¹⁸
Par value on the issue date in ILS in thousands	1,528,533
Issue date	December 26, 2016
Par value as of September 30, 2020 in ILS	1,522,998
Linked par value as of September 30, 2020 in ILS in thousands	1,372,254
Value in the Partnership's books as of September 30, 2020 in ILS in thousands	1,367,488
TASE value as of September 30, 2020 in ILS in thousands	1,329,273
Fixed annual interest rate	4.5%
Principal payment date	December 31, 2021
Interest payment dates	Semiannual interest payable on every June 30th and every December 31st from the issue date in 2017-2021
Linkage base: base index	The bond is stated in ILS. The principal and interest are linked to a dollar rate of 3.819
Conversion right	None
Right to prepayment or mandatory conversion¹⁹	Right to prepayment
Guarantee for payment of the liability	See Note 10D to the annual financial statements.
Name of the trustee	Reznik Paz Nevo Trusts Ltd.
Name of person in charge at the trust company	Adv. Michal Avtalion-Rishony
Trustee's address and e-mail	14 Yad Harutzim St., Tel Aviv
Rating as of the issue date²⁰	Midroog Ltd.: A1 stable
Rating as of the report date²¹	Midroog Ltd.: A2 stable

¹⁶ See footnote 17.

¹⁷ A series of bond certificates will be deemed material if the total liabilities of the corporation thereunder at the end of the report year, as presented in the financial statements, constitute five percent or more of the total liabilities of the corporation.

¹⁸ On July 26, 2020, the board of directors of the General Partner approved a buy-back plan in respect of series A bonds and bonds of Delek & Avner (Tamar Bond) in the sum total of up to \$50 million. As of the report date the Partnership purchased ILS 11,403 thousand par value of the bonds in the context of the plan.

¹⁹ The Partnership has the right to perform early redemption of the bonds at any time, in whole or in part, all in accordance with the indenture.

²⁰ See the Partnership's immediate report of December 22, 2016 (Ref. No. 2016-01-090873), the information included in which is incorporated herein by reference.

Has the Partnership fulfilled, by September 30, 2020 and during the report year, all of the conditions and obligations under the indenture	Yes
Have any conditions establishing cause for acceleration of the bonds been fulfilled	No
Pledges to secure the bonds	See Note 10D to the annual financial statements
The Partnership's financial equity as of September 30, 2020, as defined in the indenture²²	Approx. \$3,679 thousand
The financial equity to debt ratio as of September 30, 2020, as defined in the indenture²¹	Approx. 9
Is it material²³	Yes

²¹ For an updated rating report, see the Partnership's immediate reports of June 5, 2020 (Ref. No.: 2020-01-057768) and of October 15, 2020 (Ref. No. 2020-01-103519), the information included in which is incorporated herein by reference.

²² Included in accordance with the Partnership's undertaking on the date of the issue of the bonds – for further details, see Note 10D to the annual financial statements. The ratio was calculated, *inter alia*, based on the discounted cash flows of the Tamar project (as released in the immediate report of July 22, 2020, Ref. No. 2020-01-071242) and of the Leviathan project (as released in the immediate report of July 9, 2020, Ref. No. 2020-01-065878) as of June 30, 2020.

²³ The series of bond certificates will be deemed material if the total liabilities of the corporation thereunder at the end of the report year, as presented in the financial statements, constitute five percent or more of the total liabilities of the corporation.

Additional information

The board of directors of the General Partner expresses its appreciation of the management of the General Partner of the Partnership, the officers and the entire team of employees for their dedicated work and their significant contribution to the promotion of the Partnership's business.

Sincerely,

Gabi Last
Chairman of the Board

Yossi Abu
CEO

Delek Drilling Management (1993) Ltd.
On behalf of: Delek Drilling – Limited Partnership

Annex A to the Board of Directors' Report
Figures regarding Delek & Avner (Tamar Bond) Ltd.

Further to Note 10B to the financial statements for 2019 and to the provisions of Part Four of the Board of Director's Report and following a tax ruling received by the Partnership immediately prior to the bond issuance, below are financial figures which will be disclosed to the holders of bonds of Delek & Avner (Tamar Bond) Ltd.

Statements of Financial Position (Expressed in US\$ Thousands)

	<u>30.9.2020</u>	<u>30.9.2019</u>	<u>31.12.2019</u>
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Audited</u>
Assets:			
Current Assets:			
Short term Bank deposits	45,181	*22	*67
Interest receivable	9,282	11,943	-
Related parties	54,819	-	-
Loans to Shareholders	79,882	-	319,614
	<u>189,164</u>	<u>11,965</u>	<u>319,681</u>
Noncurrent Assets:			
Loans to shareholders	639,588	958,842	639,227
Long term bank deposits	-	101,939	102,419
	<u>639,588</u>	<u>1,060,781</u>	<u>741,646</u>
	<u>828,752</u>	<u>1,072,746</u>	<u>1,061,327</u>
Liabilities and Equity:			
Current Liabilities:			
Interest payable	9,282	11,943	
Related parties	-	*1,961	*2,485
Bonds	80,000	-	320,000
	<u>89,282</u>	<u>13,904</u>	<u>322,485</u>
Noncurrent Liabilities:			
Bonds	640,000	960,000	640,000
Loans from shareholders	100,000	100,000	100,000
	<u>740,000</u>	<u>1,060,000</u>	<u>740,000</u>
Equity (Deficit)	<u>(530)</u>	<u>(1,158)</u>	<u>(1,158)</u>
	<u>828,752</u>	<u>1,072,746</u>	<u>1,061,327</u>

***Reclassified**

Statements of Comprehensive Income (Expressed in US\$ Thousands)

	For the Nine Month Ended 30.09.2020	For the Nine Month Ended 30.09.2019	For the Three Month Ended 30.09.2020	For the Three Month Ended 30.09.2019	For the Period Ended 31.12.2019
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Financial expenses	38,817	37,628	13,886	12,000	51,005
Financial income	(39,445)	(37,648)	(14,047)	(12,000)	(51,025)
Total comprehensive expenses (income)	(628)	(20)	(161)	*	(20)

SPONSOR FINANCIAL DATA REPORT²⁴
Cash flow for the period from July 1, 2020 – September 30, 2020

		Delek Drilling LP
	<u>Item</u>	<u>Quantity/Actual Amount (In thousands)</u>
A.	Total Offtake (BCM) (100%) ²⁵	2.4
B.	Tamar Revenues (100%) ²⁴	457.9
C.	Loss Proceeds, if any, paid to Revenue Accounts	-
D.	Sponsor Deposits, if any, into Revenue Accounts	-
E.	Gross Revenues (before Royalties)	86,381 ²⁶
F.	Overriding Royalties	
	(a) Statutory Royalties	(9,831)
	(b) Third Party Royalties	(8,674)
G.	Net Revenues	67,876
H.	Costs and Expenses:	
	(a) Fees Under the Financing Documents – (Interest Income)	7
	(b) Taxes	-
	(c) Operation and Maintenance Expenses	(5,674)
	(d) Capital Expenditures	(1,541)
	(e) Payments under the Tamar FUA	-
	(f) Insurance	-
I.	Total Costs and Expenses (sum of Items H(a), (b), (c), (d), (e) and (f))	(7,208)
J.	Total Cash Flows Available for Debt Service (Item G minus Item H)	60,668
K.	Total Debt Service	244,603

²⁴ The aforesaid report is delivered to the trustee for the bonds on a quarterly and annual basis and represents the cash flow deriving for the Partnership from the Tamar project relative to the amounts required for the debt service in such period.

²⁵ Sections A and B are based on 100% of Tamar partners on an accrual basis.

²⁶ Section C-K are based on Delek Drilling Share in Tamar (22%) and on actual cash flow of the Sponsor Accounts as part of the Leviathan Bond indenture from the Issuance Date (August 18, 2020) until September 30, 2020.

Annex B to the Board of Directors' Report
Figures regarding Leviathan Bond Ltd.

Further to Note 4A to the financial statements attached below and Part Four of the Board of Directors' Report and following a tax ruling received by the Partnership immediately prior to the issue of the bonds, below are financial figures which will be provided to the holders of the bonds of Leviathan Bond Ltd.

Statements of Financial Position (Expressed in US\$ Thousands)

	<u>30.9.2020</u>	<u>*15.7.2020</u>
	<u>Unaudited</u>	<u>Audited</u>
Assets:		
Current Assets:		
Short term Bank deposits	4	-
Related parties	-	**
Interest receivable	16,685	
	<u>16,689</u>	<u>**</u>
Noncurrent Assets:		
Loans to shareholders	2,247,814	-
Long term bank deposits	100,000	-
	<u>2,347,814</u>	<u>-</u>
	<u>2,364,503</u>	<u>**</u>
Liabilities and Equity:		
Current Liabilities:		
Interest payable	16,685	-
Related parties	4	-
	<u>16,689</u>	<u>-</u>
Noncurrent Liabilities:		
Bonds	2,250,000	-
Loans from shareholders	100,000	-
	<u>2,350,000</u>	<u>-</u>
Equity (Deficit)	<u>(2,186)</u>	<u>**</u>
	<u>2,364,503</u>	<u>**</u>

* Date of incorporation

** Less than \$1,000

Statements of Comprehensive Income (Expressed in US\$ Thousands)

	For the Period Ended 30.09.2020
	Unaudited
Financial expenses	18,873
Financial income	(16,687)
Total comprehensive expenses (income)	2,186

SPONSOR FINANCIAL DATA REPORT²⁷

		Quarter Ended
		30.09.2020
	<u>Item</u>	<u>Quantity/Actual Amount (in USD\$,000)</u>
A.	Total Offtake (BCM)	2.3 ²⁸
B.	Leviathan Revenues	399,114 ²⁹
C.	Loss Proceeds, if any, paid to Revenue Account	-
D.	Sponsor Deposits, if any, into Revenue Account	-
E.	Gross Revenues (before Royalties)	69,027
F.	Overriding Royalties	
	(a) Statutory Royalties	(11,860)
	(b) Third Party Royalties	(4,474)
G.	Net Revenues	52,693 ³⁰
H.	<u>Costs and Expenses:</u>	
	(a) Fees Under the Financing Documents (Interest Income)	1
	(b) Taxes	-
	(c) Operation and Maintenance Expenses	₃₁
	(d) Capital Expenditures	₃₂
	(e) Insurance	-
I.	Total Costs and Expenses (sum of Items H(a), (b), (c), (d) and (e))	52,694
J.	Total Cash Flows Available for Debt Service (Item G <u>minus</u> Item H)	52,694
K.	Total Cash Flow from operation (Item G minus Items H(c) and H(e))	52,693
L.	Total Debt Service	-
M.	Total Distribution to the Sponsor	-

²⁷ The aforesaid report is delivered to the trustee for the bonds on a quarterly and annual basis and represents the cash flow deriving for the Partnership from the Leviathan project relative to the amounts required for the debt service in such period.

²⁸ Gas sales from July 1st 2020 until September 30th 2020 for 100% of the Leviathan partners on an accrual basis.

²⁹ Gas sales from July 1st 2020 until September 30th 2020 for 100% of the Leviathan partners on an accrual basis.

³⁰ Section C-M are based on Delek Drilling Share in Leviathan (45.34%) and on actual cash flow of the Sponsor Accounts as part of the Leviathan Bond indenture from the Issuance Date (August 18, 2020) until September 30, 2020

³¹ As of the Issuance Date (August 18, 2020) until September 30, 2020 a sum of US \$12,946 thousands was paid by the Sponsor from its own sources.

³² As of the Issuance Date (August 18, 2020) until September 30, 2020 a sum of US \$13,689 thousand was paid by the Sponsor from its own sources.

Annex C to the Board of Directors' Report
Summary of Data of a Highly Material Valuation

Following are details of a highly material valuation with respect to the profit from the revaluation of royalties from the sale of the Partnership's interests in the Karish and Tanin leases (for further details, see Note 4K to the Condensed Interim Financial Statements and the valuation attached below):

Identification of the object of the valuation:	Royalties in respect of the sale of all of the interests in the Karish and Tanin leases.
Timing of the valuation:	September 30, 2020.
Value of the object of the valuation shortly before the date of the valuation, if GAAP, including depreciation and amortization, did not warrant a change in its value according to the valuation:	Not applicable.
Value of the object of the valuation determined according to the valuation:	A sum of approx. U.S. \$179.0 million, which is included under other long-term assets of the Partnership.
Identification of the valuator and his/its characteristics, including education, experience in the preparation of valuations for accounting purposes in reporting corporations and in scopes similar to or exceeding those of the reported valuation, and dependence on the party commissioning the valuation, including reference to indemnification agreements with the valuator:	<p>GSE Financial Advisory Ltd. is a subsidiary of Giza Singer Even Ltd. (jointly: the “Valuator”), which is a leading financial consulting and investment banking firm in Israel. The firm has vast experience in supporting the largest companies, the most prominent privatizations and the most important transactions in the Israeli market, which experience was gained thereby over the course of its thirty years of activity. Giza Singer Even is active in three segments, through autonomous and independent business divisions: economic consulting; investment banking; analytical research and corporate governance.</p> <p>The work was performed by a team headed by CPA Eitan Cohen, partner and Head of the Economic Department at Giza Singer Even, who has more than 13 years of experience in economic and business consulting, company valuations and financial instruments. Eitan is an accountant holding a B.A. in Economics and Business Administration from the Ben Gurion University and an M.A. in Financial Mathematics from the Bar Ilan University.</p> <p>The Valuator has no personal interest in and/or dependence on the Partnership and/or the General Partner of the Partnership, other than the fact that it received a fee for the</p>

	<p>valuation. Furthermore, the Valuator has confirmed that its fee is not contingent on the results of the valuation.</p> <p>In addition, insofar as the Valuator shall be charged in a non-appealable judgment with payment of any amount to a third party in connection with the work, the Partnership shall pay the Valuator an amount charged to the Valuator which exceeds the sum of the fees paid for the work multiplied by 3. It is noted that this indemnity undertaking shall not apply if it is ruled that the Valuator acted in connection with performance of the work with malicious intent or negligently.</p>
The valuation model applied by the Valuator:	Discounting expected cash flows while adjusting the discount rates to the risks entailed by the cash flow forecasts.
The assumptions based on which the Valuator prepared the valuation according to the valuation model:	<p>The key assumptions underlying the valuation are as follows:</p> <ol style="list-style-type: none"> 1. Dates of production of gas from the Karish reservoir: January 1, 2022 to September 30, 2035; 2. Average annual production rate from the Karish reservoir: approx. 5.5 BCM of natural gas; condensate production rate from the Karish reservoir according to a ratio of approx. 28.9 condensate barrels per 1 mmcf of natural gas produced from the reservoir; 3. Dates of production of gas from the Tanin reservoir: January 1, 2035 to March 31, 2039; 4. Average annual production rate from the Tanin reservoir: approx. 5.2 BCM of natural gas; condensate production rate from the Tanin reservoir according to a ratio of approx. 5.2 condensate barrels per 1 mmcf of natural gas produced from the reservoir; 5. Royalty component cap rate: 12.0%; 6. Effective royalty rate to be paid to the State for the gas and the condensate: 11.5%;

	<p>7. Gas price formula: The basic price in the contracts according to which the valuation was prepared was estimated based on the formula specified in the price mechanism between Energean and ICL and ORL and between Energean and OPC and weighting the price of gas in the Ramat Hovav contract;</p> <p>8. Condensate price: The condensate price forecast was estimated based on a long-term oil price forecast average of the World Bank³³ and the EIA³⁴ and the Brent forward prices according to Bloomberg figures and based on the assumption that the condensate price will derive from the Brent price with adjustments to oil quality differences;</p> <p>9. On April 9, 2020, Energean reported the results of an updated resource report in the Karish and Tanin leases. According to this report, the quantity of gas in Karish Center is approx. 42.6 BCM and the quantity of condensate is approx. 38.4 MMBBL, in Karish North the quantity of gas is approx. 33.7 BCM and the quantity of condensate is approx. 39.5 MMBBL, and in Tanin, the quantity of gas is approx. 22.2 BCM and the quantity of condensate is approx. 4.1 MMBBL.</p> <p>10. Petroleum profit levy: According to the Petroleum Profit Taxation Law, 5771-2011;</p> <p>11. Corporate tax rate: 23%, according to the statutory tax rate throughout the years of the forecast.</p>
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³³ A world Bank Quarterly Report: Commodity Markets Outlook, October 2020.

³⁴ U.S Energy Information Administration: Analysis & Projections, October 2020.



Condensed Interim financial statements 30.09.2020



2020



November 17, 2020

To

**The Board of Directors of the General Partner of Delek Drilling – Limited Partnership
(the “Partnership”)**

19 Abba Eban, Herzliya

Dear Sir/Madam,

**Re: Consent given simultaneously with the release of a periodic report in connection with
the shelf prospectus of the Partnership (the “Offering Document”)**

We hereby notify you that we agree to the inclusion (including by way of reference) in the above referenced Offering Document of our report that is specified below:

Review report of November 17, 2020 on condensed financial information of the Partnership as of September 30, 2020, and for the nine- and three-month periods then ended.

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

Delek Drilling – Limited Partnership
Condensed Interim Financial Statements as of September 30, 2020
in U.S. Dollars in Thousands
Unaudited

This report is a translation of Delek Drilling - Limited Partnership's Hebrew-language Condensed Interim Financial Statements as of September 30, 2020. It is prepared solely for convenience purposes. Please note that the Hebrew version is the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

Delek Drilling – Limited Partnership
Condensed Interim Financial Statements as of September 30, 2020
in U.S. Dollars in Thousands
Unaudited

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Auditors' review report to the partners of Delek Drilling – Limited Partnership

Introduction

We have reviewed the accompanying financial information of Delek Drilling – Limited Partnership (the “**Partnership**”) which includes the Condensed Statement of Financial Position as of September 30, 2020 and the Condensed Statements of Comprehensive Income, Changes in the Partnership’s Equity and Cash Flows for the three- and nine-month periods then ended. The board of directors and management of the Partnership’s General Partner are responsible for the preparation and presentation of financial information for such interim periods in accordance with IAS 34 “Interim Financial Reporting”, and they are responsible for the preparation of financial information for such interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on financial information for such interim periods based on our review.

Scope of Review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel – “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Generally Accepted Auditing Standards in Israel, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information has not been prepared, in all material respects, in accordance with IAS 34.

In addition to the statements in the previous paragraph, based on our review, nothing has come to our attention which causes us to believe that the accompanying financial information does not meet, in all material respects, the disclosure provisions under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Tel Aviv, November 17, 2020

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

Delek Drilling – Limited Partnership**Condensed Interim Statements of Financial Position (Dollars in thousands)**

	30.9.2020	30.9.2019	31.12.2019
	Unaudited	Unaudited	Audited
Assets:			
Current assets:			
Cash and cash equivalents	209,131	148,949	171,046
Short-term investments	112,857	85,102	63,459
Trade receivables	161,316	52,110	46,862
Other receivables	65,656	99,289	86,881
	<u>548,960</u>	<u>385,450</u>	<u>368,248</u>
Non-current assets:			
Investments in oil and gas assets	3,450,903	3,287,718	3,429,178
Investment in a company accounted for at equity	71,222	-	74,995
Long-term deposits in banks	100,504	101,939	102,919
Other long-term assets	498,618	550,912	527,733
	<u>4,121,247</u>	<u>3,940,569</u>	<u>4,134,825</u>
	<u>4,670,207</u>	<u>4,326,019</u>	<u>4,503,073</u>
Liabilities and equity:			
Current liabilities:			
Bonds	79,964	-	319,421
Liabilities to banking corporations	-	-	296,867
Provision for tax and balancing payments	-	-	33,657
Trade and other payables	102,671	182,500	174,738
Other short-term liabilities	49,044	-	-
	<u>231,679</u>	<u>182,500</u>	<u>824,683</u>
Non-current liabilities:			
Bonds	3,250,202	1,350,016	1,031,410
Long-term liabilities to banking corporations	-	1,795,564	1,630,404
Other long-term liabilities	181,203	195,939	203,069
	<u>3,431,405</u>	<u>3,341,519</u>	<u>2,864,883</u>
Equity:			
Partnership's equity	154,791	154,791	154,791
Capital reserves	(53,622)	(21,371)	(25,851)
Retained earnings	905,954	668,580	683,567
	<u>1,007,123</u>	<u>802,000</u>	<u>813,507</u>
	<u>4,670,207</u>	<u>4,326,019</u>	<u>4,503,073</u>

The accompanying notes are an integral part of the Condensed Interim Financial Statements.

November 17, 2020			
Date of approval of the financial statements	Gabi Last Chairman of the Board Delek Drilling Management (1993) Ltd. General Partner	Yossi Abu CEO Delek Drilling Management (1993) Ltd. General Partner	Yossi Gvura Deputy CEO Delek Drilling Management (1993) Ltd. General Partner

Delek Drilling – Limited Partnership

Condensed Interim Statements of Comprehensive Income (Dollars in thousands)

	For the nine-month period ended		For the three-month period ended		For the year ended
	30.9.2020	30.9.2019	30.9.2020	30.9.2019	31.12.2019
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Revenues:					
From natural gas and condensate sales	675,099	339,936	282,179	119,837	453,344
Net of royalties	(113,980)	(67,730)	(47,961)	(24,295)	(94,318)
	<u>561,119</u>	<u>272,206</u>	<u>234,218</u>	<u>95,542</u>	<u>359,026</u>
Expenses and costs:					
Cost of production of natural gas and condensate	78,659	31,930	30,720	8,534	40,731
Depreciation, depletion and amortization expenses	83,521	50,106	30,699	22,504	67,581
Other general expenses	2,992	9,673	928	3,217	14,298
G&A expenses	<u>11,049</u>	<u>8,166</u>	<u>5,154</u>	<u>2,441</u>	<u>11,130</u>
Total expenses and costs	<u>176,221</u>	<u>99,875</u>	<u>67,501</u>	<u>36,696</u>	<u>133,740</u>
Other expenses	-	(474)	-	-	(474)
Partnership's share of losses of company accounted for at equity, net	<u>(3,773)</u>	<u>(36,640)</u>	<u>(3,778)</u>	<u>-</u>	<u>(36,645)</u>
Operating income	<u>381,125</u>	<u>135,217</u>	<u>162,939</u>	<u>58,846</u>	<u>188,167</u>
Financial expenses	(180,975)	(36,275)	(70,912)	(14,095)	(47,487)
Financial income	<u>22,532</u>	<u>47,677</u>	<u>11,123</u>	<u>15,482</u>	<u>78,390</u>
Financial income (expenses), net	<u>(158,443)</u>	<u>11,402</u>	<u>(59,789)</u>	<u>1,387</u>	<u>30,903</u>
Profit before levy	<u>222,682</u>	<u>146,619</u>	<u>103,150</u>	<u>60,233</u>	<u>219,070</u>
Petroleum and gas profit levy	-	(1,314)	-	304	4,620
Net profit	<u>222,682</u>	<u>145,305</u>	<u>103,150</u>	<u>60,537</u>	<u>223,690</u>
Other comprehensive income (loss):					
Amounts which may subsequently be reclassified to profit or loss:					
Profit (loss) from cash flow hedging transactions	(4,757)	(6,187)	(166)	29	(5,150)
Carried to profit or loss for cash flow hedging transactions	<u>7,360</u>	<u>(1,271)</u>	<u>6,827</u>	<u>(50)</u>	<u>(1,830)</u>
	<u>2,603</u>	<u>(7,458)</u>	<u>6,661</u>	<u>(21)</u>	<u>(6,980)</u>
Amounts which shall not subsequently be reclassified to profit or loss:					
Profit (loss) from investment in equity instruments designated for measurement at fair value through other comprehensive income	<u>(33,846)</u>	<u>(36,416)</u>	<u>1,545</u>	<u>(8,817)</u>	<u>(41,256)</u>
Total other comprehensive income (loss)	<u>(31,243)</u>	<u>(43,874)</u>	<u>8,206</u>	<u>(8,838)</u>	<u>(48,236)</u>
Total comprehensive income	<u>191,439</u>	<u>101,431</u>	<u>111,356</u>	<u>51,699</u>	<u>175,454</u>
Basic and diluted profit per participation unit (in dollars)	<u>0.19</u>	<u>0.124</u>	<u>0.088</u>	<u>0.052</u>	<u>0.191</u>
The weighted number of participation units for the purpose of said calculation (in thousands)	<u>1,173,815</u>	<u>1,173,815</u>	<u>1,173,815</u>	<u>1,173,815</u>	<u>1,173,815</u>

The accompanying notes are an integral part of the Condensed Interim Financial Statements.

Delek Drilling – Limited Partnership
Condensed Interim Statements of Changes in the Partnership's Equity (Dollars in thousands)

	The Partnership's equity	Capital reserve for redemption of participation units	Capital reserve for transactions between a corporation and a control holder thereof	Capital reserve for equity instruments and cash flow hedging transactions	Retained earnings	Total
	Unaudited					
For the nine-month period ended September 30, 2020:						
Balance as of January 1, 2020 (audited)	154,791	1,631	17,377	(43,859)	683,567	813,507
Net profit	-	-	-	-	222,682	222,682
Other comprehensive loss	-	-	-	(31,243)	-	(31,243)
Total comprehensive income (loss)	-	-	-	(31,243)	222,682	191,439
Profits distributed	-	-	-	-	(295)	(295)
Capital reserve for benefits from a control holder	-	-	2,472	-	-	2,472
Balance as of September 30, 2020	154,791	1,631	19,849	(75,102)	905,954	1,007,123

	The Partnership's equity	Capital reserve for redemption of participation units	Capital reserve for transactions between a corporation and a control holder thereof	Capital reserve for equity instruments and cash flow hedging transactions	Retained earnings	Total
	Unaudited					
For the nine-month period ended September 30, 2019:						
Balance as of January 1, 2019 (audited)	154,791	1,631	15,002	4,377	679,303	855,104
Net profit	-	-	-	-	145,305	145,305
Other comprehensive loss	-	-	-	(43,874)	-	(43,874)
Total comprehensive income (loss)	-	-	-	(43,874)	145,305	101,431
Profits distributed	-	-	-	-	(150,355)	(150,355)
Provision for balancing payments for previous years (see Note 4O)	-	-	-	-	(12,200)	(12,200)
Refund of advance tax payments on account of the tax owed by the participation unit holders	-	-	-	-	6,527	6,527
Capital reserve for benefits from a control holder	-	-	1,493	-	-	1,493
Balance as of September 30, 2019	154,791	1,631	16,495	(39,497)	668,580	802,000

The accompanying notes are an integral part of the Condensed Interim Financial Statements.

Delek Drilling – Limited Partnership
Condensed Interim Statements of Changes in the Partnership's Equity (Dollars in thousands) (Cont.):

	The Partnership's equity	Capital reserve for redemption of participation units	Capital reserve for transactions between a corporation and a control holder thereof	Capital reserve for equity instruments and cash flow hedging transactions	Retained earnings	Total
	Unaudited					
For the three-month period ended September 30, 2020:						
Balance as of July 1, 2020	154,791	1,631	18,584	(83,308)	802,804	894,502
Net profit	-	-	-	-	103,150	103,150
Other comprehensive income	-	-	-	8,206	-	8,206
Total comprehensive income	-	-	-	8,206	103,150	111,356
Capital reserve for benefits from a control holder	-	-	1,265	-	-	1,265
Balance as of September 30, 2020	<u>154,791</u>	<u>1,631</u>	<u>19,849</u>	<u>(75,102)</u>	<u>905,954</u>	<u>1,007,123</u>

	The Partnership's equity	Capital reserve for redemption of participation units	Capital reserve for transactions between a corporation and a control holder thereof	Capital reserve for equity instruments and cash flow hedging transactions	Retained earnings	Total
	Unaudited					
For the three-month period ended September 30, 2019:						
Balance as of July 1, 2019	154,791	1,631	15,937	(30,659)	770,260	911,960
Net profit	-	-	-	-	60,537	60,537
Other comprehensive loss	-	-	-	(8,838)	-	(8,838)
Total comprehensive income (loss)	-	-	-	(8,838)	60,537	51,699
Profits distributed	-	-	-	-	(150,017)	(150,017)
Provision for balancing payments for previous years (see Note 4O)	-	-	-	-	(12,200)	(12,200)
Capital reserve for benefits from a control holder	-	-	558	-	-	558
Balance as of September 30, 2019	<u>154,791</u>	<u>1,631</u>	<u>16,495</u>	<u>(39,497)</u>	<u>668,580</u>	<u>802,000</u>

The accompanying notes are an integral part of the Condensed Interim Financial Statements.

Delek Drilling – Limited Partnership
Condensed Interim Statements of Changes in the Partnership's Equity (Dollars in thousands) (Cont.):

	The Partnership's equity	Capital reserve for redemption of participation units	Capital reserve for transactions between a corporation and a control holder thereof	Capital reserve for equity instruments and cash flow hedging transactions	Retained earnings	Total
	Audited					
For the year ended December 31, 2019:						
Balance as of January 1, 2019	154,791	1,631	15,002	4,377	679,303	855,104
Net profit	-	-	-	-	223,690	223,690
Other comprehensive loss	-	-	-	(48,236)	-	(48,236)
Total comprehensive income (loss)	-	-	-	(48,236)	223,690	175,454
Profits distributed	-	-	-	-	(150,354)	(150,354)
Tax payments and balancing payments declared	-	-	-	-	(33,502)	(33,502)
Provision for balancing payments in respect of previous years	-	-	-	-	(12,300)	(12,300)
Advance tax payments on account of the tax owed by the participation unit holders	-	-	-	-	(23,270)	(23,270)
Capital reserve for benefits from a control holder	-	-	2,375	-	-	2,375
Balance as of December 31, 2019	154,791	1,631	17,377	(43,859)	683,567	813,507

The accompanying notes are an integral part of the Condensed Interim Financial Statements.

Delek Drilling – Limited Partnership
Condensed Interim Statements of Cash Flows (Dollars in thousands)

	For the nine-month period ended		For the three-month period ended		For the year ended
	30.9.2020	30.9.2019	30.9.2020	30.9.2019	31.12.2019
	Unaudited				Audited
Cash flows – operating activities:					
Net profit	222,682	145,305	103,150	60,537	223,690
Adjustments for:					
Depreciation, depletion and amortization	109,758	51,553	46,581	23,069	69,719
Profit (loss) from financial derivatives, net	(2,920)	21	(6,155)	10	373
Update of asset retirement obligations	1,634	4,353	(358)	1,832	4,637
Revaluation of short-term and long-term investments and deposits	2,415	(2,181)	3,027	(591)	(2,666)
Expenses (income) due to revaluation of share-based payment	(19)	(165)	4	(187)	(154)
Benefit from a control holder included in expenses against a capital reserve	2,472	1,493	1,265	558	2,375
Revaluation of other long-term assets	(19,143)	(31,356)	(10,682)	(10,898)	(57,458)
Partnership's share in losses of companies accounted for at equity, net	3,773	36,640	3,778	-	36,645
Changes in assets and liabilities items:					
Increase in trade receivables	(114,454)	(6,629)	(81,494)	(1,442)	(1,381)
Decrease (increase) in other receivables	(7,461)	(14,255)	(3,991)	(11,963)	337
Decrease (increase) in other long-term assets	(2,331)	1,406	(519)	(104)	(4,552)
Increase (decrease) in trade and other payables	15,661	4,414	23,223	20,056	(14,943)
Increase (decrease) in other long-term liabilities	34	(2,065)	222	(143)	(2,604)
	(10,581)	43,229	(25,099)	20,197	30,328
Net cash deriving from operating activities	212,101	188,534	78,051	80,734	254,018
Cash flows - investment activity:					
Investment in oil and gas assets	(146,014)	(467,335)	(20,825)	(151,764)	(609,926)
Investment in other long-term assets	(16,145)	(198,102)	898	(173,786)	(140,523)
Repayment of a loan granted	14,843	15,342	-	-	15,342
Investment in a company accounted for at equity	-	-	-	(2,852)	(75,000)
Decrease (increase) in short-term investments, net	(49,398)	102,502	76,150	-	124,150
Deposit in long-term deposits in banks	(100,000)	(40,928)	(100,000)	-	(41,428)
Maturity of long-term bank deposits	100,000	-	100,000	-	-
Change in respect of operator of joint ventures	29,113	50,855	780	119,270	23,843
Net cash (used for) deriving from investment activity	(167,601)	(537,666)	57,003	(209,132)	(703,542)
Cash flows - financing activity:					
Bond offering (net of issue costs)	2,217,588	-	2,217,588	-	-
Receipt of loans from banking corporations	103,831	560,283	4,152	233,749	688,136
Repayment of loans from banking corporations	(2,050,000)	(185,040)	(1,992,230)	(150,017)	-
Profit, tax and balancing payments distributed	(33,825)	-	-	-	(185,902)
Tax advances paid for participation unit holders, net	-	(27,417)	-	(20,724)	(31,919)
Refunds received from Income Tax for previous years, net	-	6,370	-	-	6,370
Decrease in other long-term liabilities	(2,560)	-	(867)	-	-
Repayment of bonds	(241,449)	-	(241,449)	-	-
Net cash deriving from (used for) financing activity	(6,415)	354,196	(12,806)	63,008	476,685
Increase (decrease) in cash and cash equivalents	38,085	5,064	122,248	(65,390)	27,161
Balance of cash and cash equivalents as of beginning of period	171,046	143,885	86,883	214,339	143,885
Balance of cash and cash equivalents as of end of period	209,131	148,949	209,131	148,949	171,046
Annex A – Non-cash flow financing and investment activity:					
Investments in oil and gas assets against liabilities	56,114	135,021	56,114	135,021	150,156
Declared profits for distribution balancing payments and tax	-	-	-	-	33,502
Provision for balancing payments for previous years	-	12,200	-	12,200	12,300
Annex B – Additional information on cash flows:					
Interest paid (including capitalized interest)	177,446	104,792	77,441	26,775	166,291
Interest received	3,389	5,833	768	1,040	8,857
Dividend received	-	6,780	-	-	9,040

The accompanying notes are an integral part of the Condensed Interim Financial Statements.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 1 – General:

- A.** Delek Drilling – Limited Partnership (the “**Partnership**”) was founded according to a limited partnership agreement of July 1, 1993 between Delek Drilling Management (1993) Ltd. as general partner (the “**General Partner**”) of the first part, and Delek Drilling Trusts Ltd. as limited partner (the “**Trustee**”) of the second part.

The Trustee serves as trustee for the holders of the participation units, under the supervision of the supervisor, CPA Micha Blumenthal on behalf of Fahn Kanne & Co., Accountants, and Adv. Uri Keidar on behalf of Keidar Supervision and Management (jointly: the “**Supervisor**”) (also see Note 4EE below).

The parent company of the General Partner in the Partnership is Delek Energy Systems Ltd. (the “**Parent Company**” or “**Delek Energy**”) and the Partnership’s ultimate parent company is Delek Group Ltd. (“**Delek Group**”).

The participation units of the Partnership are listed on the Tel Aviv Stock Exchange (TASE) and traded thereon since 1993. The address of the Partnership’s registered office is 19 Abba Eban Boulevard, Herzliya.

- B.** On December 31, 2019, the piping of natural gas from the Leviathan reservoir to the domestic market began, and on January 1, 2020 and January 15, 2020, the piping of natural gas began to Jordan and to Egypt (collectively: the “**Regional Market**”), respectively. In July 2020, the piping of natural gas from the Tamar reservoir to Egypt began. The volume of sales to the Regional Market in the nine-month period ended September 30, 2020 totaled approx. \$226.7 million and in the three-month period ended September 30, 2020 totaled approx. \$105 million.

As of the date of approval of the Condensed Interim Financial Statements, the Partnership’s primary business is exploration, development and production of natural gas, condensate and oil in Israel and Cyprus, as well as the promotion of various natural gas-based projects, aiming to increase the sales volume of natural gas from the Partnership’s assets. Concurrently, the Partnership is examining business opportunities in the field of exploration, development and production of natural gas and oil in the Mediterranean Basin. According to the provisions of the Gas Framework (see Note 12L1 to the financial statements as of December 31, 2019 (the “**Annual Financial Statements**”), the Partnership is required to transfer by December 2021 all of its direct and indirect interests in the Tamar I/12 and Dalit I/13 leases (jointly: the “**Tamar and Dalit Leases**”). Therefore, as of the date of approval of the Condensed Interim Financial Statements, the Partnership is examining and promoting several alternatives, including the sale of its holdings in the Tamar and Dalit Leases to a third party, or a possible split of the Partnership’s assets, such that the assets and the liabilities attributed to the Tamar and Dalit Leases or all of the Partnership’s assets and liabilities that are not attributed to the Tamar and Dalit Leases, shall be transferred to a public corporation, either Israeli or foreign, whose shares will be distributed to the holders of the participation units, and in this context the Partnership is performing a preliminary examination of options for the transfer of additional petroleum interests to a foreign corporation whose shares will be listed on the Main Market in London, by way of acquisition, merger or otherwise. For details regarding a possible outline for a split of the Partnership’s assets, which is being examined by the Partnership, see Note 1F to the Annual Financial Statements.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 1 – General (Cont.):

C. The Partnership's Condensed Interim Financial Statements (the "**Report Period**") should be read together with the Annual Financial Statements. Accordingly, notes regarding updates that are insignificant relatively to information already reported in the notes to the Annual Financial Statements were not included in these Condensed Interim Financial Statements.

D. The spread of COVID-19 and the possible effect thereof on the Partnership's business:

1. Further to Note 1G to the Annual Financial Statements regarding the spread of COVID-19 and its possible impact on the Partnership's business, during Q1/2020 the international markets have recorded steep drops in the prices of oil and natural gas, which, in the Partnership's estimation, are attributable to the COVID-19 crisis, as well as additional causes and factors that affect the demand for and supply of energy products.

From mid-March 2020 until the end of Q2/2020, a drop in demand was recorded with a corresponding decrease in the sales of natural gas produced from the Leviathan and Tamar reservoirs (the "**Reservoirs**"), relative to previous forecasts of the Partnership which were updated in July 2020. As of the date of approval of the Condensed Interim Financial Statements, the scope and duration of the COVID-19 crisis cannot be estimated, and it is therefore difficult at this stage to assess its impact on the demand and the sales from the Reservoirs in the coming years.

However, it is noted that in Q3/2020 the pace of sales from the reservoirs was high relative to the average pace of sales in each one of the first two quarters of 2020 (from the Tamar Reservoir, approx. 2.4 BCM relative to the average pace of sales in each one of the first two quarters of 2020 of approx. 1.7 BCM, and from the Leviathan Reservoir, approx. 2.25 BCM relative to the average pace of sales in each one of the first two quarters of 2020 of approx. 1.54 BCM). In the Partnership's estimation, the said increase derived, *inter alia*, from the weather conditions.

Insofar as the COVID-19 crisis endures, it may have an adverse effect on the Partnership and harm various aspects of its business, and *inter alia*, cause a decrease in the demand for energy products and a decrease in the prices of oil and natural gas in the international and domestic markets, reduce the demand for natural gas in the markets relevant to the Partnership and negatively affect the Partnership's revenues from the Reservoirs, as well as negatively affect the financial soundness of the Partnership's customers and partners.

It is noted that, as of the date of approval of the Condensed Interim Financial Statements, the operation of the reservoirs has not been adversely affected.

2. It is noted that the review report of the auditors of the control holder of the Partnership, Delek Group Ltd. (the "**Control Holder**"), which is attached to its condensed interim financial statements as of June 30, 2020, includes a "going concern" note. To the best of the Partnership's knowledge, the Control Holder of the Partnership entered into arrangements with its main creditors during the report period, and the vast majority of the Partnership's participation units held thereby are pledged in favor of its creditors. Insofar as Delek Group does not meet its liabilities, its creditors may accelerate the debts and act for disposal of the pledged participation units.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 1 – General (Cont.):

It is clarified that the terms and conditions of the bonds of Leviathan Bond (see Note 4A) and the terms and conditions of the bonds of Tamar Bond (see Note 10B to the Annual Financial Statements) include no stipulation pertaining to the percentage of Delek Group's holdings in the Partnership.

- E. The Condensed Interim Financial Statements comply with the provisions of IAS 34.
- F. The Condensed Interim Financial Statements fulfill the disclosure provisions pursuant to Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Note 2 - Significant Accounting Policies:

The Condensed Interim Financial Statements were prepared according to the same accounting policy and calculation methods that were used in the Annual Financial Statements, except as stated below:

A. Change of estimate – oil and gas exploration, development of proven reservoirs and investment in oil and gas assets:

In Q1/2020, the Partnership made a change in the estimate of the reserves used as a basis for the depreciation of oil and gas assets.

As noted in Note 2N1E to the Annual Financial Statements, up to and including December 31, 2019, the Partnership depreciated its oil and gas assets as follows: The cost of drilling was depreciated according to the production unit method based on proved and developed reserves, and the costs of the additional components (such as the platform, pipelines and production facilities) were depreciated according to the production unit method based on proved reserves.

In Q1/2020, *inter alia* in view of the experience accumulated by the Partnership over the years of operation of the Tamar reservoir, and the accepted practice in the world with respect to the depreciation of oil and gas assets, the Partnership examined the basis of the depreciated reserves and reached the conclusion that the depreciation of assets according to the production unit method and based on proved + probable reserves (“2P”) in lieu of proved reserves only, will better reflect the pattern of projected use of the asset.

In the Partnership's estimation, depreciation of the oil and gas assets based on proved and probable reserves (2P) enhances the comparativeness between the Partnership's results and the results of similar companies in Israel and the world (*inter alia*, the Partnership's benchmark companies), fairly presents the management's assessments in relation to the use of the asset, is consistent with the information the Partnership provides to the various investors and is also consistent with the accounting treatment in other transactions that are related to oil and gas assets, such as valuations, value impairment examinations and directives designated for the oil and gas industry.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 2 - Significant Accounting Policies (Cont.):

A. (Cont.):

In accordance with the depreciation based on proved and probable reserves, the estimate of future investments (in non-discounted values) required to produce such reserves is added to the book value (only for the purpose of calculating the depreciation costs). These sums are multiplied by the amount of gas produced during the period proportionately to the 2P reserves estimate.

The estimate change was made for all of the Partnership's oil and gas assets and implemented henceforth. The effect of the estimate change on the financial statements for 2020 is expected to lead to a decrease in depreciation expenses of approx. \$10.6 million, of which approx. \$7.8 million are attributed to the Leviathan reservoir, which commenced commercial production in Q1/2020.

B. Initial application of amendments to existing accounting standards:

Amendments to IFRS 7, IFRS 9 and IAS 39

In September 2019, the IASB published amendments to IFRS 9 Financial Instruments, to IFRS 7 Financial Instruments: Disclosures, and to IAS 39 Financial Instruments: Recognition and Measurement (in this section, the "**Amendment**").

The Amendment provides temporary relief for companies that apply hedge accounting based on the IBORs and are affected by the uncertainty surrounding the expected reform in the benchmark interest rates. This reform in interest rates is leading to uncertainty with respect to dates and amounts that are relevant to future cash flows relating to both hedging instruments and hedged items.

The Amendment had no impact on the Partnership's financial statements as of January 1, 2020, since, as of the application date, the Partnership performs hedging transactions that are based on the IBORs interest rate, which are not affected by the timing of the reform.

C. Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

In May 2020, the IASB announced an amendment to IAS 37 (in this section, the "**Standard**") regarding costs which the company is required to include when making an assessment on whether a contract is an onerous contract (in this section: the "**Amendment**"). According to the Amendment, such a review is required to include both incremental costs (such as direct working hours and raw materials), and allocations of other costs directly related to the fulfillment of the contract (such as depreciation of fixed assets and equipment used for fulfillment of the contract).

The Amendment was applied to annual reporting periods commencing on or after January 1, 2022. Early adoption is permitted.

In the Partnership's estimation, the said Amendment is not expected to have a material effect on the financial statements.

Delek Drilling – Limited Partnership**Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)****Note 3 – Investments in Oil and Gas Assets:****A. Composition:**

	30.9.2020	30.9.2019	31.12.2019
	Unaudited	Unaudited	Audited
Oil and gas assets:			
Michal-Matan (Tamar project)	844,764	857,062	849,733
Ratio-Yam (Leviathan project)	2,482,661	2,314,801	2,461,826
	<u>3,327,425</u>	<u>3,171,863</u>	<u>3,311,559</u>
Evaluation and exploration assets:			
Block 12 Cyprus	118,469	115,829	116,435
New Ofek	4,496	13	671
New Yahel	513	13	513
	<u>123,478</u>	<u>115,855</u>	<u>117,619</u>
Total	<u><u>3,450,903</u></u>	<u><u>3,287,718</u></u>	<u><u>3,429,178</u></u>

B. Developments in investments in oil and gas assets:**1. The Leviathan Project:**

- a) Further to Note 7C2D to the Annual Financial Statements, with respect to the gradual ramp-up of the production capacity from the Leviathan project up to approx. 1,200 MMCF per day by putting the turbo expanders into action, it is noted that on October 26, 2020, the approval of the Ministry of Energy was received for the running-in of the turbo expander systems, subject to certain conditions. As of the date of approval of the Condensed Interim Financial Statements, the total production capacity from the Leviathan project is approx. 1,160 MMCF per day, and in accordance with the approval of the Ministry of Energy, the running-in of the turbo expander systems has begun is expected to begin [sic] during Q4/2020. In the estimation of Noble Energy Mediterranean Ltd. (“**Noble**”), upon completion of the running-in of the systems as aforesaid, the operation thereof is expected to begin during Q1/2021, subject to receipt of the approval of the Ministry of Energy.
- b) Further to Note 7C2B to the Annual Financial Statements, the establishment of the condensate storage system at the Hagit site has been completed, and upon receipt of all the permits required for its operation, the said storage system will be put into action.
- c) On November 10, 2020, maintenance work on the Leviathan platform was completed on schedule after around five days, during which the piping of gas from the Leviathan platform was halted.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 3 – Investments in Oil and Gas Assets (Cont.):

B. Development in investments in oil and gas assets (Cont.):

1. The Leviathan project (Cont.):

- d) Further to Note 7C2E to the Annual Financial Statements and further to the estimates on the impact of the COVID-19 crisis on the Partnership's business and forecasts, as provided in Note 1D above, in July 2020, a report on evaluation of reserves and contingent resources in the Leviathan leases was received from Netherland Sewell & Associates Inc. ("NSAI"), according to the SPE-PRMS guidelines, updated as of June 30, 2020. According to the report, the total quantity of resources is estimated at approx. 646.1 BCM and approx. 40.9 million barrels, and is divided into categories of resources classified as reserves and resources classified as contingent.

The quantity of Proved Developed Producing reserves is approx. 322.2 BCM and the quantity of Proved + Probable reserves is approx. 376.1 BCM.

In addition, the Proved Developed Producing condensate reserves are approx. 20.4 million barrels, and the quantity of Proved + Probable reserves is approx. 23.9 million barrels.

In the contingent resource report, the contingent resources were divided into two categories, which relate to each of the phases of development of the reservoir, as follows:

Phase 1A (Phase I - First Stage) – contingent resources which are classified at the Development Pending stage. These resources are contingent on decisions to drill additional wells, on the construction of related infrastructures and on the signing of additional agreements for the sale of natural gas.

Future Development – resources contingent on the adoption of another investment decision, in accordance with Phase 1B of the development plan and with an additional stage (insofar as the development plan is updated) and on the signing of additional agreements for the sale of natural gas, range between approx. 379.6 BCM (the high estimate) and approx. 155.6 BCM (the low estimate) and the contingent resources of condensate range between approx. 24.1 million barrels (the high estimate) and approx. 9.9 million barrels (the low estimate). See Section 8 below regarding the uncertainty in the evaluation of reserves.

2. The Tamar project:

- a) Further to Note 7C1 to the Annual Financial Statements and further to the estimates on the impact of the COVID-19 crisis on the Partnership's business and forecasts, as provided in Note 1D above, in July 2020, a report on evaluation of reserves and contingent resources in the Tamar lease was received from NSAI, according to the SPE-PRMS guidelines, updated as of June 30, 2020.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 3 – Investments in Oil and Gas Assets (Cont.):

B. Developments in investments in oil and gas assets (Cont.):

2. The Tamar project (Cont.):

According to this report, the natural gas reserves in the Tamar project (which includes the Tamar and Tamar SW reservoirs which are classified as Reserves On Production, as of June 30, 2020, and which are classified as Proved Reserves, total approx. 223.6 BCM (of which approx. 10% are attributed to Tamar SW), and the quantity of reserves classified as Proved + Probable Reserves is approx. 301.7 BCM (of which approx. 9% are attributed to Tamar SW).

According to the said report, the condensate reserves in the Tamar and Tamar SW reservoirs, which are classified as Reserves On Production, as of June 30, 2020, which are classified as Proved Reserves, total approx. 10.2 million barrels (of which approx. 9.8% are attributed to Tamar SW), and the quantity of reserves classified as Proved + Probable Reserves is approx. 13.8 million barrels (of which approx. 8.7% are attributed to Tamar SW). Such reserves do not include the reserves that overflow into the Eran license. See Section 8 below regarding the uncertainty in the evaluation of reserves.

- b) The Ministry of Environmental Protection published the air emission permit for the Tamar platform on August 31, 2020, and it has taken effect. It is noted that Noble is in discussions with the Ministry of Environmental Protection in connection with certain conditions determined in such permit.
 - c) On October 30, 2020, the Ministry of Environmental Protection published, for public comment, a draft update to the existing emission permit of the Ashdod Onshore Terminal, which is used by the Tamar reservoir, which is valid until December 31, 2021, and whose purpose it is to regulate all of the activity carried out at the facility. It is noted that concurrently, a process is being carried out in which an application was submitted for the issuance of a new emission permit for the facility.
3. Upon completion of installation and the running-in of the compressors at the EAPC site in Ashkelon, during July 2020 the piping of gas from the Tamar reservoir to Egypt began, with increased capacity in the EMG pipeline through the existing transmission system infrastructure of Israel Gas Lines Ltd. (“INGL”), as specified in Notes 12C1C and 12C2F to the Annual Financial Statements.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 3 – Investments in Oil and Gas Assets (Cont.):

B. Developments in investments in oil and gas assets (Cont.):

4. Further to Note 12L5 to the Annual Financial Statements regarding the funding of projects of export via the Israeli transmission system and the allocation of the costs of construction of the Ashdod-Ashkelon combined section, it is noted that on June 23, 2020, the Director General of the Natural Gas Authority announced that his ruling was that the cost of the combined section be estimated at the sum total of approx. ILS 738 million (the Partnership's share of which is estimated at approx. ILS 159 million). In addition, the exporter shall pay ILS 27 million to the holder of the transmission license, against his share in the cost that derives from the bringing forward of doubling of specific transmission segments, which is estimated at ILS 48 million. Such costs shall be updated in accordance with a mechanism of update and accounting between the parties that would be incorporated into the transmission agreement and presented for his approval. Accordingly, the Partnership is required to provide a guarantee in the sum of approx. \$46 million.

As of the date of approval of the condensed interim financial statements, the Tamar partners and the Leviathan partners are negotiating with INGL for the signing of a transmission agreement for the full quantities of natural gas, according to the agreements for export to Egypt. There is no certainty that such negotiations will lead to a binding transmission agreement and, as of the date of approval of the condensed interim financial statements, in view of the continuation of the negotiations, the Tamar partners and the Leviathan partners are examining various alternatives to enable the piping to Egypt of the full quantities of natural gas required under the agreements for export to Egypt, chiefly a direct connection from the production platform of Leviathan to the EMG system.

5. On October 5, 2020, Chevron Corporation ("**Chevron**") announced the closing of a merger transaction, according to which Noble Energy International Inc., Noble's parent company, is a wholly owned company of Chevron.

6. Additional Projects:

- a) Further to Note 7C6 to the Annual Financial Statements in relation to the submission of an appeal to the Minister of Energy from the decision of the Petroleum Commissioner (the "**Commissioner**") not to extend the term of the Alon D license, it is noted that on April 12, 2020, the Minister of Energy denied the appeal and determined that the license holders had not complied with their obligations to conduct an environmental survey and the license should therefore not be extended. On June 18, 2020 the partners in the license filed a petition with the Supreme Court, seated as the High Court of Justice. In the petition, the Court was moved to issue an *order nisi* ordering the Minister and the Commissioner (jointly, the "**Respondents**") to give reasons why the Minister's decision denying the appeal should not be revoked; why the license should not be extended or the license holders not be granted a substitute license in its stead; and why the license holders should not be allowed to realize their economic interest in the natural gas from the Karish North reservoir, part of which lies within the license area.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 3 – Investments in Oil and Gas Assets (Cont.):

B. Developments in investments in oil and gas assets (Cont.):

6. (Cont.):

A motion was also made for an interim order preventing the expiration of the license, and alternatively prohibiting the launch of a competitive process for a new license for the license area (or part thereof) or the grant of such license to a third party pending a decision on the petition, and a preliminary order pending a decision on the motion for interim order. On the same day, a decision was issued ordering the Respondents to file their response to the motion for interim order by June 28, 2020.

In this decision, the court denied the motion for a preliminary order, and the license thus expired on June 21, 2020.

On June 23, 2020, the Ministry of Energy declared a competitive process for the granting of a license for natural gas and oil exploration for the area over which the Alon D license extends. On June 24, 2020, the partners in the Alon-D license filed a notice with the court in which they updated that the Ministry of Energy had launched the competitive process as aforesaid, claiming that the need for an interim order is reinforced thereby, and moving the court to schedule a date for a hearing of the motion. On June 30, 2020 the respondents filed their answer to the motion for an interim order. On July 6, 2020 the license holders filed a response to the Respondents' answer, and on July 7, 2020 the motion for an interim order was denied. A hearing of the petition was scheduled for December 20, 2020.

In this context it is noted that on September 23, 2020, the Partnership and Noble submitted a bid in the competitive process that was declared by the Ministry of Energy on June 23, 2020 for the granting of a natural gas and oil exploration license in Block 72, over the area of which the Alon D license extended.

It is further noted that on October 21, 2020, a demand was received at the Partnership's offices from the Competition Authority for information and documents in connection with the Block 72 license.

- b) Further to Note 7C7 to the Annual Financial Statements, on April 5, 2020, the Commissioner extended the New Ofek/405 and New Yahel/406 licenses until June 20, 2021.

The operator in the New Ofek license informed the Partnership that on October 29, 2020, the Commissioner's approval was received to change the dates of performance of the work plan in the New Ofek license, including postponement of the date of commencement of performance of the production tests to December 15, 2020. However, the operator informed the Partnership that on November 10, 2020, it submitted an application to the Commissioner to update the dates for performance of the work plan, including postponement of the date of commencement of performance of the production tests. As of the date of approval of the Condensed Interim Financial Statements, the Commissioner's decision on the said application has not yet been received.

It is noted that in September 2020, the partners in the New Ofek license made a decision regarding participation in the performance of the production tests with a budget of between approx. \$10 million and approx. \$13 million (100%, the Partnership's share is between approx. \$7.5 million and \$8.5 million).

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 3 – Investments in Oil and Gas Assets (Cont.):

B. Developments in investments in oil and gas assets (Cont.):

7. Further to Note 1D above regarding the spread of COVID-19 and its possible impact on the Partnership's business, the Partnership assessed the recoverable amount of its oil and gas assets (either separately or as a group of assets constituting a single cash-generating unit). The assessment of the recoverable amount was conducted by means of current value estimation and analyses of sensitivity to projected cash flows from the Partnership's oil and gas assets (the "**Assessment**"). The Assessment was conducted by an independent outside appraiser, who assessed the recoverable amount as of March 31, 2020 by means of discounting the cash flow, based on the forecasts of cash flows from 2P reserves (proved reserves + probable reserves) from the Tamar reservoir as of December 31, 2019 and based on the forecasts of cash flows from 2P + 2C reserves (best estimate contingent resources including 2P reserves) from the Leviathan reservoir as of December 31, 2019, which the Partnership published on January 10, 2020 and January 13, 2020, respectively (the "**Cash Flow Forecasts**"), while applying adjustments with respect to the figures and assumptions taken in the Cash Flow Forecasts.

The principal adjustments included, *inter alia*:

- a) An update of the condensate and gas price forecast, *inter alia*, in view of: (i) an update of the Brent barrel price forecast according to an average of the Brent price of third parties, including the World Bank, the U.S. Department of Energy, and the consulting company Global Insight IHS, which were published in proximity to the date of the Assessment, for the years 2020-2030, and increase thereof by 2% per year starting from 2030; (ii) an update of the Electricity Production Tariff based, *inter alia*, on the ILS-\$ exchange rate and on the fuel cost forecast which is based on the price of gas to Israel Electric Corp.; (iii) up-to-date domestic market natural gas demand forecasts, based on a third party's domestic market natural gas demand forecast.
- b) Reduction of the annual sale quantities, as described below, based on:
 - An up-to-date domestic market demand forecast in proximity to the date of the aforesaid Assessment;
 - A reduction of the sale quantities under the Dolphinus agreements (see Note 12C1C and Note 12C2F to the Annual Financial Statements) to 50% of the annual contractual quantity in years in which the updated forecast of the average daily price of a Brent barrel is lower than \$50;
- c) Adjustment of depreciation expenses for tax purposes to be used by a prospective buyer;
- d) Use of a weighted cap rate (WACC) (after tax) of approx. 10.2% in the Tamar reservoir and 11.2% in the Leviathan reservoir.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 3 – Investments in Oil and Gas Assets (Cont.):

B. Developments in investments in oil and gas assets (Cont.):

7. (Cont.):

In accordance with such Assessment, the recoverable amount of the Partnership's petroleum assets is significantly higher (more than 25%) than the balance of the investment therein in the Partnership's books as of March 31, 2020, and accordingly, no provision for impairment was required. As of September 30, 2020 there were no indications of a need to reassess the recoverable amount of the Partnership's oil and gas assets.

8. Appraisals of reserves of natural gas, condensate, contingent and prospective resources:

The above appraisals regarding the reserves of natural gas, condensate, and contingent and prospective resources of natural gas and oil in the rights of the Partnership in the leases, licenses and franchise for oil and gas exploration are based, *inter alia*, on geological, geophysical, engineering and other information received from the wells and from the Operator in the said rights. The above appraisals constitute professional hypotheses and appraisals of NSAI, which are uncertain. The quantities of natural gas and/or condensate that will actually be produced may be different to the said appraisals and hypotheses, *inter alia* as a result of operating and technical conditions and/or regulatory changes and/or supply and demand conditions in the natural gas and/or condensate market and/or commercial terms and/or the actual performance of the reservoirs. The above appraisals and hypotheses may be updated insofar as additional information accrues and/or as a result of a gamut of factors relating to the oil and natural gas exploration and production projects.

Note 4 – Additional Information:

A. Issuance of Leviathan Bond bonds:

On August 18, 2020, the issuance of bonds that were offered by Delek Leviathan Bond Ltd. (the “**Issuer**”), an SPC that is wholly held by the Partnership, pursuant to which bonds were issued in the total amount of \$2.25 billion in accordance with Rule 144A and Regulation S, was completed.

The bonds were issued in four series (the “**Series**”), as follows:

	Par value, \$ in millions	Book value in \$ in millions	Fixed Interest Rate	Maturity
Series 1	500	496.3	5.750%	30.6.2023
Series 2	600	592.8	6.125%	30.6.2025
Series 3	600	590.5	6.500%	30.6.2027
Series 4	550	538.6	6.750%	30.6.2030
	<u>2,250</u>	<u>2,218.2</u>		

The bond principal and interest are in dollars. The interest on each one of the bond Series will be paid twice a year, on June 30 and on December 30.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

A. Issuance of Leviathan Bond bonds (Cont.):

On August 3, 2020, the Issuer received the approval of the Tel Aviv Stock Exchange Ltd. (“**TASE**”) for the listing of the bonds on the TACT-Institutional system of TASE (“**TACT-Institutional**”).

The full Issue proceeds were provided by the Issuer as a loan to the Partnership on terms and conditions identical to those of the bonds (back-to-back), and according to a loan agreement that was signed between the Issuer and the Partnership (the “**Loan**”).

The Loan money was used by the Partnership for repayment of loans from banking corporations in the sum of approx. \$2 billion (for details on the loans from banking corporations, see Notes 10C and 10E to the Annual Financial Statements), the deposit of a safety cushion in the sum of \$100 million in accordance with the terms and conditions of the bonds, payment of the Issue costs in the estimated sum of approx. \$30 million, and the balance of the proceeds will be used for other uses according to the terms and conditions of the Commissioner’s approval as described below (the “**Commissioner’s Approval**”).

To secure the bonds and the Loan, in the context of the indenture for the bonds and the other documents according to which the bonds will be issued (collectively: the “**Financing Documents**”), the Partnership has undertaken to pledge in favor of the trustee for the bonds (the “**Trustee**”), in a first-ranking fixed charge, its interests in the Leviathan project (45.34%), including its interests in the I/14 Leviathan South and I/15 Leviathan North leases (the “**Leases**”), the operating approvals of the production system and the export approvals (collectively: the “**Pledge of the Leases**”), the Partnership’s rights and the revenues from agreements for the sale of gas and condensate from the Leviathan project (the “**Gas Agreements**”), the Partnership’s rights in the joint operating agreement (JOA) for the Leases, the Partnership’s share in the project’s assets (including the platform, wells, facilities, and systems for production and transmission to shore), the Partnership’s rights in dedicated bank accounts, certain insurance policies and various licenses in connection with the Leviathan project. The Partnership shall also pledge the shares held thereby in the Issuer, in NBL Jordan Marketing Limited and in Leviathan Transportation System Ltd.

In addition, the Issuer undertook to pledge in favor of the Trustee, in a first-ranking floating charge, its rights in all of its existing and future assets and will pledge in favor of the Trustee its rights in the loan agreement and in its bank accounts (collectively: the “**Pledges**” and the “**Pledged Assets**”, as the case may be).

According to the Financing Documents, the Partnership’s undertakings to the Trustee and the bondholders are limited to the Pledged Assets, with no guarantee or additional collateral.

It is noted that the Pledges that the Partnership shall create in favor of the Trustee are subject, *inter alia*, to the State’s royalties according to the Petroleum Law and to the rights of the parties entitled to royalties in respect of the Partnership’s revenues from the Leviathan project, including the holder of the controlling interest in the Partnership.

As is standard in financing transactions of this type, in the Financing Documents the Partnership assumed stipulations, restrictions, covenants and grounds for acceleration of the bonds and enforcement of the Pledges that include, *inter alia*, the following undertakings:

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

A. Issuance of Leviathan Bond bonds (Cont.):

The Partnership and the Issuer, as the case may be, undertook, *inter alia*, to fulfill undertakings and conditions that were determined in government licenses and approvals, including in relation to the operator of the project, and including the conditions of the Commissioner's Approval; to fulfill the terms and conditions of the Leases and the JOA (jointly: the "**Leviathan Agreements**"); to protect their rights in the Pledged Assets and to ensure the validity of the Pledges and the rights of the Trustee and the holders according thereto; not to change or discontinue the Issuer's activity, and not to change the incorporation documents of the Issuer; not to create additional pledges on the Pledged Assets (aside from certain exceptions); to fulfill the provisions of the law that apply to their activity; to pay the taxes that apply thereto; to give the Trustee and the holders certain reports, notices and information that were specified; to act to maintain the listing of the bonds on TACT-Institutional; to act for the continued proper operation of the Leviathan project in accordance with the Leviathan Agreements; to take any action possible under the JOA so as to ensure that the operator fulfills its undertakings according to the JOA; to make all of the payments that apply thereto and to bear all of the Trustee's expenses that apply thereto according to the Financing Documents; to purchase and maintain certain insurance policies; to refrain from modifying or amending the Leviathan Agreements or material Gas Agreements, as defined in the Financing Documents ("**Material Gas Agreements**"), or the royalty agreements or engage in a new royalty agreement; to refrain from approval of certain acts in the context of the JOA; etc.

The Issuer undertook not to take additional financial debt, with the exception of the issue of additional bonds or other secured debt *pari passu*, subject to conditions that were specified, including (I) the sum of the secured debt of the Issuer (including the bonds) does not exceed, at any time, \$2.5 billion; (ii) certain financial ratios that were specified in the Financing Documents are maintained.

In addition, the Partnership undertook not to take any additional financial debt which is secured by the Pledged Assets, with the exception of an additional loan that it shall receive from the Issuer on terms and conditions back-to-back to additional debt that the Issuer shall raise subject to the restrictions set forth therefor in the Financing Documents.

The Partnership undertook not to make any merger transaction or change its business in a manner which would likely cause an MAE, or enter dissolution proceedings or other defined restructurings, and not to sell, transfer, pledge or make any other disposition of all or substantially all of its assets, other than permitted transactions, as defined in the Financing Documents, including sale of interests in the Leviathan project subject to mandatory early redemption or a tender offer to the bondholders in certain cases, or permitted restructurings, as defined, including a transfer of the Partnership's interests in the Leviathan project to a new subsidiary and/or other actions, including the outline under consideration for a split of the Partnership's assets, provided that the holders' rights are not prejudiced by such actions and additional terms and conditions as defined.

In addition, provisions were determined regarding early redemption of the bonds, including (1) early redemption at the Issuer's initiative, subject to payment of a Make Whole premium, and (2) mandatory early redemption in certain cases that were defined, including by way of a buyback of the bonds and/or performance of a tender offer to all the bondholders, including upon a sale of all or some of the interests in the Leviathan project.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

A. Issuance of Leviathan Bond bonds (Cont.):

The Issuer and the Partnership undertook that if a tax withholding duty shall apply to the payments due under the terms and conditions of the bonds to a foreign resident then, subject to certain exceptions as defined, the Issuer and/or the Partnership, as the case may be, shall pay additional amounts as required for the net amounts to be received by the foreign resident to be equal to the amounts such foreign resident would have received, but for the withholding tax duty. In this context, it is noted that on July 27, 2020 the Partnership received a ruling from the Tax Authority stating, *inter alia*, that the bonds to be traded on the TACT-Institutional system of the TASE are bonds traded on a stock exchange in Israel for purposes of Section 9(15D) of the Income Tax Ordinance (for purposes of exemption from tax on interest paid to a foreign resident on bonds traded on the stock exchange), and Section 97(B2) of the Ordinance (for purposes of exemption from tax for a foreign resident on capital gains in the sale of the bonds traded on the stock exchange), all subject to the terms and conditions specified in the Tax Authority's ruling and the provisions of the Income Tax Ordinance and the regulations promulgated thereunder.

The Financing Documents include a payment waterfall mechanism, whereby the Partnership's entire revenues from the Leviathan project is transferred to an account that is pledged in favor of the Trustee (the "**Revenues Account**"), which is used to make various payments in connection with the project and the bonds, including payment of royalties to the State and to the royalty interests owners; payments to the Trustee; taxes and the levy under the Taxation of Profits from Natural Resources Law, 5771-2011 (in this section: the "**Law**"); capital expenses and operating expenses in connection with the Leviathan project; principal and interest payments; deposits into safety cushions; and balancing payments in connection with tax payments under Section 19 of the Law. The transfer of the amounts remaining in the Revenues Account after the making of the said payments to a non-pledged account of the Partnership is subject to conditions determined, including fulfillment of an NPV Coverage Ratio of at least 1.5¹.

The Financing Documents define Events of Default, upon occurrence of which, subject to certain determined curing periods, exceptions and conditions, the Trustee for the bonds shall be entitled (or required – upon the demand of one quarter of the bondholders) to accelerate the outstanding balance of the bonds and shall be entitled to act to enforce the Pledges.

¹ The NPV Coverage Ratio was defined as the ratio between the net current value of the discounted cash flow expected from proved and probable (2P) reserves, at a cap rate of 10%, from the Partnership's interests in the Leviathan project (the "**Discounted Cash Flow**"), and the debt balance net of cash accrued in the accounts as of the measurement date. According to the Financing Documents, the Discounted Cash Flow shall be calculated according to the same assumptions to be used by the Partnership in the resource reports to be released thereby under the provisions of the Securities Law, other than assumptions on the Brent barrel price, which shall be based on the prices of futures traded on ICE, as defined in the Financing Documents.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

A. Issuance of Leviathan Bond bonds (Cont.):

The main events are as follows: (1) Default on payment of principal, interest or other payments mandated by the Financing Documents; (2) Breach of representations; (3) Breach of the Covenants or Negative Covenants determined in the Financing Documents; (4) An event or entry into proceedings for insolvency of the Issuer, and an insolvency event as aforesaid or of a party to a Material Gas Agreement (as defined in the Financing Documents), the operator in the Leviathan project or the Partnership, if likely to cause an MAE (as defined in the agreement), subject to certain conditions and qualifications; (5) premature termination of any of the Leviathan Agreements or Material Gas Agreements, if likely to cause an MAE, subject to certain conditions and qualifications; (6) If a party to a Material Gas Agreement breaches the agreement with a likely MAE, subject to certain conditions and qualifications; (7) In the event of abandonment or cessation of the Leviathan project operations for more than 15 consecutive days, if likely to cause an MAE; (8) If damage is caused to the Leviathan project (including physical damage, revocation of license or transfer of the Partnership's rights therein by a government authority), with a likely MAE, which was not cured; (9) In the event of denial or revocation of a government approval granted in connection with the Leviathan project, with a likely MAE; (10) If any of the Financing Documents to which the Issuer or the Partnership are a party, or pledges provided under the Financing Documents, with an aggregate value of more than \$35 million, cease to be in effect; (11) If a non-appealable judgment is issued against the Issuer for payment of an amount in excess of \$35 million which was not paid; (12) If there is a breach of an undertaking in an agreement for the provision of other *pari passu* secured debt of the Issuer worth over \$35 million; (13) If an undertaking to perform mandatory early redemption is breached; (14) If the provisions regarding expenditures from the Revenues Account are breached; etc.

The bonds were rated by international rating agencies and an Israeli rating agency.

On August 3, 2020, the Commissioner's Approval was received for the Pledge of the Leases in favor of the Trustee, for the bondholders. The Commissioner's Approval provides that, *inter alia*, the pledge is given to secure payment of the bonds whose proceeds are intended for the granting of credit to the Partnership in the sum of up to \$2.5 billion in total, for payment of the Existing Loans in the sum of approx. \$2 billion, the deposit of a safety cushion in the sum of \$100 million, investments in the Leviathan project only and the financing of the construction of a pipeline for the export of gas from the Leviathan and Tamar reservoirs.

- B.** On July 15, 2020, the Partnership made a partial prepayment of the third bond series of Tamar Bond in the total of \$240 million (the "**Amount of the Principal**"), the original maturity date of which is December 30, 2020. The amount of the prepayment includes the Amount of the Principal, plus accrued interest in the sum total of approx. \$0.4 million, plus a prepayment fee at approx. \$4.2 million (the "**Prepayment Fee**").

It is noted that the amount of the Prepayment Fee is lower than the balance of the interest that the issuer of the bonds, Delek & Avner (Tamar Bond) Ltd., would pay, if the Amount of the Principal would have been repaid on its original maturity date.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

- C. On July 26, 2020, the board of directors of the General Partner approved a buyback plan for series A bonds and bonds of Delek and Avner Tamar Bond is the sum total of up to \$50 million. It is noted that the bond buyback plan is consistent with the provisions of the Partnership's indenture, and approval of the plan does not constitute a breach of the Partnership's undertakings to the bondholders. It is clarified that the board of directors has determined that the said bond buyback plan will be performed subject to completion of the refinancing of loans provided to the Partnership, *inter alia* for the purpose of financing of the Leviathan project (completed on August 18, 2020), and that the said decision does not obligate the Partnership to buy back any or all of the bonds, and that the Partnership's management is entitled to decide not to buy back bonds at all and/or to buy less bonds than authorized. As of the date of approval of the Condensed Interim Financial Statements, the Partnership has performed buybacks of ILS 11,413,393 par value of series A bonds in consideration for approx. \$3 million.

On November 17, 2020, the Board of Directors of the Partnership's General Partner approved a plan for the acquisition of Series A bonds at a total estimated cost of up to \$30 million. The purchases will be made from time to time in the period between November 19, 2020 and December 31, 2020, in transactions on or off TASE. It is noted that this plan will replace the buyback plan stated above.

- D. Further to Note 12C1B9 to the Annual Financial Statements regarding amendments to the agreement with Israel Electric Corp. Ltd. ("**IEC**"), which were proposed in the course of 2019 by the Partnership and some of the Tamar partners, on April 13, 2020, a notice was released by representatives of the Ministry of Energy, the Economic Unit at the Department of Counseling and Legislation at the Ministry of Justice, the Ministry of Finance and the Competition Authority (the "**Regulators**"), whereby, *inter alia*, the Tamar partners have been given a short period of time to amend the arrangements that apply between them in a manner which shall ensure that the Partnership, Noble and Isramco Negev 2 - Limited Partnership do not hold a right to veto decisions on the marketing of natural gas from the Tamar reservoir.

On May 27, 2020, the partners in the Tamar project submitted for the Regulators' approval agreed principles for joint marketing from the Tamar reservoir (the "**Principles**"), which determine that the partners in the Tamar reservoir will continue the joint marketing of natural gas from the Tamar reservoir. The Principles include various arrangements and mechanisms in connection with securing the parties' interests and improvement of the competitive position of the Tamar reservoir in the marketing of natural gas to customers in the domestic market. Such arrangements and mechanisms determine, *inter alia*, the manner of and parameters for the conduct of negotiations with customers in the domestic market on certain commercial matters pertaining to price, price linkage and Take or Pay levels standard in the domestic market, with no participation on the part of the partners in the reservoir that hold other producing petroleum assets, as well as the parameters and conditions for engagements with customers in the domestic market in agreements for the sale of natural gas.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

D. (Cont.):

Further to the aforesaid, the Tamar Partners held discussions between them and with the Regulators in connection with an update to the Principles. In this context, on September 6, 2020, a notice was received from the Competition Authority, whereby, *inter alia*, the Partnership's holding of the right and power to prevent the other holders of the Tamar reservoir from making decisions or taking actions for the marketing of gas from the Tamar reservoir contrary to the terms and conditions of the "decision pursuant to Section 14 of the Restrictive Trade Practices Law, 5748-1988 regarding the granting of an exemption from approval of a restrictive arrangement – agreement between Delek Group and Isramco Negev 2, Noble Energy and others" of August 22, 2006, is a violation of the provisions of Section 4 of the Economic Competition Law, 5748-1988, and therefore the Partnership is required to act within one month to nullify the veto right held thereby. Until the date of nullification of the veto right, the Partnership may hold its rights as being until today and make new contracts, although in the conduct of negotiations for contracts in the said period, the Partnership shall not exercise its veto right alone. To the best of the Partnership's knowledge, a similar notice was also received by Isramco Negev 2.

The opinion of the Deputy Attorney General (economic law) was also released regarding Noble's veto right in the Tamar reservoir, according to which each one of the holders of the Tamar reservoir holds a veto right, including Noble, which is entitled to hold such veto right until the date of the sale of holdings in the Tamar reservoir to a third party that is not affiliated with the Partnership or Noble, or until December 17, 2021, whichever is earlier.

It is noted that on October 13, 2020, the Partnership notified the Competition Authority as follows:

1. The Partnership will not object alone to decisions or acts regarding the marketing of natural gas to be produced from Tamar. The Partnership, in its own independent decision, will be able to join, *ad hoc*, a consent or refusal of one of the partners with respect to a decision or act in the Tamar project, provided that such joining is not made under a framework agreement, an agreed collaboration or for consideration. It is further clarified that the Partnership will not be able to join a demand of a Tamar partner to receive a price which is higher than the other partners for marketing its share in Tamar.
2. The Partnership will not be able to demand or receive compensation (in advance or post factum) for its consent to a decision or act for gas marketing, whether the demand is made thereby or made by another. Even if there is a decision, in the context of which a partner receives compensation, the Partnership will neither be able to demand such compensation, nor condition its consent to an act or decision by demanding such compensation.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

D. (Cont.):

It is noted that the Partnership, as well as each one of the partners in the Tamar reservoir, has the right, pursuant to the Joint Operation Agreement (JOA) to notify the other partners, at any time, of its wish to transition to a mechanism of separate marketing of natural gas from the reservoir. In view of the above and further to the aforesaid, the Partnership contacted the other partners in a request to start, as soon as practicable, with discussions for formulating principles for separate marketing of natural gas from the Tamar reservoir, in accordance with the mechanisms set forth in the JOA. As of the date of approval of the Condensed Interim Financial Statements, the Tamar partners have not yet reached agreements on the matter.

In this context, on October 4, 2020, some of the Tamar partners notified the Partnership and Noble that they had signed a supplement to the agreement for the supply of natural gas from the Tamar reservoir to the IEC (the **“Supplement to the Tamar Agreement”** or the **“Agreement”**), and that the Partnership and Noble were being given the possibility of joining the Supplement to the Tamar Agreement within 60 days from the date of the signing thereof. It is clarified that it is the Partnership’s position, based on its legal counsel, that the Agreement does not constitute a supplement to or part of the agreement for the supply of natural gas from the Tamar reservoir to the IEC, but rather a new agreement that constitutes a breach of the agreement for the supply of natural gas from the Leviathan reservoir to the IEC. Accordingly, the Partnership and Noble have informed the other partners that they will not be joining the Agreement.

It is noted that it is the Partnership’s position, based on its legal counsel, as of the date of approval of the Condensed Interim Financial Statements, that the IEC is acting in breach of the agreement for the supply of natural gas from the Leviathan reservoir to the IEC.

It is noted that the Partnership is exploring the legal and commercial options with respect to the said agreement and their potential impact. As of the date of approval of the Condensed Interim Financial Statements, the parties have not yet reached agreements on the matter. In this context it is noted that on October 22, 2020, a demand was received at the Partnership’s offices from the Competition Authority for information and documents in connection with the said agreement.

- E.** On May 24, 2020, the decision of the Competition Commissioner was released, pursuant to Section 14 of the Economic Competition Law, 5748-1988, regarding amendment of the conditions for granting the exemption from approval of a restrictive arrangement for arrangements between the Tamar partners and their customers, canceling the requirement for pre-approval of any agreement for the supply of gas from the Tamar project, in lieu of which the agreements will be subjected to a self-assessment regime, i.e. the burden of examining the lawfulness thereof will be imposed on the Tamar partners and their customers, while the Competition Commissioner will be able to examine the agreements retroactively and even not in proximity to the date of the signing thereof, and to take enforcement measures insofar as it is found that arrangements were performed that harmed competition.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

- F.** On September 23, 2020, an agreement for the supply of natural gas was signed between the Leviathan partners and Ramat Hovav Power Plant – Limited Partnership (the “**Buyer**”), whereby the Buyer would purchase natural gas from the Leviathan partners for the purpose of operating the Buyer’s facilities in the power plant at the Ramat Hovav site (the “**Supply Agreement**”). To the best of the Partnership’s knowledge, the Buyer is a partnership owned by Edeltech Group and Shikun & Binui, which was declared the winner of a tender issued by Israel Electric Corporation Ltd. for the sale of the Ramat Hovav power plant.

The term of the Supply Agreement shall commence on the date of signing of the Supply Agreement (with actual supply scheduled to commence in early December 2020) and shall end upon the earlier of:

- (a) 30 months after the aforesaid signing date; and (b) the date of commercial operation of the gas reservoirs in the I/16 “Tanin” and I/17 “Karish” leases.

The taking effect of the Supply Agreement is contingent on approval by the banks that finance the Buyer’s operations and on the transfer of the Ramat Hovav power plant to the Buyer.

The Buyer is expected to buy from the Leviathan partners natural gas in the total volume of approx. 1.3 BCM. The Buyer has undertaken to buy or pay for (“Take or Pay”) a minimum annual quantity of gas in the volume and in accordance with the mechanism as specified in the Supply Agreement. The Supply Agreement provides that the gas price shall not be linked to any index.

- G.** On August 27, 2020, the Tamar partners, with the exception of the Partnership, signed agreements for the sale of natural gas from the Tamar reservoir to Oil Refineries Ltd. (“**ORL**”) and to ICL Group Ltd. (“**ICL**”), for a period ending July 1, 2022, with each one of ORL and ICL having an option to extend the term of the agreement by two 3-month periods each (in this section: the “**Supply Agreements**”). It is noted that the natural gas price determined in the Supply Agreements is fixed, with no linkage mechanisms, and that arrangements were determined between Noble and the other Tamar partners with respect to Noble’s share in the consideration for the gas that shall be sold under the Supply Agreements. Accordingly, on September 30, 2020, the Partnership signed the Supply Agreements after arrangements were determined between the Partnership and Noble with respect to the Partnership’s share in the consideration for the gas that shall be sold under the Supply Agreements. As of the date of approval of the Condensed Interim Financial Statements, all of the conditions precedent for the taking effect of the Supply Agreements have been fulfilled.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

- H.** On May 3, 2020, an agreement for the supply of natural gas was signed between the Partnership, Noble, Delek Group Ltd. and Ratio Oil Exploration (1992), Limited Partnership (“**Ratio**”) (the “**Agreement**”), under which the supply of gas to customers that had signed earlier agreements with each of the Yam Tethys partners will be carried out from the Leviathan reservoir. Accordingly, the Yam Tethys partners that are Leviathan partners (i.e., the Partnership and Noble) will take from the gas available to them (according to the rate of their holdings in Yam Tethys) whereas the remainder of the gas required to be supplied by each of the Yam Tethys partners will be purchased from Ratio according to the consideration determined in such Agreement, which is the average monthly price determined in the agreements signed between the Leviathan partners and their customers in the domestic market.
- I.** Further to Note 12C2B regarding the gas supply agreement between the Leviathan partners and the IEC, in view of the IEC’s purchasing several cargos of liquefied natural gas (LNG) from an external source, contrary, so the Leviathan partners claim, to the said agreement and in breach thereof. On June 3, 2020, the Leviathan partners sent the IEC a demand to act in accordance with the dispute resolution provisions set forth in the agreement. It is noted that the Leviathan partners are holding discussions vis-à-vis the IEC with the aim of reaching understandings on this issue.
- J.** In the report period, the Partnership signed several more agreements for the sale of natural gas with various customers in the Israeli market, both from the Tamar project and from the Leviathan project, for non-material volumes.
- K.** Further to Note 8B to the Annual Financial Statements regarding an agreement for the sale of interests in the I/17 Karish and I/16 Tanin leases (collectively: the “**Leases**”) and the fair value of the royalties and the annual payments, in April 2020, Energean released an update pertaining to the volume of the resources attributed to the “Karish North” reservoir, which is in the area of the I/17 Karish lease, whereby in the “Karish North” well there are resources of natural gas of approx. 33.7 BCM and of hydrocarbon liquids of approx. 39.4 million barrels, all according to best estimate.

It is further noted that in April 2020, Energean and the Partnership exchanged letters with respect to the Partnership’s entitlement to royalties from the Leases. Energean argues, *inter alia*, that its obligation to pay royalties does not apply with respect to hydrocarbons from the “Karish North” reservoir, and additionally, not all hydrocarbon liquids to be produced from the Karish lease meet the definition of condensate under the agreement for sale of the Partnership’s interests in the Leases. The Partnership’s position, based on its advisors, is that according to the agreement for the sale of the Partnership’s interests in the Leases, the royalty documents and the registration in the Petroleum Register, Energean’s obligation to pay royalties applies to natural gas and condensate to be produced from the Leases, including the “Karish North” reservoir, and that all hydrocarbon liquids to be produced from the Leases constitute condensate within the definition thereof in the agreement.

The financial items in the report period include income in the sum of approx. \$17.1 million, which derives from a revaluation of the royalties from the Leases and income in the sum of approx. \$2 million from a revaluation of the annual payments.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

K. (Cont.):

Such update derives mainly from the net effect of changes in the cap rate, update of contingent resources and hydrocarbon liquids and a price forecast update and the postponement of the commencement of production from the Karish lease to Q1/2022.

The primary parameters in the valuations used for measurement of the royalties and the annual payments were as follows: The cap rate for annual payments was estimated at 7.25%; the cap rate for the royalties component was estimated at 12%;

the total amount of contingent resources of natural gas and of hydrocarbon liquids used in the valuation for measurement of the royalties was estimated at approx. 98.5 BCM and approx. 82 MMBBL, respectively, and a production rate forecast.

On November 10, 2020, Energean released an update on the volume of resources attributed to the Karish, Tanin and Karish North reservoirs (in this section: the “**Reservoirs**”), reclassifying contingent resources (2C) as reserves (2P), such that the Reservoirs have natural gas reserves (2P) of approx. 98.2 BCM and hydrocarbon liquids of approx. 99.6 million barrels (compared with natural gas resources (2C+2P) of approx. 98.6 BCM and hydrocarbon liquids of approx. 82 million barrels, according to Energean’s release of April 2020). Energean further stated that the development plan for the Karish North reservoir had been approved by the Ministry of Energy, and that a final investment decision for development of the Karish North reservoir was expected to be adopted in Q4/2020, with production from the Karish North reservoir expected from 2023. Energean stated that the FPSO would reach maximum production capacity (approx. 8 BCM per year) at the end of 2023. Energean also released the volume of prospective resources for the areas of the licenses it holds in Israel’s EEZ, including in the Karish and Tanin reservoirs. The Partnership is studying the implications of the said update through its professional advisors.

- L. Since the date of commencement of the gas supply from the Leviathan reservoir, the Leviathan partners have been paying the State advance payments on account of the State’s royalties in respect of revenues from the Leviathan project at a rate of 11.26% according to a demand letter received from the Ministry of Energy in January 2020. It is noted that the position of the Partnership is that the calculation of the actual rate of the State’s royalties for income from the Leviathan project should reflect the complexity of the project, the risks involved therein and the size of investments in the project. According to a calculation based on the principles of the “English formula”, which is based, *inter alia*, on the principles of the directives stated in Section M below and on the agreement signed with the State in the Yam Tethys project, the actual rate of royalties to the State, on which the Partnership was based in its financial statements, is 10.93%.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

M. Further to Note 12L4 to the Annual Financial Statements regarding the publication of draft directives on the method of calculation of the royalty value at the wellhead for public comment, in June 2020 the Director of Natural Resources at the Ministry of Energy published the final language of such directives. In addition, in September 2020, the Director of Natural Resources at the Ministry of Energy published specific directives on the method of calculation of the royalty value at the wellhead in the Tamar project (the “**Specific Directives**”), which determined the rate of the deductible expenses in the calculation of the royalty value at the wellhead from the Tamar reservoir. Based on the estimates and appraisals of the Tamar partners, there are no material differences between the amounts recorded in the Statement of Comprehensive Income in the report period as expenses for royalties and the royalty expenses as would have been calculated in accordance with the Specific Directives. It is clarified that there are material differences between the royalties actually paid to the Ministry of Energy in the aggregate from commencement of production from the Tamar project and the amounts recorded in the Statement of Comprehensive Income as royalty expenses.

As of the date of approval of the Condensed Interim Financial Statements, the specific directives for the Leviathan lease have not yet been delivered.

N. In March 2020, draft regulations on behalf of the Ministry of Finance regarding advance payments in respect of the petroleum profit levy were released for public comment, which regulations include, *inter alia*, the duty to pay a petroleum profit levy on any lease with commercial production, unless the Tax Assessing Officer is convinced that no liability will apply in the tax year. As of the date of approval of the Condensed Interim Financial Statements, the final regulations have not yet been released.

O. Further to Note 20A7 to the Annual Financial Statements, on July 13, 2020, the Partnership announced that the Partnership and the General Partner had filed with the Tel Aviv District Court an originating application whereby the court is moved, *inter alia*, to determine the appropriate arrangements for the balance between individuals and corporations that hold the Partnership’s participation units, in view of tax payments the Partnership is required to make under Section 19 of the Taxation of Profits from Natural Resources Law, 5771-2011, and *inter alia*: (a) Tax payments, to the extent deriving from a difference between the taxable income estimate made by the Partnership toward the end of the tax year and the self-assessment of tax the Partnership submits; and/or tax payments to the extent deriving from a difference between the self-assessment of tax the Partnership submits and the final tax assessment to be issued thereto (“**Tax Assessment Differences**”); and (b) Tax payments made in respect of the tax years 2015-2016 (the “**Past Periods**”), considering the fact that holders of participation units on the effective date for the tax year in the Past Periods may possibly no longer hold the same when it is clarified (if at all) that the Partnership is required to pay additional tax for such tax year (or vice versa) and also considering the difference in the tax rates applicable to individuals and corporations.

As part of the originating application, the court was presented with various possible alternatives for arrangements in relation to the tax payments in respect of Tax Assessment Differences and in respect of the Past Periods, in order for the court to decide the appropriate arrangements as noted.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

O. (Cont.):

The respondents to the originating application are the Partnership's participation unit holders on the dates relevant to the originating application, and the Partnership's supervisor, who requested to be joined in the originating application as a respondent in order to be able to present therein an independent position on his behalf.

In addition to the originating application, the Partnership and the General Partner have filed with the court a motion for leave to effect substituted service to the participation unit holders by way of releasing a public notice, which motion, if granted, will also allow every holder of a participation unit of the Partnership on the dates relevant to the originating application (including all present holders of the Partnership's participation units) to join in the proceeding as a party thereto. On July 14, 2020 the court decided to forward the motion to the Partnership's supervisor, the ISA and the Supervisor of the Capital Market for comments.

On October 18, 2020, the court approved, *inter alia*, the petitioners' motion for substitute service of process, and the filing of the position of the Attorney General on the originating application within 30 days. In addition, on November 8, 2020, the court extended the timeframe for the filing of the responses until November 23, 2020. In addition, the court ordered that the originating application will be heard together with an originating application that was filed by the partnership Isramco Negev 2 on the same issue.

In this context it is noted that further to the publication of the draft Income Tax Regulations (Rules for the Calculation of Tax due to the Holding and Sale of Participation Units in Oil Exploration Partnerships) (Amendment), 5781-2020, for public comment (see Paragraph R below), the Partnership is examining the impact of the said draft regulations on the originating application at bar.

- P.** Further to Note 20A10 to the Annual Financial Statements with respect to the taxable income of the Partnership, which was attributed to entitled holders in respect of the holding of participation units of the Partnership in 2017, it is noted that in view of the disputes between the Partnership and the Tax Authority and the disagreements in respect of the amount of the Partnership's taxable income in 2017, a tax assessment to the best of judgment was received from the Tax Authority on July 23, 2020, pursuant to Section 145(a)(2)(b) of the Income Tax Ordinance, 5721-1961 (the "**Tax Assessment**" and the "**Ordinance**", respectively), whereby the Partnership's taxable business income in 2017 is approx. \$369 million (*in lieu* of approx. \$218 million as included in the Partnership's tax report filed with the Tax Authority) and the Partnership's capital gain in 2017 is approx. \$663 million (*in lieu* of approx. \$544 million as included in the Partnership's tax report filed with the Tax Authority).

The disputes primarily pertain to the interpretation of the manner of recognition of financial expenses and other expenses actually incurred by the Partnership, including the attribution of financial income deriving from exchange rate differences to an asset under construction, the manner of implementation of Section 20(b) of the Taxation of Profits from Natural Resources Law, 5771-2011 regarding the deduction of depreciation expenses and the manner of calculation of the capital gain from the sale of 9.25% (out of 100%) of the interests in the Tamar and Dalit Leases.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

P. (Cont.):

As of the date of approval of the Condensed Interim Financial Statements and according to the Tax Assessment, and insofar as all of the arguments of the Tax Authority are accepted, the Partnership will be required to make an additional tax payment (including linkage differentials and interest), on account of the holders of the Partnership's participation units, in the amount of approx. \$89 million.

It is noted that in view of the aforesaid, there may be a delay in the issuance of a final tax certificate for entitled holders in respect of the holding of participation units of the Partnership in the tax year 2017, until the completion of the proceedings required for determination of the final tax assessment.

In the Partnership's estimation, based on the opinion of its legal counsel, chances of most of the Partnership's arguments being accepted are higher than 50%, and it therefore intends to contest the tax assessments and exhaust the administrative and legal proceedings available thereto.

- Q.** Further to Note 20A9 to the Annual Financial Statements in relation to tax assessments to the best of judgment issued under Section 145(a)(2)B of the Ordinance on the taxable business income and capital gain of the Partnership and Avner Oil Exploration – Limited Partnership (jointly: the “**Partnerships**”) for the 2016 tax year, on July 30, 2020, the Tax Authority issued the Partnerships tax assessment orders under Section 152(b) of the Ordinance (the “**Orders**”), which mainly concern the manner of recognition of financial expenses and other expenses actually incurred by the Partnerships and the manner of calculation of the capital gain from the sale of the Karish and Tanin leases.

According to the tax assessment orders, and to the extent that all of the Tax Authority's arguments are accepted, the Partnership will be required to make an additional tax payment (including linkage differentials and interest), on account of the tax liability of the holders of the participation units in the Partnerships in the amount of approx. \$42.8 million. On September 15, 2020, the Partnership filed an appeal on the matter. In accordance with the court's decision, the last date for submission of the notice stating the grounds for the assessment by the assessing officer will be March 1, 2021.

Hence there may be a delay in the issuance of a final tax certificate for entitled holders on holding of participation units of the Partnerships for the 2016 tax year, until completion of the proceedings that will be required for the determination of the final tax assessment. The Partnership estimates, based on the opinion of its legal counsel, that the chances of the main part of the Partnership's arguments being accepted are greater than 50%.

- R.** During October 2020, the draft Income Tax Regulations (Rules for the Calculation of Tax due to the Holding and Sale of Participation Units in Oil Exploration Partnerships) (Amendment), 5781-2020 (the “**Draft Regulations**”), were published for public comment.

According to the Draft Regulations, it is proposed to determine, *inter alia*, that from the tax year 2021, oil partnerships whose units are listed on TASE will be taxed as a company, using the two-stage method, from the tax year in which it generated taxable income or distributed profits.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

R. (Cont.):

As of the date of release of these statements, the Partnership is examining the potential implications of the Draft Regulations on its operations. In accordance with the Partnership's initial estimate according to the data as of the date of the statement, approval of the Draft Regulations in the current format thereof may create for the Partnership, *inter alia*, a one-time accounting obligation to record a reserve for deferred taxes in the sum of approx. \$240 million (out of total equity of approx. \$1,007 million as of September 30, 2020) which will affect the Partnership's results and reduce its distributable profits, and later, to record current and deferred tax expenses on an ongoing basis.

It is noted that on November 4, 2020, the Partnership submitted its comments on the Draft Regulations to the Tax Authority.

- S.** Further to Note 12K7 to the Annual Financial Statements regarding an appeal that was filed by some of the Tamar partners (in this section, the "**Appellants**") with the Supreme Court from the judgment of the Tel Aviv District Court which denies the administrative petition that they filed against the IEC and the Leviathan partners in connection with the election of the Leviathan partners' bid as the winner of the competitive process for the supply of natural gas to the IEC (in this section, the "**Appeal**"). On April 23, 2020 the Leviathan partners and the IEC filed the summary of their arguments and the Appellants filed the responding summations on May 7, 2020.

A hearing on the appeal was held on May 21, 2020, in the context of which the parties notified the Court that advanced negotiations are being held between them towards a settlement and at the request of the parties, the Court decided to grant an extension in order to reach agreements, and ruled that insofar as the parties do not reach an agreement, a judgment shall be issued thereby.

The Court further ruled that if an agreement will not be reached, a judgment shall be issued, based on the written summations, without supplemental oral arguments. On August 24, 2020, the Supreme Court's judgment was issued, according to which the appeal was denied.

- T.** On April 23, 2020 a class action and a motion for certification thereof as a class action (the "**Certification Motion**") were filed with the Economic Department of the Tel Aviv District Court by a person claiming to hold participation units of the Partnership (the "**Petitioner**"). The action and the Certification Motion were filed against the Partnership, Delek Drilling Management (1993) Ltd. (the "**General Partner**"), Delek Group Ltd., Yitzhak Sharon (Tshuva), the directors of the General Partner of the Partnership (including the former Chairman of the Board) and the CEO of the General Partner of the Partnership (the "**Respondents**").

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

T. (Cont.):

It is claimed in the Certification Motion that, in the Partnership's reports, the Respondents failed to disclose the existence of a stipulation in the agreements for the sale of natural gas from the Leviathan and Tamar reservoirs to Dolphinus Holdings Limited² (the "**Sale Agreements**" and the "**Buyer**", respectively), according to which stipulation, in a year in which the average daily price of a Brent barrel (as defined in the Sale Agreements) falls below \$50 per barrel, the Buyer may reduce the minimum annual quantity purchased under the Sale Agreements down to 50% of the annual contractual quantity (for details about the Sale Agreements, see Notes 12C1C and 12C2F of the Annual Financial Statements). The Petitioner argues that the alleged disclosure failure in the Partnership's reports gives rise to causes of action under various sections of the Securities Law, 5728-1968, under the tort of breach of statutory duty and under the tort of negligence.

The principal remedy sought by the Certification Motion is compensation of the class the Petitioner seeks to represent for damage allegedly caused thereto and estimated, according to an opinion attached to the Certification Motion, at approx. ILS 55.5 million. The Petitioner further moves the court to award any other remedy in favor of the class, as deemed fit thereby in the circumstances. It is noted that according to the court's decision of September 13, 2020, the Respondents are required to file a reply to the Certification Motion by December 31, 2020, and the Petitioner is required to file a response to the reply two months thereafter. In the Partnership's estimation, based on the opinion of its legal counsel, chances of the Certification Motion being granted are lower than 50%.

- U. Further to Notes 12C1F and 12C1C to the Annual Financial Statements regarding the option given to Dolphinus to reduce the "Take or Pay" quantity in the circumstances described in such notes, the Partnership announced on July 26, 2020 that a demand by the Israel Securities Authority (ISA) for the provision of information and documents had been delivered to its offices in the context of an administrative inquiry vis-à-vis the Partnership.

It is noted that on November 10, 2020, the Partnership submitted a response to the said demand.

- V. Further to Note 12L2 to the Annual Financial Statements regarding the intention of the Ministry of Environmental Protection (in this section: the "**Ministry**") to impose administrative financial penalties on the operator of the Leviathan project for alleged noncompliance with the conditions of the platform's sea discharge permit, on April 27, 2020, the operator of the Leviathan project received a notice from the Ministry of the intention to impose four administrative financial penalties for alleged violations of the Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988 and the sea discharge permit granted to the Leviathan platform, with some of the alleged violations relating to the running-in period. On July 26, 2020, Noble submitted written arguments in response to the notice regarding the intention to impose a penalty. On November 12, 2020, the Ministry announced its decision to cancel two of the four penalties which the Ministry had intended to impose on the Leviathan partners, and to partially reduce the amount of the remaining two penalties.

² In June 2020, Dolphinus Holdings Limited ("**Dolphinus**") endorsed its agreements for export to Egypt, to Blue Ocean Energy, an affiliate of Dolphinus.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

V. (Cont.):

On May 20, 2020, the operator of the Leviathan project received a notice from the Ministry of the intention to impose an administrative financial penalty for alleged violations of the emission permit granted to the Leviathan platform and the Clean Air Law, 5768-2008 and the Commissioner's order issued thereunder in relation to the ongoing monitoring systems on the Leviathan platform.

The operator requested information about the claims made in the said penalty notice, due to which the date for filing of the arguments was deferred for 30 days after receipt of the information. Furthermore, on July 1, 2020, the operator received another notice from the Ministry of the intention to impose a financial penalty, for alleged violations of the conditions of the emission permit of the Leviathan platform and of the provisions of the Clean Air Law, with respect to the activation of flares on the production platform. On August 16, 2020, Noble filed with the Ministry its arguments regarding the aforesaid penalty. As of the date of approval of the Condensed Interim Financial Statements, the decision of the Ministry on the matter has yet to be received. It is noted that the said penalties are in amounts that are immaterial to the Partnership's scope of activity.

W. Further to Note 12K5B to the Annual Financial Statements regarding the date of recovery of the investment in the Tamar project, on May 12, 2020, the supervisors filed an urgent motion for provisional remedies (the "**Motion**"), whereby the District Court (Economic Department) in Tel Aviv-Jaffa was moved to order the Partnership and the General Partner of the Partnership to refrain and desist from transferring the increased overriding royalty³ to the royalty interest owners (which include Delek Group, Delek Energy, and Delek Royalties (2012) Ltd. (collectively: the "**Royalty Interest Owners**"), or alternatively, order them to transfer the increased overriding royalty to a trust account owned by the Partnership, at the very least until a decision on the principal claim the supervisors have filed against the Partnership, the General Partner of the Partnership and the Royalty Interest Owners, wherein it is alleged, *inter alia*, that the date of recovery of the investment in the Tamar project occurred later than the date determined by the Partnership. According to the supervisors' claim, the Motion is filed in view of an extreme and dramatic change of circumstances that has brought the Royalty Interest Holders to the brink of insolvency.

³ It is noted that as of the dates June 1, 2018 and December 1, 2019, the Partnership is paying the increased overriding royalty to Delek Royalties (2012) Ltd. (*in lieu* of Delek Energy) and to Study Funds for Teachers and Kindergarten Teachers – Managing Company Ltd., and to Study Funds for High School Teachers, Seminary Teachers and Supervisors – Managing Company Ltd. (*in lieu* of Delek Group), respectively.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

W. (Cont.):

The supervisors moved the Court to schedule an urgent hearing on the Motion in order to avoid and save the need for the issuance of an interim order until the hearing in the parties' presence. The Court has denied the Motion. It is noted that the responses of the Partnership, the General Partner of the Partnership and the Royalty Interest Owners to the Motion were filed on May 19, 2020. In the response of the Partnership and the General Partner of the Partnership it is argued that the Motion should be denied, *inter alia*, because in a situation where any of the Royalty Interest Owners becomes insolvent, the Partnership has a set-off right under the law of insolvency, which secures any amount ruled in its favor in the supervisors' claim. On May 27, 2020, the supervisors' reply to such responses was filed. The Court ruled that a hearing on the Motion would take place on June 24, 2020. On June 23, 2020, the Supervisor filed with the court a motion and notice in agreement with the Royalty Interest Owners, whereby an agreement has been reached between the supervisors and the Royalty Interest Owners which, for the time being, obviates the need to decide the matters in dispute between the parties in the Motion. On the very same day, the court approved the agreement as aforesaid, canceled the scheduled hearing, and ordered the parties to give notice, within 10 days, as to whether they have reached a comprehensive agreement and in what manner they wish to move forward with the hearing of the supervisor's claim.

On July 5, 2020 the parties filed an agreed notice of extension for the filing of such notice until July 9, 2020. On July 6, 2020, the court granted the motion.

On July 9, 2020 the parties filed an agreed notice whereby the supervisors and the Partnership have completed the preliminary proceedings between them, whereas the supervisors and the Royalty Interest Owners requested an extension for the completion of the preliminary proceedings between them until July 23, 2020. On July 12, 2020 the court granted this motion too.

On July 24, 2020 the supervisors filed a motion for the scheduling of dates for the filing of evidence and for the hearing of evidence in the case, while noting the correct procedural order in their opinion. On July 24, 2020 the court allowed the Partnership, the General Partner of the Partnership and the Royalty Interest Owners, to respond to the said motion within 10 days. On August 3, 2020, the Royalty Interest Owners filed their answer, suggesting a different procedural arrangement. The core dispute pertains to the question of whether the supervisors may file evidence also in the counterclaim, even though they are not a party thereto (since the counterclaim was filed by the Royalty Interest Owners against the Partnership) On August 3, 2020 the court granted a right to respond to the said answer by August 17, 2020. On August 17, 2020, the supervisors filed a response to the said answer. On August 18, 2020, the Court granted the supervisors' Motion and ruled that evidence on their behalf in relation to their claim as well as evidence on behalf of the Royalty Interest Owners, in relation to the counterclaim, shall be filed within 45 days, and 45 days thereafter, evidence will be filed on behalf of the defendants in the claim and counterclaim. After that, dates will be set for the hearing of the evidence in the case. The Court also scheduled a pretrial hearing for December 20, 2020.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

W. (Cont.):

On September 2, 2020, the Royalty Interest Owners filed an agreed stipulation according to which the supervisors' evidence in the claim and the evidence of the Royalty Interest Owners in the counterclaim will be filed by November 24, 2020, and the evidence of the defendants in the supervisors' claim and in the counterclaim will be filed by January 10, 2021. On September 2, 2020, the court approved the said stipulation and postponed the pretrial session to January 26, 2021.

- X.** Further to Note 12K9 to the Annual Financial Statements regarding a class action and a motion for the certification thereof as a class action suit against the Partnership and against Noble and against the other holders of the Tamar project and the Leviathan project (as parties against which no remedy is sought), in connection with the competitive process for the supply of natural gas conducted by IEC and in connection with a possible amendment to the agreement for the supply of gas from the Tamar project to IEC, as agreed by the other holders of the Tamar project, with no involvement on the part of the Partnership and Noble, it is noted that according to the court's decision of September 14, 2020, all of the respondents are required to file their responses to the certification motion by December 15, 2020. In the Partnership's estimation, based on the opinion of its legal counsel, the chances of the certification motion's being granted are lower than 50%.
- Y.** Further to Note 12K8 to the Annual Financial Statements, regarding an appeal of the Homeland Guards association (the "**Petitioner**") to the Supreme Court from the District Court's judgment in connection with the emission permit for the Leviathan platform, the Supreme Court scheduled the appeal for a hearing on March 18, 2021, and on October 26, 2020, the Petitioner filed summations and Noble's summations are due by January 27, 2021. In the estimation of the Partnership's legal counsel, the chances of the appeal's being dismissed are greater than its chances of being granted.
- Z.** Further to Note 12K8 to the Annual Financial Statements, regarding the judgment at the District Court denying the petition which was filed by the Zichron Yaakov Local Council, Zalul Environmental Association, the Jisr az-Zarqa Local Council, the Megiddo Regional Council, the Pardes Hanna-Karkur Local Council and the Hefer Valley Regional Council (in this section: the "**Petition**" and the "**Judgment**") against the Head of the Air Quality Division at the Ministry of Environmental Protection and against Noble in a motion moving the court to order the nullity of Leviathan's emission permit, and to rule that no activity entailing the emission of gases shall be carried out on the Leviathan platform. It is noted that on June 22, 2020, an appeal was filed from the Judgment with the Supreme Court (in this section: the "**Appeal**").

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

Z. (Cont.):

The Appeal seeks amendment of the emission permit and an order that monitoring of the pollutants emitted from the platform not be performed by Noble or an entity with which it has engaged, but rather by the Head of the Air Quality Division at the Ministry of Environmental Protection or an entity chosen by him; as well as amendment of the emission permit such that all of the instructions pertaining to maintenance, environmental management, environmental protection and identification and handling of leaks shall be determined in the emission permit itself and not in an external plan. The Appeal is pending before the Supreme Court, and meanwhile a hearing was scheduled for June 30, 2021. It is noted that in November 2020, the petitioners filed a motion to bring the hearing forward, and that no decision has yet been issued on the motion.

The Partnership's legal counsel estimate that the chances of the Appeal being denied are greater than its chances of being granted.

AA. Further to Note 12K1 to the Annual Financial Statements, regarding a claim filed by the Partnership and Noble (in this section: the “**Plaintiffs**”) against the State of Israel, through its representatives from the Ministry of Energy (in this section: the “**Defendant**”), which mainly includes the restitution of royalties overpaid by the Plaintiffs, and under protest, to the Defendant, in respect of revenues deriving from gas supply agreements which were signed between third-party customers and the Yam Tethys partners, it is noted that on September 13, 2020, the Plaintiffs filed a motion for an extension for the filing of the main summations on their behalf until November 30, 2020 (instead of September 30, 2020), and on the same date, the court approved the Plaintiffs' motion as aforesaid. In addition, on November 13, 2020, the Plaintiffs filed another motion for an extension for the filing of the main summations on their behalf until January 30, 2021 (instead of September 30, 2020), and on November 15, 2020, the court approved the Plaintiffs' said motion. Accordingly, the Defendant may file responding summations on its behalf by April 30, 2021 (taking into consideration the court recess days), while the Plaintiffs will be entitled to file summations on their behalf in response to the Defendant's summations by May 18, 2021.

BB. Further to Note 12K4 to the Annual Financial Statements, regarding a class action and a motion for class certification filed in relation to the issuance of Tamar Petroleum shares, on July 21, 2020, a pretrial hearing was held in the certification motion, in which the respondents moved that the Court decide on the dismissal arguments raised in the answers to the certification motion. The Court ruled that the motions for summary dismissal are referred for decision.

On August 3, 2020, the petitioners filed a motion for a 45-day postponement for the filing of a motion for amendment of the certification motion. On August 17, 2020, the respondents' response to the motion for a postponement was filed, in which they objected to the motion. The court has not yet issued its decision regarding this notice. On September 29, 2020, the petitioners filed an update notice whereby they would file a motion for amendment of the certification motion within 21 days by joining another petitioner which participated in the issuance. On September 30, 2020, the respondents filed their response in which they objected to this notice. The court has not yet issued its decision on the matter.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 4 – Additional Information (Cont.):

BB. (Cont.):

On November 1, 2020, the petitioners filed a motion for amendment of the certification motion (the “**Amendment Motion**”). The Amendment Motion seeks to join to the certification motion another petitioner, which participated in the issuance, unlike the current petitioners which did not take part in the issuance. In addition, the Amendment Motion seeks to increase the amount of the alleged damage to U.S. \$153 million. On November 2, 2020, the court ordered the respondents to respond to the Amendment Motion by November 23, 2020, and on November 12, 2020, the respondents filed a motion for extension of the timeframe for the filing of their responses to the Amendment Motion until December 23, 2020, and for extension of the timeframe for the filing of the petitioners’ reply to the responses until January 17, 2021, accordingly. On November 12, 2020, the court granted the said motion. In the estimation of the Partnership’s legal counsel, the Partnership’s exposure due to the certification motion is lower than 50%.

CC. Further to Note 12K10 to the Annual Financial Statements with regard to a request by Oil Refineries Ltd. (“**ORL**”) to launch an arbitration against EMG in relation to an agreement to sell natural gas that was signed between them on December 12, 2010, in the report period, ORL updated the estimated amount of the damage from approx. \$304 million to approx. \$450 million, and filed a secondary claim alleging that insofar as a limit of liability applies, as defined in the agreement, the limit will be in the sum of approx. \$45 million. Note that according to EMG’s argument, even if it will be ruled that ORL is entitled to damages for the damage it incurred, the amount of the damages is limited to approx. \$20 million pursuant to the terms of the aforesaid agreement.

In the estimation of the Partnership’s legal counsel, the chances of the claim and the secondary claim being granted are lower than their chances of being dismissed.

DD. Further to Note 12K3 to the Annual Financial Statements regarding a motion for class certification alleging that the merger transaction between the Partnership and Avner Oil Exploration – Limited Partnership (in this section: “**Avner**”) was approved in an unfair proceeding, and the consideration that was paid to the Avner minority unit holders, as was determined in the merger agreement, is unfair, it is noted that in accordance with the court’s decision of October 1, 2020, the trial hearings will be held on March 9, 2021 and March 10, 2021.

EE. On June 1, 2020, the special and annual general meeting approved, *inter alia*, the reappointment of the Supervisor for a three-year period including the terms of his office and employment.

FF. On September 10, 2020, the Compensation Committee and the Board of Directors of the Partnership’s General Partner approved an annual bonus for 2019 in the sum of ILS 2,169 thousand for the General Partner’s CEO.

GG. On November 1, 2020, the General Partner’s Board of Directors approved a distribution to the limited partner in the sum of ILS 1 million, which will be used for payment of the supervisor’s fee and the trustee’s fee and expenses in 2021, in accordance with the provisions of the trust agreement, which was paid on November 9, 2020.

Delek Drilling – Limited Partnership**Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)****Note 4 – Additional Information (Cont.):**

HH. On November 17, 2020, the Board of Directors of the General Partner approved, after receiving the recommendation of the Financial Statements Review Committee of the Partnership's General Partner, a profit distribution in the sum of \$65 million (\$0.055375 per participation unit of the Partnership), while the record date for the distribution is November 25, 2020. The profit distribution as aforesaid will be performed in December 2020.

Note 5 – Financial Instruments:**Fair value of financial instruments:**

- A.** The fair value of the financial instruments presented in the Condensed Interim Financial Statements is at or around their book value, with the exception of issued bonds whose fair value as of September 30, 2020 is approx. \$3,472 million (as of December 31, 2019: approx. \$1,390 million; as of September 30, 2020: approx. \$1,381 million), and whose book value is approx. \$3,360 million (as of December 31, 2019: approx. \$1,351 million; as of September 30, 2019: approx. \$1,366 million).
- B.** Set forth below are figures regarding the fair value hierarchy of the financial instruments measured at fair value which were recognized in the Condensed Interim Statements of Financial Position:

	September 30, 2020		
	Level 1	Level 2	Level 3
	Unaudited		
	Total		
Financial assets at fair value through profit or loss:			
- Royalties receivable from the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	-	179,000
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	71,900	-
Total financial assets at fair value through profit or loss	-	71,900	179,000
Financial assets at fair value through other comprehensive income:			
- Investments in equity instruments designated for measurement at fair value through other comprehensive income	12,508	-	-
Total financial assets	12,508	-	-

Delek Drilling – Limited Partnership**Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)****Note 5 – Financial Instruments (Cont.):****Fair value of financial instruments (Cont.):****B. (Cont.):**

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
	Unaudited			
Financial assets at fair value through profit or loss:				
- Bonds	9,241	-	-	9,241
- Royalties receivable from the Karish and Tanin leases (see Note 4K above)	-	-	139,800	139,800
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	80,698	-	80,698
Total financial assets at fair value through profit or loss	9,241	80,698	139,800	229,739
Financial assets at fair value through other comprehensive income:				
- Investments in equity instruments designated for measurement at fair value through other comprehensive income	51,195	-	-	51,195
Total financial assets	60,436	80,698	139,800	280,934
Financial liabilities at fair value through other comprehensive income:				
- Cash flow hedging transactions in connection with financing interest for the Leviathan project	-	-	6,208	6,208
Total financial liabilities	-	-	6,208	6,208

Delek Drilling – Limited Partnership**Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)****Note 5 – Financial Instruments (Cont.):****Fair value of financial instruments (Cont.):****B. (Cont.):**

	December 31, 2019		
	Level 1	Level 2	Level 3
	Audited		
	Total		
Financial assets at fair value through profit or loss:			
- Royalties receivable from the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	-	161,900
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	84,700	-
Total financial assets at fair value through profit or loss	-	84,700	161,900
Financial assets at fair value through other comprehensive income:			
- Investments in equity instruments designated for measurement at fair value through other comprehensive income	46,354	-	-
Total financial assets	46,354	84,700	161,900
Financial liabilities at fair value through other comprehensive income:			
- Cash flow hedging transactions in connection with financing interest for the Leviathan project	-	-	5,523
Total financial liabilities	-	-	5,523

Delek Drilling – Limited Partnership**Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)****Note 5 – Financial Instruments (Cont.):****Fair value of financial instruments (Cont.):****B. (Cont.):**

	For the nine-month period ended September 30, 2020		
	Royalties based on Future Production	Cash Flow Hedging Transactions	Total
		Unaudited	
Balance as of January 1, 2020 (audited)	161,900	(5,523)	156,377
Re-measurement recognized in profit or loss	17,100	(34)	17,066
Re-measurement recognized in other comprehensive income	-	(4,757)	(4,757)
Disposals	-	10,314	10,314
Balance as of September 30, 2020	179,000	-	179,000

Adjustment in respect of fair value measurements classified as Level 3 in the fair value hierarchy of financial instruments:

	For the nine-month period ended September 30, 2019			
	Structured Deposits	Royalties based on Future Production	Cash Flow Hedging Transactions	Total
				Unaudited
Balance as of January 1, 2019 (audited)	4,974	113,100	-	118,074
Re-measurement recognized in profit or loss	26	26,700	(21)	26,705
Re-measurement recognized in other comprehensive income	-	-	(6,187)	(6,187)
Dispositions/proceeds	(5,000)	-	-	(5,000)
Balance as of September 30, 2019	-	139,800	(6,208)	133,592

Delek Drilling – Limited Partnership**Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)****Note 5 – Financial Instruments (Cont.):****Fair value of financial instruments (Cont.):****B. (Cont.):**

	For the three-month period ended September 30, 2020		
	Royalties based on Future Production	Cash Flow Hedging Transactions	Total
	Unaudited		
Balance as of July 1, 2020	169,597	(11,734)	157,863
Re-measurement recognized in profit or loss	9,403	(34)	9,369
Re-measurement recognized in other comprehensive income	-	1,454	1,454
Disposals	-	10,314	10,314
Balance as of September 30, 2020	179,000	-	179,000

	For the three-month period ended September 30, 2019			
	Structured Deposits	Royalties based on Future Production	Cash Flow Hedging Transactions	Total
	Unaudited			
Balance as of July 1, 2019	-	130,400	(6,227)	124,173
Remeasurement recognized in profit or loss	-	9,400	(10)	9,390
Remeasurement recognized in other comprehensive income	-	-	29	29
Balance as of September 30, 2019	-	139,800	(6,208)	133,592

Delek Drilling – Limited Partnership**Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)****Note 5 – Financial Instruments (Cont.):****Fair value of financial instruments (Cont.):****B. (Cont.):**

	For the Year ended December 31, 2019			
	Structured Deposits	Royalties based on Future Production	Cash Flow Hedging Transactions	Total
	Audited			
Balance as of January 1, 2019	4,974	113,100	-	118,074
Re-measurement recognized in profit or loss	26	48,800	(373)	48,453
Dispositions/proceeds	(5,000)	-	-	(5,000)
Re-measurement recognized in other comprehensive income	-	-	(5,150)	(5,150)
Balance as of December 31, 2019	-	161,900	(5,523)	156,377

C. Natural gas and condensate prices risk:

The prices paid by consumers for the natural gas in the reservoirs in which the Partnership is a partner are derived, *inter alia*, from the electricity production tariff to which the gas agreements for private electricity customers are linked, from the U.S. CPI, and from the Brent barrel price (the “**Indices**”). For details on the various linkages in the natural gas price formulas, see Notes 12C1 and 12C2 to the Annual Financial Statements. In connection with the electricity production tariff, it is noted that the frequent methodological changes made by the PUA-E to the method of calculation thereof make its predictability difficult, and may lead to disputes between gas suppliers and customers in connection with the method of calculation thereof.

A decline in the electricity production tariff (*inter alia*, as a result of an adjustment to be sought by IEC, if sought, to the price in accordance with the mechanism set forth in the agreement signed therewith as stated in Note 12C1B to the Annual Financial Statements) and/or the Brent prices and/or the U.S. CPI and/or an increase in the ILS/\$ exchange rate (a depreciation of the ILS to the dollar) may have an adverse effect on the Partnership’s income from the existing and future gas sale agreements. With respect to the fixing of the IEC price, see Note 12C1B9 to the Annual Financial Statements as well as Note 4D above in connection with the decision of the Competition Commissioner. In addition, a material change in the prices of other energy sources (including coal and other gas substitutes), the reforms and the decisions related to the electricity market, including changes in the environmental laws, may cause a change in the consumption model of IEC and of other larger customers, which may reduce the demand for natural gas and lead to a decline in the prices of natural gas in the market.

Delek Drilling – Limited Partnership

Notes to the Condensed Interim Financial Statements as of September 30, 2020 (Dollars in thousands)

Note 5 – Financial Instruments (Cont.):

Fair value of financial instruments (Cont.):

D. Cash flow hedging transactions:

Further to Note 22F2 to the Annual Financial Statements, regarding interest rate swap (IRS) transactions, and in view of the completion of the refinancing of the loan for financing of the Leviathan project as stated in Note 4A above, on August 18, 2020, the Partnership paid the hedging transactions that were estimated at approx. \$10.3 million as of the repayment date. In accordance with the aforesaid, the balance of the expense for the transactions was carried from the statement of comprehensive income to the statements of profit or loss in the financial expenses item.

Note 6 – Subsequent Events

- A.** For details on the work plan in the New Ofek license, see Note 3B6B.
- B.** For details on the Partnership's plan to buy Series A bonds, see Note 4C.
- C.** For details on proceedings vis-à-vis the Competition Authority and the Tamar partners in connection with the sale of gas to the IEC and separate marketing from the Tamar reservoir, see Note 4D.
- D.** For details on an update regarding the volume of resources attributed to the Karish, Tanin and Karish North reservoirs, see Note 4K.
- E.** For details on the impact of the draft Income Tax Regulations (Rules for Calculation of Tax on the Holding and Sale of Participation Units in an Oil Exploration Partnership), see Note 4R.
- F.** For details on a motion to amend a class action and a motion for class certification in connection with the issue of the Tamar Petroleum shares, see Note 4BB.
- G.** For details on a resolution by the board of directors of the Partnership's general partner in connection with a distribution to the limited partner, see Note 4GG.
- H.** For details on the decision of the Board of Directors of the Partnership's General Partner in connection with a profit distribution, see Note 4HH.



Report on the Effectiveness of Internal Controls for Financial Reporting and Disclosure



2020

This report is a translation of Delek Drilling - Limited Partnership's Hebrew-language Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure pursuant to Regulation 38C(a) of the Securities Regulations (Immediate and Periodic Reports), 5730-1970. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure pursuant to Regulation 38C(a) of the Securities Regulations (Immediate and Periodic Reports), 5730-1970:

The management, under the supervision of the board of directors of the general partner in Delek Drilling – Limited Partnership (the “**General Partner**” and the “**Partnership**”, respectively), is responsible for setting and maintaining proper internal control over financial reporting and disclosure at the Partnership.

For this purpose, the members of management are:

1. Gabi Last, Chairman of the Board of the General Partner;
2. Yossi Abu, CEO of the General Partner;
3. Yossi Gvura, Deputy CEO and Market Risk Manager;
4. Yaniv Friedman, Deputy CEO.

Internal control over financial reporting and disclosure consists of controls and procedures existing at the Partnership, designed by, or under the supervision of, the CEO and the most senior financial officer, or by anyone actually performing such functions, under the supervision of the board of directors of the General Partner, and which are designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the reports according to the provisions of the law, and to ensure that information which the Partnership is required to disclose in reports released thereby according to the law is gathered, processed, summarized and reported within the time frames and in the format set forth by the law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information which the Partnership is thus required to disclose, is gathered and transferred to the management of the General Partner, including the CEO and the most senior financial officer, or anyone actually performing such functions, in order to enable the timely decision making in reference to the disclosure requirements.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide absolute assurance that misrepresentation or omission of information in the reports will be avoided or discovered.

In the quarterly report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the quarterly report for the period ended June 30, 2020 (the “**Most Recent Quarterly Report on Internal Control**”), the internal control was found to be effective.

Until the date of the report, no occurrence or issue were brought to the knowledge of the board or management of the General Partner, which may change the evaluation of the effectiveness of the internal control, as presented in the Most Recent Quarterly Report on Internal Control;

As of the date of the report, based on the said Most Recent Quarterly Report on Internal Control, and based on information which was brought to the knowledge of the management and board of the General Partner as aforesaid, the internal control is effective.

Statement of CEO pursuant to Regulation 38C(d)(1):

Statement of Managers

Statement of CEO

I, Yossi Abu, CEO of the General Partner, represent that:

- (1) I have reviewed the quarterly report of Delek Drilling – Limited Partnership (the “**Partnership**”) for Q3/2020 (the “**Reports**”);
- (2) To my knowledge, the Reports do not contain any misrepresentation nor an omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports;
- (3) To my knowledge, the financial statements and other financial information included in the Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Partnership for the periods and as of the dates covered by the Reports;
- (4) I have disclosed to the Partnership’s auditors, the board of directors and the audit and financial statements review committees of the General Partner in the Partnership, based on my most current evaluation of internal control over financial reporting and disclosure:
 - (a) Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure which may reasonably adversely affect the Partnership’s ability to gather, process, summarize or report financial information in a manner which casts a doubt on the reliability of the financial reporting and preparation of the financial statements in conformity with the provisions of the law; and –
 - (b) Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;
- (5) I, myself or jointly with others in the General Partner of the Partnership:
 - (a) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, which are designed to ensure that material information in reference to the Partnership is brought to my knowledge by others in the Partnership, particularly during the preparation of the Reports; and –
 - (b) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, which are designed to reasonably ensure reliability of financial reporting and preparation of the financial statements in conformity with the provisions of the law, including in conformity with GAAP;

- (c) No event or issue have been brought to my attention that occurred during the period between the date of the most recent report (the quarterly report for June 30, 2020) and the date hereof, which can change the conclusion of the board and management of the Partnership's General Partner with regard to the effectiveness of internal control over the Partnership's financial reporting and disclosure.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

November 17, 2020

Yossi Abu, CEO

Statement of the most senior financial officer pursuant to Regulation 38C(d)(2):

Statement of Managers

Statement of the Most Senior Financial Officer

I, Yossi Gvura, Deputy CEO, represent that:

- (1) I have reviewed the interim financial statements and the other financial information included in the interim reports of Delek Drilling – Limited Partnership (the “**Partnership**”) for Q3/2020 (the “**Reports**” or the “**Interim Reports**”);
- (2) To my knowledge, the interim financial statements and the other financial information included in the Interim Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports;
- (3) To my knowledge, the interim financial statements and the other financial information included in the Interim Reports adequately reflect, in all material respects, the financial position, operating results of operations and cash flows of the Partnership for the periods and as of the dates covered by the Reports;
- (4) I have disclosed to the Partnership’s auditors and to the board of directors and the audit and financial statement review committees of the General Partner in the Partnership, based on my most current evaluation of internal control over financial reporting and disclosure:
 - (a) Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure, insofar as it relates to the interim financial statements and the other financial information included in the Interim Reports, which may reasonably adversely affect the Partnership’s ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of the financial reporting and preparation of the financial statements in conformity with the provisions of the law; and –
 - (b) Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;

- (5) I, myself or jointly with others in the General Partner of the Partnership:
- (a) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, which are designed to ensure that material information in reference to the Partnership is brought to my knowledge by others at the Partnership, particularly during the preparation of the Reports; and
 - (b) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, which are designed to reasonably ensure reliability of financial reporting and preparation of the financial statements in conformity with the provisions of the law, including in conformity with GAAP;
 - (c) No event or issue have been brought to my attention, that occurred during of the period between the date of the most recent report (the quarterly report for June 30, 2020) and the date hereof, pertaining to the interim financial statements and any other financial information included in the Interim Reports, which could, in my opinion, change the conclusion of the board and management of the Partnership's General Partner with regard to the effectiveness of internal control over the Partnership's financial reporting and disclosure.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

November 17, 2020

Yossi Gvura, CPA
Deputy CEO



Valuation



2020

Delek Drilling - Limited Partnership

Valuation of Royalties

From the sale of the I/16 “Tanin” and I/17 “Karish” Leases

November 2020

This document is a translation of the original Hebrew-language document of Giza Singer Even Ltd. of November 2020. It is prepared solely for convenience purposes. Please note that the Hebrew version is the binding version, and in any event of discrepancy – the Hebrew version shall prevail.

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1. Introduction and Disclaimer

1.1 General

This paper (the “**Paper**” and/or the “**Opinion**”) was prepared by GSE Financial Advisory Ltd. (“**GSE**”) for the purpose of valuation of the royalties to which the limited partnership Delek Drilling¹ (“**Delek Drilling**” and/or the “**Partnership**”) is entitled for the sale of its rights in the I/16 “Tanin” and I/17 “Karish” Leases (the “**Leases**”) as of September 30, 2020 (the “**Valuation Date**”) according to the management’s requirement. We are aware that the Paper is intended to be used by Delek Drilling, *inter alia*, for quarterly and periodic financial statements, and therefore we agree that the Paper will be referred to and/or included in any report released by the Partnership and the interested parties therein, according to the Securities Law, 5728-1968 and the regulations thereunder.

For the preparation of the Paper we relied, *inter alia*, on representations, forecasts and explanations (the “**Information**”) which we received from the Partnership and/or anyone on its behalf. GSE assumes that this Information is reliable and it does not carry out an independent examination of the Information, nor have we become aware of anything which could indicate it being unreasonable. The Information was not examined independently, and therefore the Paper furnished to you does not constitute verification to the correctness, integrity and accuracy of this Information. An economic valuation is supposed to reflect in a reasonable and fair manner a given situation at a certain time, based on known data and while referring to basic assumptions and forecasts which were evaluated.

This Opinion includes a description of the methodology and the main assumptions and analyses which were used for the determination of the fair value of the consideration to which the Partnership is entitled. However, the description does not purport to be a full and detailed description of all of the procedures which we implemented upon the formulation of the Opinion.

This Paper does not constitute a due diligence inspection and does not replace it. Furthermore, the Paper is also not intended to determine the value of the consideration for the specific investor and it does not constitute legal advice or opinion.

The Paper does not include accounting auditing regarding the compliance with the accounting principles. GSE Financial Advisory is not responsible for the manner of accounting presentation of the financial statements of the Partnership regarding the accuracy and integrity of the data and the implications of such accounting presentation, if any.

Should the Information and data on which GSE relied, be incomplete, inaccurate or unreliable, the results of this Paper may change. We reserve the right for ourselves, to re-update the Paper in view of new data which were not presented to us. For the avoidance of doubt, this Paper is valid as of the date of signing hereof only.

¹ On May 17, 2017, Delek Drilling merged with the partnership Avner Oil Exploration – Limited Partnership (“**Avner**”, hereinafter jointly: the “**Partnerships**”) and as a result, Avner partnership was stricken off with no dissolution.

It is emphasized that the Information specified in this Paper, including with respect to forecasts and the primary commercial terms in the agreement for the sale of the reservoirs, its total financial scope, the rights transferred thereunder, the royalties agreed therein, and the fulfilment of the conditions precedent therein, constitutes forward-looking information in the meaning thereof in the Securities Law, 5728-1968, of which there is no certainty that it will materialize, in whole or in part, in the said manner or otherwise. The actual performance of the said Information may differ materially due to various factors such as delays in the timetables for the development of the reservoirs, etc.

We hereby confirm that we have no personal interest and/or dependence on the Partnership and/or on the general partner in the Partnership, apart from the fact that we are receiving a fee for this Paper. Furthermore, we confirm that our fee is not dependent on the results of the Paper.

In the context of this engagement, the Partnership shall indemnify GSE in an aggregate amount that exceeds the amount that is three times the fee that was actually paid to us for this Paper, for any argument or claim that will be made against us and on which the valuation was based.

GSE shall bear no liability vis-à-vis the Partnership for any act, damage, lawsuits, undertakings, costs, expenses or loss that derive from, or refer in any manner whatsoever to the services that were provided in an aggregate amount that exceeds the amount that is three times the fee that was actually paid to us for this Paper.

Neither GSE nor any company controlled thereby directly and/or indirectly as well as any controlling shareholder, officer and employee therein, are responsible for any damage, loss or expense whatsoever, including direct and/or indirect, which will be incurred by anyone relying on the contents of this Paper in whole or in part.

1.2 Sources of information

The main sources of information used in the preparation of the Opinion are specified below:

- Financial statements of the Partnership
- Information regarding the terms of the transaction for the sale of the Partnership's rights in the I/16 Tanin and I/17 Karish leases
- Prospectuses released by Energean Oil & Gas plc (the parent company of Energean Israel Limited) of March 16, 2018 and of June 29, 2020, including Energean's report regarding the scope of the resources in the Karish and Tanin leases dated April 9, 2020, which refers to the reports prepared by Netherland Sewell and Associate Inc. ("NASI") and DeGolyer and MacNaughton ("D&M")
- Agreement for the sale of the rights in the Karish and Tanin Leases
- Immediate reports of publicly traded companies and public information released on websites (including Energean's website), journalistic articles or other public sources

- Internal sources and databases of Giza Singer Even
- Meetings and/or phone calls with office holders at the Partnership

1.3 Details of the valuating company

GSE Financial Advisory Ltd. Is a subsidiary of Giza Singer Even Ltd., which is a leading financial advisory and investment banking firm in Israel. The firm has extensive experience in the advising of the large companies, the prominent privatizations and the important transactions in the Israeli market, which it accrued over its thirty years of operation. Giza Singer Even operates in three fields, through independent business divisions: financial advisory; investment banking; analytical research and corporate governance.

The Paper was carried out by a team headed by CPA Eitan Cohen, a partner and head of the economic department at Giza Singer Even with experience of over 13 years in the fields of economic and business advisory, company valuations and financial instruments. In the past he served as the head of the economic department in an entrepreneurial company in the field of infrastructures and as a manager at the economic department of KPMG (Somekh Chaikin). Eitan is an accountant, holds a BA in economics and business administration from the Ben Gurion University and an MSc in Financial Mathematics from Bar Ilan University.

Sincerely,
GSE Financial Advisory
November 2020

2. Executive Summary

2.1 Background

Delek Drilling is a public limited partnership (in the meaning thereof in the Partnerships Ordinance) listed on the Tel Aviv Stock Exchange (TASE). The Partnership engages in the exploration, development and production of petroleum, natural gas and Condensate.

During the years 2012 and 2013 the Partnership reported to TASE that the Tanin and Karish gas reservoirs constitute natural gas discoveries.

Following the decision of the Israeli government on a framework for the increasing of the amount of natural gas produced from the Tamar natural gas field and the quick development of the Leviathan, Karish and Tanin natural gas fields and other natural gas fields (the “**Gas Framework**”), Delek Drilling and Avner Oil Exploration – Limited Partnership (“**Avner**”) (jointly, the “**Partnerships**”) (which jointly held (in equal shares between them) 52.941% of the reservoirs) and Noble Energy Mediterranean (“**Noble**”) (which held 47.059% of the reservoirs) were required, *inter alia*, to sell their holdings in the Karish and Tanin reservoirs in order to comply with the conditions which would entitle them to an exemption from several provisions of the Restrictive Trade Practices Law, 5748-1988 (the “**Restrictive Trade Practices Law**”).

On August 16, 2016, an agreement was executed for the sale of all of the rights in Karish and Tanin between the Partnerships and Energean, within which the Partnerships are entitled to consideration in the amount of \$148.5 million, comprising cash payment of \$40 million (paid on the date of the transaction closing) and \$108.5 million which will be paid spread into 10 annual equal payments plus interest, with this amount depending on the Purchaser’s decision to develop the reservoir, or on the date on which the Purchaser’s total expenses in respect of the development of the Leases will exceed \$150 million, whichever is earlier (the “**Debt Component**”). Furthermore, the Partnerships will be entitled to royalties from the revenues generated for the Purchaser from the sale of natural gas and Condensate produced from the Leases, at the rates of 7.5% (before the payment of petroleum profit levy) and 8.25% (after payment of petroleum profit levy), net of the rate of the existing royalties², by which the Partnership is charged regarding the original share of Delek Drilling and Avner in the Leases (the “**Royalties**”). The first payment for the Debt Component was made by Energean to Delek Drilling on March 29, 2018, and has since been regularly paid each year on that date.

Following are the quantities of natural gas and hydrocarbon liquids (Condensate and natural gas liquids) at the Karish and Tanin reservoirs (100%) as released in Energean’s report of April 9, 2020 of Energean Oil & Gas plc³, the parent company of Energean Israel Limited⁴ (“**Energean**” and/or the “**Purchaser**”):

² As defined in the reports of Delek Drilling and Avner to the TASE on December 25, 2016.

³ <https://www.energean.com/media/3774/20200409-karish-north-cpr-and-submission-of-fdp.pdf>. Note that on November 10 Energean released an announcement on the scope of updated resources in the Karish, and Tanin leases <https://www.londonstockexchange.com/news-article/ENOG/independent-cpr-on-karish-karish-north-and-tanin/14749552>. The proximity of the release to the date of release of the valuation, the changes in the content of the liquids, the classification and location of the gas resources, alongside the fact that the release did not include a full report by an external and objective resource evaluator, mandate further examination of the



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Lease	Reserves and Contingent Resources	
	Natural Gas (BCM)	Hydrocarbon Liquids (MMBBL)
	2P+2C	2P+2C
Karish Center	42.6	38.5
Karish North	33.7	39.4
Tanin	22.2	4.1
Total	98.5	82.0

2.2 Result of the valuation

The value of the Royalties in the transaction of sale of the Karish and Tanin Leases was estimated through the Discounted Cash Flow method, while adjusting the discounting rates to the risks embodied in the development of the reservoirs and the cash flow (including the impact of the COVID-19 crisis). According to the assumptions specified in the Paper itself, the value of the Royalties as of September 30, 2020 is estimated at approx. \$179.0 million.

Below is the sensitivity analysis for the value of the Royalties in relation to the cap rate and the changes in the natural gas prices (U.S. \$ in millions):

		Change in the Natural Gas Price Vector (U.S. \$ per MMBTU)						
		(1.50)	(1.00)	(0.50)	-	0.50	1.00	1.50
Change in Cap Rates (in Base Points)	+250 bp	132.5	142.0	149.5	157.0	164.7	170.9	176.6
	+150 bp	139.5	149.5	157.4	165.2	173.4	180.0	186.0
	+50 bp	147.2	157.7	165.9	174.2	182.9	189.9	196.4
	-	151.2	162.1	170.5	179.0	187.9	195.2	201.9
	-50 bp	155.5	166.7	175.3	184.1	193.2	200.8	207.7
	-150 bp	164.6	176.5	185.5	194.8	204.6	212.7	220.2
	-250 bp	174.7	187.3	196.8	206.7	217.1	225.8	233.9

information included in the release, and therefore, the estimations included in this release were not taken into account in this valuation.

⁴ Formerly Ocean Energean Oil and Gas Ltd.

3. Description of the Transaction of Sale of Rights in the Karish and Tanin Leases

3.1 Description of the Partnership

Delek Drilling is a limited partnership (within the meaning thereof in the Partnerships Ordinance) listed on the TASE. The Partnership engages in the exploration, development and production of petroleum, natural gas and Condensate. Following is a description of the overriding royalties' mechanisms due to offshore petroleum assets applicable to the Partnership as of the date hereof with respect to its original share in the Karish and Tanin Leases (approx. 52.941%):

For 50% of the Revenues from the Karish and Tanin Leases	For 50% of the Revenues from the Karish and Tanin Leases
3% before the Investment Recovery Date ⁵ (0.794% of the total revenues of the reservoir)	6% (1.588% of the total revenues of the reservoir)
13% after the Investment Recovery Date (3.441% of the total revenues of the reservoir)	

3.2 The sold rights

On February 7, 2012, and on May 22, 2013, the Partnerships reported to TASE that significant quantities of natural gas were discovered in the Tanin-1 and Karish-1 wells in the area of the exploration licenses Alon A and Alon C, respectively. In December 2015, the Petroleum Commissioner at the Ministry of Energy award the holders of rights in the exploration licenses, Delek Drilling (26.4705%), Avner (26.4705%) and Noble (47.059%), the lease deeds of "Tanin" and "Karish", respectively. It is noted that in May 2017, Delek Drilling merged with Avner and consequently the Avner partnership was stricken off without dissolution.

⁵ The term "**Investment Recovery Date**" means the date after the signing of the agreement for the transfer of rights between the Partnership and Delek Energy Systems and Delek Israel (now Delek Group) which was signed in 1993 (as amended from time to time) according to which the Net Proceeds Value which the Partnership received or is entitled to receive for oil and/or gas and/or other valuable materials which were produced and used from the Petroleum Asset (i.e. – license or lease) where the finding is located, calculated in Dollars shall reach an amount which is equal to the full Value of All of the Partnership's Expenses in such Petroleum Asset calculated in Dollars.

The term "**Net Proceeds Value**" means the value of all of the proceeds as shall be approved by the accountants of the Partnership for oil and/or gas and/or other valuables which were produced and used from the Petroleum Asset (i.e. – license or lease) (the "**Gross Proceeds Value**") net of any and all production expenses thereof and royalties paid in respect thereof.

The term the "**Value of All of the Partnership's Expenses**" means all of the expenses incurred by the Partnership in the Petroleum Asset (i.e. – license or lease) where the oil and/or the gas and/or the other valuables are produced but excluding expenses (up to the Net Proceeds Value) which were deducted from the Gross Proceeds Value for the determination of the amount of the all of the Net Proceeds Value and as they shall be approved by the Partnership's accountants.

For details and elaboration regarding agreements pertaining to the payment of royalties to the State, to interested parties, and to third parties of the Partnership, see Section 7.27.12 of the periodic report for 2019 of Delek Drilling.

On August 16, 2015, a government resolution was made regarding a framework for the regulation of the natural gas market in Israel including with respect to the rights of the Partnership in the natural gas reservoirs Tamar, Leviathan, Karish and Tanin (the “**Gas Framework**” or the “**Framework**”). Within the Framework the gas and petroleum corporations active in the gas market in Israel, including the Partnerships, were granted an exemption from several provisions of the Restrictive Trade Practices Law given compliance with several conditions, including the sale of Karish and Tanin Leases within 14 months.

On November 14, 2015, the Partnerships announced that they purchased from Noble the right to sell the share of Noble in the Karish and Tanin Leases, in equal parts, in consideration for a total amount of approx. \$67 million. According to the agreement between the Partnerships and Noble, the latter will not be entitled to any further consideration for the sale of the rights to a third party.

On August 16, 2016, an agreement was executed for the sale of all of the rights in the Karish and Tanin Leases between Delek Drilling and Avner and Energean Israel Ltd. (formerly Ocean Energean Oil and Gas Ltd.), a company registered in Cyprus which is a subsidiary of Energean E&P Holdings Ltd. (“**Energean**” and/or the “**Purchaser**”)⁶. The main activity of the Purchaser is exploration, development and production of gas and petroleum reservoirs in Greece and other countries in the Balkan and Middle East area.

On December 27, 2016, the Partnerships announced that the closing conditions for the transaction were fulfilled. On March 27, 2018, Energean notified the Partnership of the adoption of an investment decision for the development of the Karish reservoir.

3.3 The consideration

Following is a description of the consideration components in the purchase agreement:

- a. The Purchaser will purchase from Delek Drilling and Avner (the “**Sellers**”) all of the rights of the Sellers and of Noble in Karish and Tanin Leases (the “**Sold Rights**”).
- b. In consideration for the Sold Rights, the Purchaser will pay the Sellers a total amount of \$148.5 million which will be received in the following manner:
 - i. Cash payment of \$10 million which was paid to the Sellers on the transaction closing date;
 - ii. An additional payment of \$30 million which was paid to the Sellers on the transaction closing date;
 - iii. The consideration balance (which is presented in the Partnership’s financial statements as a loan to Energean), in an amount of \$108.5 million, will be paid to the Sellers in ten annual equal installments plus interest according to the mechanism set in the agreement. These payments will be made immediately after the date on which a Final Investment Decision (FID) will be adopted regarding the development of the Leases, or on the date which the total

⁶ Energean Israel Ltd. serves as the operational arm of Energean E&P Holdings Ltd. in Israel.



expenses of the Purchaser in relation to the development of the Leases will exceed \$150 million, whichever is earlier;

- iv. Note that on March 27, 2108, Energean notified the Partnership of the adoption of an investment decision for the development of the Karish reservoir, and in March 2018, March 2019 and March 2020 it paid the Partnership the first, second and third payments, respectively.

The Purchaser will transfer to the Sellers royalties for natural gas and Condensate which will be produced from the Leases at a rate of 7.5% before payment of a petroleum profits levy by virtue of the Natural Resources Taxation Law (the “**Levy**”) and 8.25% after the commencement of payment of the Levy, net of the rate of the existing royalties⁷ **borne by the Partnerships in respect of their original share in the Leases**. Such rates are in ‘wellhead’ terms, while the effective payment rate is expected to be adjusted to hydrocarbon sales at the point of entry to the Israeli transmission system.

⁷ As defined in the reports of Delek Drilling and Avner to the TASE on December 25, 2016.

4. Description of the Business Environment

4.1 General

The natural resources exploration, development and production activity in Israel is subject to the provision of approvals under the Petroleum Law, 5712-1952 (the “**Petroleum Law**”) which controls the regulation in the field and defines the type of approvals given to defined field blocks and subject to the approval of a work plan for the performance of exploration and production work.

The natural gas sector in Israel began developing upon the discoveries of the natural gas reservoirs Noa and Mari B in the years 1999 and 2000, respectively. These discoveries allowed companies in the market, headed by the Israel Electric Corporation (“**IEC**”), to transition to more extensive use of natural gas instead of the use of more expensive contaminating fuels such as coal, diesel oil and fuel oil. The development of the sector was accelerated upon the discovery of the Tamar and Leviathan reservoirs in the years 2009 and 2010 respectively. These discoveries materially affect the energy independence of Israel and the development and expansion of uses of natural gas in the Israeli market.

Pursuant to the development of the industry, the natural gas sector in Israel is undergoing significant changes that include *inter alia* regulatory, economic and environmental changes. Within a few years, the natural gas in the Israeli economy has become the central component in the power production fuel basket, and a significant source of energy for the Israeli industry. The natural gas resources discovered in Israel are able to provide all of the gas needs of the domestic market in the coming decades and the majority of its energy needs and thus, significantly reduce the dependence of the State of Israel on foreign energy sources.

The economic merit of investments in exploration and development of natural gas reservoirs is largely influenced by the oil and gas prices worldwide, and the demand for natural gas in the domestic, regional and global market, and the ability to export natural gas which requires, *inter alia*, the discovery of gas resources in significant scopes and the engagement in long-term agreements for the sale of natural gas in significant quantities, that will justify the high cost of construction of such infrastructures.

The use of natural gas holds many benefits for the Israeli market, including:

- **Saving of energy costs in industry and in electricity production** – The low price of natural gas compared with currently common alternative fuels such as diesel oil and fuel oil, leads to significant saving of production costs, and thereby also to a decrease in the final product prices whose production costs mainly consist of the costs of electricity. Most of the power plants constructed in recent years in Israel generate electricity through turbines which are operated by natural gas combustion and are characterized by low construction costs⁸, shorter construction time, smaller areas of land⁹ and many operational advantages. In addition to the relatively low price, power plants operated by natural gas are more efficient than plants which are operated by other fuels and it therefore enables

⁸ About one half of the cost of a coal power plant, about one third of the cost of a nuclear power plant and about 15% of a wind energy operated plant.

⁹ The natural gas is transported by an underground pipe and unlike other fuels, requires no storage areas. Furthermore, power plants which are based on natural gas need a considerably smaller area compared to plants which are based on coal or solar energy.

power plants and enterprises to reach a high energetic efficiency level which is also ultimately reflected in cost saving¹⁰. According to the estimates of the Natural Gas Authority¹¹, the transition to natural gas in the years 2004-2019 saved the Israeli market an estimated total of approx. ILS 71.3 billion. Most of such saving derives from the electricity sector (approx. ILS 55.7 billion), total consumption by which in 2019 amounted to approx. 8.8 BCM, which represents 78% of the demand for natural gas. The rest of the amount saved due to the transition to use of natural gas is primarily attributed to industrial plants (approx. ILS 15.6 billion), total consumption by which in 2019 amounted to approx. 2.4 BCM which represents an increase of 20% versus 2018.

- **Clean energy** – The main substances emitted from the burning of natural gas are carbon dioxide and water vapor. Since coal and petroleum are more complex fuels, with higher ratios of Carbon and Nitrogen and Sulphur components, then upon their combustion more contaminants are released, including ash particles of materials which are not burned and are emitted into the atmosphere and add to the air pollution. Natural gas combustion on the other hand, releases a relatively small quantity of contaminants, and therefore the use thereof reduces the air pollution.
- **Energy independence** – The geopolitical characteristics of Israel make it an energetic island with limited ability to import fuels from neighboring countries, which forced it to rely for many years on costly fuels import from Europe. Israel's energetic isolation was somewhat reduced between the years 2008 and 2012 upon the commencement of supply of natural gas from Egypt, however, the sudden cut of supply illustrated the importance of the development of local energy sources. The development of the natural gas market in Israel provides the Israeli industry with energetic security in the long term and will reduce its dependence on international energy prices.
- **Natural gas as a governmental source of income through taxation** - The Israeli natural gas market is expected to directly benefit the local economy through governmental revenues from the taxation of the companies and from the VAT from sales to the ultimate consumer. Moreover, the Israeli market has a few unique taxation systems which apply to the natural gas sector, in addition to excise tax, which apply to natural gas, similarly to all of the other fuel products¹². Furthermore, according to the Petroleum Law, the State charges royalties at a rate of up to. 12.5% of the total sales of natural gas at the wellhead. Moreover, following the conclusions of the Sheshinski Committee the State is entitled to proceeds of petroleum and gas profits levy at a rate of up to 50% (depending, *inter alia*, on the corporate tax rate) of the revenues of the holders of the petroleum rights, net of royalties, operation costs and development costs.

¹⁰ A combined cycle power plant combining gas and steam turbines is characterized by an efficiency rate of 55%, significantly higher than power plants which are operated by other fuels. Cogeneration plants utilizing the thermal energy produced in the production process reach an efficiency rate of approx. 80%.

¹¹ https://www.gov.il/BlobFolder/reports/ng_2019/he/ng_2019.pdf.

¹² Other than the electricity and industry sectors in which consumers do not pay excise tax for the gas.

4.2 Customers

The natural gas market in Israel comprises several layers of consumers differentiated from each other in the nature of their activity and the characteristics of the natural gas consumption:

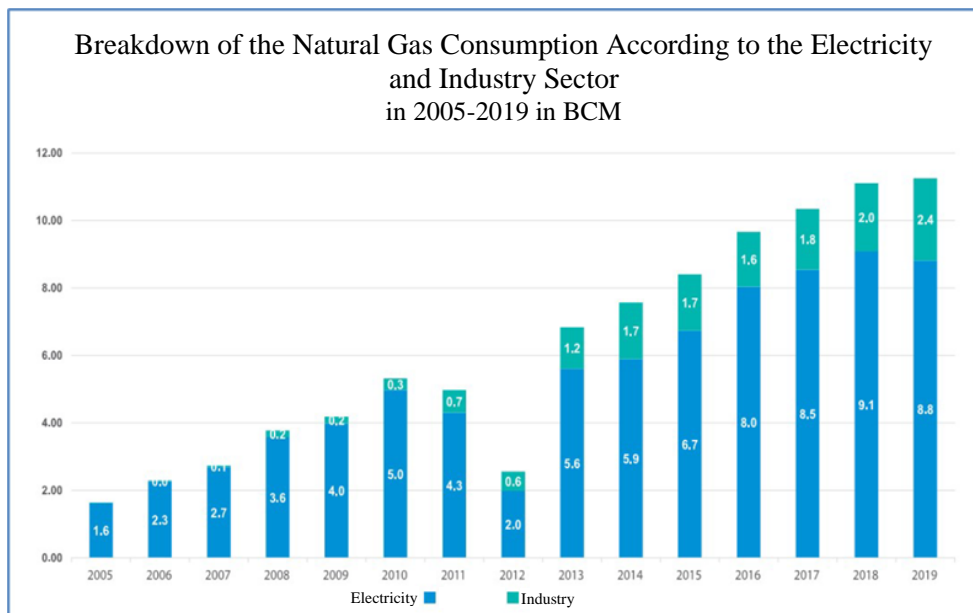
- **Israel Electric Corporation** – The IEC is a governmental company supervised by the Electricity Authority (“PUA-E”), *inter alia*, regarding the costs of inputs for electricity production, particularly, the costs of natural gas. In 2018, the IEC purchased approx. 4.66 BCM and in 2019 approx. 4.23 BCM of natural gas from the Tamar partnership (a decrease of approx. 9% relative to 2018) and also imported and consumed approx. 0.8 BCM of LNG in addition. The rate of electricity produced by the IEC through natural and liquefied gas is estimated in 2018 and 2019 at approx. 56.5% and approx. 53.1%, respectively¹³.
- **Independent power producers** – The independent power producers (“IPPs”) are divided into several types, according to the production technologies which they use: conventional IPP, cogeneration facilities, pumped energy, renewable energies IPPs and large enterprises that constructed power plants for themselves for which they received a self-production license. Section 93 of the Natural Gas Sector Law defines that natural gas sold to an independent power producer is a product subject to control under the Control of Prices of Commodities and **Services** Law, 5756-1996. In 2019, the consumption of the IPPs amounted to approx. 3.62 BCM, which represents approx. 32% of the overall consumption of natural gas in that year.
- **Large industry consumers** – This tier of consumers comprises several significant consumers, which are essential to the development of the Israeli gas sector. Consumers with significant power and reputation in the Israeli market, having extensive experience and knowledge pertaining to the operations of Israeli industry in general and the operations of the natural gas sector in Israel in particular. Most of the large industrial enterprises in the market executed agreements for the purchase of natural gas within the construction of private power plants at the enterprise’s premises, for the supply of the enterprise’s needs of electricity and heat (by generating steam from the residual heat of the power plants), constituting only part of the production capacity of the power plant, and the sale of the produced electricity to external consumers or to the IEC. Accordingly, the natural gas purchase agreements signed by most of the large industrial enterprises thus far also have the characteristics of agreements with private power plants. In 2019, natural gas consumption by the industry sector amounted to approx. 2.4 BCM, an increase of 20% compared with 2018. The increase chiefly derives from the connection of new consumers to the distribution network.¹⁴
- **Medium and small consumers** – The distribution networks’ consumers sector which includes mainly medium and small enterprises and businesses, is a relatively new sector in the natural gas sector which began executing agreements for purchase and infrastructure conversion performance only in recent years. These consumers typically consume low gas pressure, at a relatively small amount, non-continuous over a whole day

¹³ Source: 2019 financial statement of IEC.

¹⁴ Excluding gas consumption by industrial plants for electricity production purposes.

(24 hours), some of which not yet connected to the onshore transmission systems, or the distribution, and therefore consuming Condensed Natural Gas (CNG) – a temporary and not optimal solution, since the cost of consumption can reach twice the cost of the natural gas which is transmitted through the distribution network. It is noted that according to the regulation in this respect, some of these consumers are building or planning to build small scale, natural gas-fired power plants, which are intended to provide electricity and heat to the enterprise on the premises of which such power plants are built.

Chart 1 – Natural gas consumption in the years 2004-2019¹⁵



4.3 Demand forecast

Below are the main factors expected to motivate growth in the demand for natural gas:

4.3.1 Increase of demand in the electricity sector

In recent years, a trend is apparent of reduction of use of petroleum and coal distillates at the IEC power plants by the conversion thereof to production with natural gas. The aforesaid trend is led by the Ministry of Energy and Government decisions, as specified below:

- In December 2015, the Minister of Energy, Dr. Yuval Steinitz decided of the reduction of 15% use of coal for electricity production in 2016 compared with 2015). Commencing in 2017 another reduction of 5% occurred and in total, a reduction of 20% compared with the use made in 2015.
- In August 2016, the Minister of Energy announced his decision to shut down four coal production units of IEC upon the connection of three gas reservoirs to the shore and the construction of new natural gas operated power plants within up to six years. Following

¹⁵ Source: The Ministry of Energy <http://online.fliphtml5.com/dldee/idah/>

that, in September 2016, emission permits were received by the IEC under the Clean Air Law, 5768-2008 with respect to its coal power plants sites, which included, *inter alia*, an obligation to continue installing emission reduction measures, as well as the shutdown of units 1-4 in the coal power plant at the “Rabin Lights” site, no later than June 1, 2022.

- In November 2017, the Minister of Energy decided of principles of policy on the issue of minimal operation of coal production units, according to which natural gas electricity production shall be granted preference at any time to electricity production with coal, while operating the coal units at a minimal load which allows flexibility and reliability of the supply to the market.
- In March 2018, the Finance Committee of the Knesset and thereafter the Plenum of the Knesset approved the orders, in which it was provided, *inter alia*, that commencing on March 15, 2019 the excise tax on coal will be increased by approx. 125% in view of the government’s policy to gross up external costs of fuels and encourage the expansion of use of natural gas. In addition, it was decided that from January 1, 2024, the excise tax on compressed natural gas (CNG) will increase gradually, subject to the existence of no less than 25 CNG fueling stations that shall receive all of the approvals required for operation. It was further determined that from May 1, 2018, the reimbursement of excise on diesel oil, which is used mainly for transportation purposes, will gradually be cancelled. On February 20, 2019, the Minister of Finance signed an order postponing the expected rise in excise on coal, from March 2019 to 2021.
- In October 2018, the Minister of Energy presented a plan whose purpose is to lead to a reduction in the use of polluting energy, the principle of which is to decrease the use of polluting fuel products by 2030. According to the plan, targets have been set for the following sectors:
 - a. The electricity sector – Electricity production using 80% natural gas and 20% renewable energies as of 2030, with a final shutdown of the coal-fired power plants in Hadera and in Ashkelon in 2028.
 - b. The industry sector – Production of 95% of the energy and steam required by the industry by means of natural gas as of 2030.
 - c. The transportation sector – A gradual transition to electric cars and natural gas trucks and the imposition of an absolute ban on the import of cars that operate on polluting fuels as of 2030.
- In November 2019, the Minister of Energy announced that it is possible to shorten the timetables for the conversion of the coal power plants in Hadera and in Ashkelon to natural gas to 2025. Consequently, in that year, the coal age in the State of Israel is expected to end. The aforesaid decision shortens the timetables that were previously determined, by 4 years.

- On June 8, 2020 a joint notice was released by the Ministry of Energy and the Ministry of Environmental Protection¹⁶ on the Ministers' decision to instruct the IEC to expand the planned shutdown of the polluting coal-fired units 1-4 at the Orot Rabin site in Hadera, commencing from the second half of 2020 until the final shutdown thereof in 2022, thus bringing about another significant reduction of air pollutant emissions.
- On June 24, 2020, the Minister of Energy¹⁷ announced his decision to further reduce approx. 20% of the use of coal in IEC's power plants, as compared with 2019. Therefore, the use of coal in 2020 will not exceed 24.9% (compared with 30% in 2019).
- The updated forecast of the Electricity Authority, as presented in the 2019 annual report of the Electricity Authority¹⁸ that was released at the end of June 2020, expects that electricity production by natural gas is expected to rise considerably and reach approx. 83% in 2025.
- On July 29, 2020, the Minister of Energy signed an update to the policy principles in respect of targets for electricity production by renewable energies, such that the target for electricity production by renewable energies will be 30% of the total electricity consumption in 2030. The implementation of such policy may affect the demand for natural gas in the local market.
- On October 25, 2020, a government resolution was adopted on the subject of promotion of renewable energy in the electricity market, a resolution which was based *inter alia* on the policy principles set forth by the Minister of Energy as aforesaid, according to which, electricity production from renewable energies in 2030 shall be 30% of the total electricity consumption, and electricity production from natural gas shall be 70% of the total electricity consumption. In addition, the interim goal was updated such that electricity production from renewable energies shall be 20% by the end of 2025.

4.3.2 Transition to use of natural gas in the industry

- Natural gas is a central component of the industry's energy consumption (approx. 84% of the total use of fuels in the Israeli industry in 2018). The plants are connected to natural gas through transmission and distribution networks, with the transmission and distribution fees supervised by the Natural Gas Authority.
- According to an activity summary report of the Natural Gas Authority at the Ministry of Energy for 2019, until now, throughout Israel, approx. 508 km of distribution pipelines were laid out (of which, approx. 158 km in 2019) and approx. 737 km of transmission pipelines (of which, approx. 37 km in 2019). An expansion of the layout of the natural gas distribution network may enable the connection to the network, by 2030, of hundreds of potential industrial consumers whose consumption may amount to approx. 0.72 BCM per year, which represent approx. 80% of the light industrial consumption potential.

¹⁶ Website of the Ministry of Energy, Spokesman's Notice of June 8, 2020:
https://www.gov.il/he/departments/news/press_080620

¹⁷ Website of the Ministry of Energy, Spokesman's Notice of June 24, 2020:
https://www.gov.il/he/departments/news/press_240620

¹⁸ <https://www.gov.il/he/departments/general/dochmeshek>

- According to the Natural Gas Authority's estimations, without additional policy steps, until 2025, approx. 150 consumers with a total consumption of approx. 0.45 BCM, which represents approx. one half of the overall connection potential of the light industry consumers, are expected to connect to the distribution network. Further potential consumption of approx. 0.27 BCM which derives from the connection of approx. 300 additional, smaller, plants, is expected to materialize following the implementation of additional policy steps (such as budgetary support in the layout of the distribution network, encouragement of consumers to use natural gas etc.).
- In 2030, the total demand for natural gas in the industrial sector is expected to exceed 3 BCM, of which, approx. 2.25 BCM from consumption of natural gas in the industry for consumers that are connected to the transmission system, and approx. 0.84 BCM from consumption of natural gas for consumers that are connected to the distribution network.
- On July 10, 2020 the Ministry of Energy released a legislative memorandum for the amendment of the Natural Gas Sector Law, whereby the Minister of Energy may grant a license for the construction of a particular distribution network to INGL, should he find that there is an urgent need therefor, and no private-sector body is able and willing to build the system. The purpose of the said legislative memorandum is to enable the acceleration of the connection of industry enterprises to the natural gas infrastructure.

4.3.3 Export

Recently, the relations with several neighboring countries, the business relations with which are strategic for the State of Israel in general, and for the gas companies in particular, have demonstrated a trend of improvement. The improvement in the relations has led to the signing of agreements for production of natural gas from Israel to its neighbors, as specified below:

- The Tamar partners signed agreements with NBL Eastern Mediterranean Marketing Limited ("NBL") for the purpose of export of natural gas to consumers in Jordan. Simultaneously, NBL signed an agreement with two companies from Jordan, Arab Potash Company and Jordan Bromine Company, whereby they will purchase natural gas from NBL which will be used by them at their plants which are located on the east bank of the Dead Sea in Jordan. The aforesaid agreements are for periods of approx. 15 years and the total quantity of natural gas in such agreements is approx. 3 BCM.
- On September 26, 2016 an agreement was signed between the Leviathan Partnership and the Jordanian electric power company (NEPCO) for the supply of up to approx. 45 BCM of natural gas for a period of approx. 15 years. According to a public report of Delek Drilling dated December 31, 2019, flow of natural gas has begun from the Leviathan reservoir to the customers with which gas agreements were signed, and from January 1, 2020 also to NEPCO.
- On February 19, 2018 agreements were signed between Delek Drilling and Noble, and Egyptian Dolphinus, which were assigned on September 26, 2018 to the Tamar partners and the Leviathan partners. On September 26, 2019, amendments were signed to the said export agreements for the supply of natural gas from the Tamar reservoir and the Leviathan reservoir in quantities of approx. 25.3 BCM and approx. 60 BCM, respectively, for a period of approx. 15 years. The Take-or-Pay mechanism in the amended export

agreements includes a reduction of the minimal annual consumption commitment to 50% for a calendar year in which the average Brent price is lower than 50 dollars. On January 15, 2020, the Leviathan partners reported the commencement of the flow of gas to Egypt, and gas flow from the Tamar Reservoir to Egypt began in July 2020.

- On November 6, 2019, a transaction was closed for the acquisition of 39% of EMG, which owns a subsea pipeline for the transport of gas between Israel and Egypt, by EMED (a company held by Delek Drilling (25%), Noble Energy (25%) and the East Gas Company (50%)), in the context of which, the capacity and operation rights in connection with the EMG pipeline were transferred in their entirety to the purchaser (EMED), for execution of the agreements with Dolphinus, as described above.
- On March 26, 2020, the Natural Gas Commission released an addendum to the decision dated September 7, 2014 regarding the financing of export projects through the Israeli transmission system, and division of the costs of construction of the integrated Ashdod-Ashkelon segment. The addendum to the decision determines, *inter alia*, that the offshore segment of the transmission system, to be constructed in such a manner as to enable the flow to Egypt of the full quantity of gas as determined in the Dolphinus agreements, shall be financed by the owner of the transmission license (43.5%) and the exporter (56.5%), according to the milestones that will be set under the transmission agreement.
- According to a forecast of an outside consultant which was published by Delek Drilling, the domestic demand for natural gas in 2020 is expected to amount to approx. 11.95 BCM and gradually increase to approx. 18.1 BCM in 2025. The increase in the domestic demand is expected to derive mainly from the addition of approx. 3.9 BCM as a result of the cessation of use of coal for electricity production, from an addition of approx. 1.8 BCM as a result of a natural increase in the demand for electricity (population growth, improvement in the standard of life and disposable income), and from an addition of approx. 0.6 BCM as a result of completion of the connection of industrial plants and small consumers to the natural gas distribution and transmission system. On the other hand, the demand forecast included decline in domestic demand due to reduced GDP, a decline in disposable income and increased unemployment rates, deriving from the COVID-19 crisis. In terms of the penetration of renewable energies to the domestic market, and in reference to the current target of the Ministry of Energy for electricity production from renewable energy to account for 30% of all power consumption in 2030, the outside consultant's forecast assumes partial meeting of this target in practice – of 25% of the entire power consumption in 2030, with the remaining 75% of power consumption in 2030 being generated using natural gas.

4.3.4 Repercussions of the COVID-19 crisis

- During Q1/2020, international markets recorded sharp fluctuations and extremely steep declines in oil and natural gas prices. According to market estimates, the fluctuations may be attributed to the COVID-19 crisis, as well as other causes and factors that affect the demand for and supply of energy products.

- According to a report by the Ministry of Energy on the effect of the COVID-19 crisis on the consumption of Energy in Israel (in this section: the “**Ministry of Energy Report**”)¹⁹, the consumption of natural gas for the production of electricity in March – April 2020 was lower by approx. 10%, relative to the same period last year. The consumption of natural gas by the large-scale industry in March – April 2020 was lower by approx. 13% relative to the same months in 2019. The consumption of natural gas by small and medium consumers in March – April 2020 was higher by approx. 14% relative to the same months in 2019. The consumption of refined oil products which were examined by the Ministry of Energy Report (diesel, petrol, kerosene and LPG) in March 2020 was lower by approx. 39%, compared with the same period last year.
- According to the Partnership’s report, from mid-March 2020 until the release date of the financial statements for Q1/2020 (on June 28, 2020), a drop in demand was recorded with a corresponding decrease in the sales of natural gas produced from the Leviathan and Tamar reservoirs, relative to the discounted cash flow forecasts released by the Partnership in the 2019 periodic report. Furthermore, the Partnership estimates, based on a production profile of 2P reserves, that the natural gas sales (100%) in 2020 and 2021 from the Tamar project will total approx. 7.8 BCM (compared with approx. 9.3 BCM in the previous forecast of January 2019) and approx. 8.2 BCM (compared with approx. 8.9 BCM in the previous forecast of December 31, 2019), respectively; and from the Leviathan project approx. 7 BCM (compared with approx. 9.3 BCM in the previous forecast of December 31, 2019) and approx. 8.9 BCM (compared with approx. 10.8 BCM in the previous forecast of December 31, 2019), respectively. If the COVID-19 crisis and the slowdown in global economy persist, the demand for energy products and the prices thereof are expected to be further impacted thereby.

4.4 Regulatory environment

The production of natural gas from reservoirs in the territorial waters of the State of Israel and the sale thereof are subject to regulatory restrictions pertaining to the amount of gas produced and restrictions on exporting the gas outside of Israel and pertaining to the gas prices. In addition, the production and sale of natural gas from the Tamar, Leviathan, Karish and Tanin reservoirs and/or another reservoir, are subject to further regulatory restrictions, as specified below:

- **Royalties to the State of Israel** – Under the Petroleum Law, a lease holder is liable for a royalty of 12.5% of the amount of natural gas or petroleum produced in the lease and the lease holder will pay the State the market value of the royalty at the wellhead. The method of calculation of the market value of the royalty at the wellhead for the Tamar reservoir is under discussion between the Petroleum Commissioner and the partners in the Tamar reservoir and has not yet been finalized²⁰. In 2019, the partners in the Tamar project made advance payments on account of royalties at the rate of 11.3% of the Tamar project revenues, and in 2017 and 2018 at the rate of 11.65%. In the Leviathan reservoir,

¹⁹ “The Effects of COVID-19 19 on Energy Consumption in Israel” – The Ministry of Energy, 01/06/2020 https://www.gov.il/BlobFolder/reports/corona_june_2020/he/corona_june_2020.pdf

²⁰ On February 9, 2020 the Natural Resources Administration at the Ministry of Energy published directives on the method of calculation of the value of the royalty at the wellhead in connection with offshore petroleum interests for public comment by March 15, 2020.

the partners in the reservoir are paying royalties to the State of Israel at the rate of approx. 11.26%. In H1/2020, the Natural Resources Administration at the Ministry of Energy published directives that include general instructions on the method of calculation of the royalty value at the wellhead with respect to offshore petroleum rights. The directives further determine that the Commissioner will prescribe for each lease owner, from time to time, specific instructions for each lease, which will specify the deductible expenses, for purposes of calculating the royalty, according to the particular characteristics of the lease.

- **Taxation of profits from Natural Resources Law** – The Resources Taxation Law prescribes a levy on petroleum and gas profits according to a mechanism which relates the rate of the levy and the ratio of the net accrued revenues from the petroleum and gas production project and the total accrued investments for the initial exploration and development of the reservoir (“**Investment Coverage Ratio**”). The minimal levy at a rate of 20% will be charged when the Investment Coverage Ratio will reach 1.5 and will increase gradually to a rate of 50% (depending, *inter alia*, on the Corporate Tax rate) when the Investment Coverage Ratio shall reach 2.3. The levy will be calculated and imposed on each reservoir separately.
- **Antitrust and exemption from the provisions of the Economic Competition Law** – In August 2015, a government resolution was made regarding a framework for the regulation of the natural gas market in Israel including with respect to the rights of the Partnership in the natural gas reservoirs Tamar, Leviathan, Karish and Tanin which took effect on December 17, 2015 upon the grant of an exemption from several provisions of the Economic Competition Law, 5748-1988 (the “**Gas Framework**”).

The Gas Framework grants an exemption to Delek Drilling, Noble and Ratio Oil Exploration (1992), Limited Partnership (jointly below, the “**Parties**”), from the restrictive arrangements pertaining to the Leviathan reservoir. Furthermore, The Gas Framework grants an exemption with respect to specific powers of the Commissioner (power to regulate acts of a monopoly through directives, power to order a holder of a monopoly to sell an asset, and power to order the separation of a monopoly), in connection with Delek Drilling and Noble being holders of a monopoly by virtue of the declaration thereon by the Commissioner in 2012 (the “**Exemption**”)²¹. The grant of the Exemption as described above is subject, *inter alia*, to the fulfillment of the following conditions:

- The sale of the rights of Delek Drilling and Noble in the Karish and Tanin reservoirs to a third party, not related to any of them, within 14 months from the date of grant of the Exemption or from the date of release of a new regulation draft by the Petroleum Commissioner pertaining to the qualifying conditions for an operator, whichever is later. On August 16, 2016, an agreement was executed for the sale of all of the rights in the Karish and Tanin Leases between Delek Drilling and Energean.

²¹ Declaration on holders of a monopoly under Section 26(a) of the Restrictive Trade Practices Law, 5748-1988: Delek Drilling Limited Partnership together with Avner Oil & Gas Exploration, Limited Partnership, Noble Energy Mediterranean Ltd., Isramco Negev 2, Limited Partnership, and Dor Gas Exploration, Limited Partnership – holders of a monopoly in the supply of natural gas to Israel starting from the second half of 2013 (November 13, 2012) Restrictive Trade Practices 500249.

- The sale of the entire rights of Delek Drilling in Tamar Reservoir to a third party unrelated thereto or to any of the holders of rights in the Leviathan, Karish and Tanin reservoirs as well as restriction of the rights of Noble in the Tamar reservoir to a maximum 25% rate within 72 months. In January 2018 Noble sold Tamar Petroleum Ltd. 7.5% of its rights in the Tamar reservoir, and as a result, it went down to a 25% holding rate in the Tamar reservoir. As of the date of the Paper, the Partnership holds directly 22% of the Tamar reservoir, and indirectly holds Tamar through its holdings in Tamar Petroleum, such that the total direct and indirect holdings amount to approx. 25.7855%.
- The imposition of restrictions on new agreements to be executed for the supply of gas from the Tamar and Leviathan reservoirs, such as a prohibition on limitations on purchase from other suppliers, in certain cases granting the consumers the right to unilaterally set the period of engagement and granting a unilateral option to the consumers to change the scope of supply in the agreement.
- **Stable regulatory environment** – In the original framework, the Israeli government undertook to maintain “regulatory stability” in the context of natural gas exploration and production for a period of 10 years. In March 2016, HCJ ruled that the issue of the regulatory stability in the Gas Framework in the existing version was illegal. In May 2016, the government re-adopted its resolution on the Gas Framework while setting an alternative arrangement pertaining to a “regulatory stable environment” in order to ensure a regulatory environment which encourages investments in the natural gas exploration and production sector.
- **Price control** – In the period between the taking effect of the Gas Framework, and until the date of fulfilment of all of the conditions of the Exemption, the price control in the natural gas sector by virtue of the Restrictive Trade Practices Law will be limited to the imposition of reporting requirements regarding profitability and the gas price, provided that during this period, the holders of the rights in Tamar and Leviathan shall offer potential consumers a price based on the weighted average price of the prices in the agreements that exist in the reservoirs or on prices in export agreements, in several of the price and linkage alternatives published within Government Resolution 476 of August 16, 2015. Starting from Q3/2016, the Natural Gas Authority releases, each quarter, the weighted price of natural gas and the price of natural gas for independent power producers.

On June 1, 2020, the decision of the Competition Commissioner was released, pursuant to Section 14 of the Economic Competition Law, 5748-1988, regarding amendment of the conditions for granting certain exemptions from approval of restrictive arrangements for several arrangements between the Tamar partners and their customers, cancelling the requirement for pre-approval of any agreement for the supply of gas from the Tamar project, in lieu of which the agreements will be subjected to a self-assessment regime, i.e. the burden of examining the lawfulness thereof will be imposed on the Tamar partners and their customers, while the Competition Commissioner will be able to examine the agreements retroactively and even not in proximity to the date of the signing thereof, and to take enforcement measures insofar as it is found that arrangements were performed that harm competition.

4.5 Risk factors

The exploration and findings development operations of oil and natural gas involves significant monetary expenses in conditions of uncertainty resulting in a very high financial risk level. Following is a specification of risk and uncertainty factors with significant effect on the operations of the Purchaser of the Karish and Tanin reservoirs and the proceeds expected therefrom:

- **Changes in the electricity production tariff, price indices, alternative energy sources prices** – The prices paid by the consumers for the natural gas derive, *inter alia*, from the electricity production tariff, the Shekel/US Dollar exchange rate, the US consumer price index and the prices of fuels alternative to gas such as fuel oil, diesel oil and Brent. Furthermore, a significant change in alternative energy sources could lead to a change in the use model of the IEC such that priority shall be granted to power plants operated by gas alternatives. A decline in tariffs can adversely affect also the prices which will be obtained from the Karish and Tanin reservoirs and the economic merit in the development thereof. At the same time, according to Energean's reports, the selling price in the agreements include a "floor price".
- **Growth of the renewable energy sector** – Recent years have seen a rise in the share of renewable energies in the mix of fuels used to produce electricity in Israel. Renewable energy is defined as energy produced from heat and solar radiation, wind, bio-gas and bio-mass, or any other non-depletable source that is not fossil fuel. Approx. 6% of actual power production in the State of Israel in 2018 came from renewable sources, but this figure is expected to rise following the addition of the quotas initiated by the government with the aim of reaching the target of production from renewable sources of approx. 10% in 2020, approx. 13% of the total demand for energy in 2025, and 17% by 2030. The rates of renewable energies have been gradually reduced by the Authority since 2008 due to the decrease in the construction and financing costs. These trends indicate that renewable energies may account for a larger share of future power production in Israel. Following public hearing that was released by the Ministry of Energy, the Ministry updated the goal for the production of electricity by renewable energies to approx. 30% in 2030.
- **Geopolitical risk** - The security and economic situation in Israel as well as the political situation in the Middle East may affect the willingness of states and foreign bodies, including in the Middle East, to engage in business relations with Israeli bodies and/or international bodies acting in Israel. Therefore, any deterioration in the geopolitical situation in the Middle East and/or deterioration in the relations between Israel and its neighbors, for security and/or political and/or economic reasons, may undermine the ability of the companies in the Israeli gas and oil market to promote their business with such states and bodies and export gas to neighboring states.
- **Competition for gas supply** – Over the past decade, several significant gas reservoirs were discovered in Israeli waters in amounts which significantly exceed the estimates of the Ministry of Energy regarding the needs of the local market. In addition, Israel granted exploration licenses in its EEZ, following two competitive processes (in 2017 and 2019), which could lead to further discoveries. In addition, in 2017, material production began from the Egyptian Zohr reservoir, which supplies gas to the Egyptian market. In addition, significant reservoirs were discovered in the economic waters of Cyprus, in respect of

which no development decisions have been made yet. Also, further findings may be discovered in the future, both in Israel and in other countries in the Eastern Mediterranean Basin, whose development could lead to the entrance of other competitors on the supply of natural gas to the local market and to neighboring countries, and thus increase the scope of competition in the sector.

- **Restrictions on export** – Limiting the amount of exportable gas may have adverse effects in the form of surplus supply in the domestic market and reduced tariffs which may also adversely affect the prices obtained from the Karish and Tanin reservoirs and the economic merit in the development thereof. In this context, it is noted that, according to the Adiri Committee's draft recommendations of July 2018, the gas export quotas as determined in Government Resolution 442 shall remain unchanged. However, according to the Committee's recommendations, the formula for calculating the export quota shall be changed, such that it will be higher relative to the formula determined by Government Resolution 442, solely for gas reservoirs that have not yet been discovered. It is noted that export permits were received in respect of all of the aforementioned export agreements.
- **Dependence on the proper working order of the Israeli National Transmission System** – The ability to supply gas which will be produced from the reservoirs to the potential consumers is dependent, *inter alia*, on the proper working order of the Israeli National Transmission System for the supply of gas and of the regional distribution networks.
- **Dependence on contractors and on professional services and equipment providers** – As of the date hereof, there are in Israel no contractors that are performing most of the actions required for the construction and operation of natural gas and oil reservoirs, and therefore there is a dependence of the companies working in the sector on foreign contractors for the performance of such work. Furthermore, the number of facilities that are capable of drilling and performing development activities offshore, in general, and in deep-water, in particular, is relatively small and there is a chance that no suitable facility will be found for performing the aforesaid actions on the dates to be scheduled therefor. Consequently, the aforesaid actions may entail high costs and/or considerable delays may be caused in the schedule determined for the performance of the work.
- **Operational risks and lack of sufficient insurance coverage** – Oil and gas exploration and production activities are exposed to a variety of technical and operational risks, such as loss of control over a drilling or a well and/or a malfunction in subsea facilities or facilities above sea level, which could damage the functioning of the production and transmission system, to the point of short or long-term shutdown. There is also a risk of liability for damage deriving from contamination due to the eruption and/or leakage of liquid and/or a gas leak. Despite the insurance existing in the market, not all of the possible risks are covered or are coverable.
- **Solely estimated costs and timetables and the option of lack of means** – Estimated costs for the performance of exploration and development activities and estimated timetables for the performance thereof are based solely on general estimates and could deviate significantly. The exploration plans could significantly change, *inter alia*, following failures and/or findings which will be obtained during the performance of such actions and lead to significant gaps in the timetables and the estimated costs of such

activities. In certain cases, the holder of the lease may waive the performance of certain activities required according to the work plan of the reservoirs and lose the rights therein as a result.

- **Regulatory changes** – The operating segment requires many regulatory approvals, mainly by the entities authorized under the Petroleum Law and the Natural Gas Sector Law, as well as related approvals of the State's authorities (including the Ministry of Energy, the Ministry of Defense, the Ministry of Environmental Protection, the tax authorities, the Competition Authority and the various planning authorities). In recent years several proposals were made for amendments of laws and/or regulations and/or directives relevant to the operating segment and several resolutions, laws and directives were released, the implementation of which could have a negative effect on the companies operating in the field.
- **Applicable environmental regulation** – The companies that operate in the natural gas sector are subject to a range of laws, regulations and directives on the issue of environmental protection, which relate to various matters such as: leaking of oil, natural gas or of other pollutants into the marine environment, the release into the sea of polluting substances and waste of various types (wastewater, residues of drilling equipment, drilling mud, slurry, etc.), chemical substances used at the various work stages, emission of pollutants into the air, light and noise nuisances, construction of piping infrastructures on the seabed and related facilities. In addition, the companies are required, through the operators of the projects, to obtain approvals from entities authorized under the Petroleum Law, the Natural Gas Sector Law and other laws (such as environmental protection laws) for the purpose of their activity.
- **Further risk factors** – There are other factors which contribute to the uncertainty prevailing in the operating segment including difficulties in obtaining financing, information security risks, dependence on material customers, dependence on weather and sea conditions, cancellation or expiration of rights and Petroleum Assets and more.

4.6 Market Developments

- On December 31, 2019 the Leviathan partners reported the commencement of natural gas flow from the Leviathan reservoir to customers according to the agreements signed with them for the supply of natural gas from the reservoir, including the sale of natural gas to Jordan. Further thereto, it was reported that gas flow from the Leviathan reservoir to Egypt commenced on January 15, 2020.
- On July 20, 2020 it was reported that the American company Chevron had signed a binding agreement for the acquisition of Noble Energy, which holds interests in the Tamar and Leviathan reservoirs and is the operator of such reservoirs. On September 14, 2020 the Petroleum Council recommended to the Petroleum Commissioner at the Ministry of Energy to approve the merger of the companies. On October 2, 2020 Noble Energy reported that the shareholders' meeting had officially approved Chevron's acquisition. This transaction is a vote of confidence in the domestic gas market and in the economic potential of these assets.
- On August 30, 2020, some of the partners in the Tamar project (Tamar Petroleum Ltd., Isramco Negev 2 – Limited Partnership, Dor Gas Exploration Limited Partnership and

Everest Infrastructures Limited Partnership, hereinafter jointly in this section: the "**Sellers**"), reported the signing of agreements for the supply of natural gas from the Tamar reservoir to Oil Refineries Ltd. (in this section: "**ORL**" and ICL Group Ltd. (in this section: "**ICL**"). In the Sellers' estimation, the aggregate revenues from the sale of natural gas to ORL is expected to amount to approx. U.S. \$150 million, assuming that ORL uses natural gas under the supply agreement until the end of 2021. The aggregate revenues from the sale of natural gas to ICL is expected to amount to approx. 60% of the expected revenues under the ORL agreement. On October 4, 2020 it was reported that the agreements with ORL and ICL had been approved by all of the parties, including Delek Drilling.

- On September 23, 2020 Delek Drilling reported that the partners in the Leviathan project had signed a supply agreement with the Ramat Hovav partnership for a total volume of 1.3 BCM for a period of 30 months, or until the date of commercial operation of the Karish and Tanin reservoir, whichever is earlier.
- On October 4, 2020, some of the Tamar partners (Isramco, Tamar Petroleum, Dor Gas Exploration and Everest Infrastructures) reported the signing of a supplement to the agreement for the supply of natural gas from Tamar reservoir to IEC updating the price of the quantities of natural gas that will be supplied to IEC, if any, over and above the minimum quantity billable according to the supply agreement. In the Supplement, the other partners (Noble Energy and Delek Drilling) were offered an option to join the within 60 days. Insofar as Noble and/or Delek Drilling shall choose not to join the supplement, the Sellers will supply to IEC the quantities nominated under the supplement from their share in the reserves of the Tamar reservoir. In the Sellers' estimation, IEC is expected to purchase during the term of the supplement approx. 2 BCM of natural gas over and above the minimum quantity billable according to the supply agreement. If IEC purchases the abovementioned expected quantity according to the supplement, the aggregate income from the sale of natural gas to IEC (for 100% of the transaction) according to such estimation, may total approx. U.S. \$290 million. In Delek Drilling's opinion, such "supplement" constitutes a new supply agreement between the IEC and the Leviathan partners. Accordingly, Delek Drilling and Noble announced that they do not intend to join the said agreement.
- On October 8, 2020, Delek Group Ltd. (in this section: "**Delek Group**") reported that it was promoting a potential issue of a bond series to be offered to foreign and Israeli institutional investors, for a total par value of approx. \$180 million (in this section: the "**Bonds**"), to be secured by a pledge of the rights to overriding royalties due to Delek Group (25%) and to Delek Energy Systems Ltd. (75%) (in this section: "**Delek Energy**" and/or the "**Issuer**"), from the Partnership's share in the Leviathan project. On October 25, 2020 Delek Group reported that an agreement had been signed between the Issuer and Goldman Sachs International and Leader & Co. Finance (2001) Ltd. (in this section: the "**Buyers**"), in which the Buyers undertook to buy the Bonds from the Issuer on the issue date, scheduled for October 28, 2020. On October 28, 2020 Delek Group announced the completion of the issue and the receipt of the issue proceeds in the sum of \$180 million, net of a safety cushion for interest payment and issue and underwriting expenses. The Bonds were issued in a single series, maturing on December 23, 2023 (in a single installment), and bear fixed annual dollar interest of 7.494%. The interest will be paid

twice a year, on June 30 and December 30. On November 4, 2020 Delek Group reported the receipt of international rating +B for the Bonds from rating agency Fitch Ratings.

4.7 “Karish and Tanin” Leases

- **Adoption of an investment decision** – On March 27, 2018, Energean notified the Partnership of the adoption of an investment decision for the development of the Karish reservoir, and in March 2018, March 2019 and March 2020 it paid the Partnership the first, second and third payments in the sum of \$10.85 million, \$15.34 million and \$14.84 million, respectively.
- **Listing of Energean on the Israeli stock exchange** – On October 29, 2018, trading of Energean’s parent company, Energean Oil & Gas plc, was launched on the Tel Aviv Stock Exchange as a cross-listed company whose shares are additionally also premium-listed on the London Stock Exchange.
- **Commencement of manufacture of Energean’s floating production facility** – On November 27, 2018, Energean announced commencement of manufacture, in China, of the floating rig (FPSO) that is due to be used by the Karish and Tanin reservoirs, and which is expected to be transferred to the Karish gas field in late 2020. The rig is intended to treat the natural gas to be produced at the Karish-Tanin project in Israel’s EEZ. The process of production and treatment of gas will be carried out at the wellhead, at a distance of approx. 90 km from the shore.
- **Implementation of the drilling and completion plan at the Karish reservoir** – On March 4, 2019, Energean announced the start of execution of the plan for drilling in Israel, which includes the drilling of 3 production wells in the Karish reservoir, and an exploration drilling in the Karish North reservoir, which was approved by the Company’s board of directors on June 2018 and is designed to confirm the presence of approx. 1.3 TCF of natural gas with a 69% chance of success. On February 20, 2020, Energean reported a successful production test in Karish main 02, which marks the completion of drilling in the three production wells in the Karish reservoir.
- **A new gas discovery in the Karish North reservoir** – On April 15, 2019, Energean announced a natural gas discovery in the Karish North well. According to the updated reserve report in the Karish and Tanin reservoirs, which was released on April 9, 2020, the resources in Karish North total approx. 33.7 BCM of natural gas and approx. 39.5 million barrels of hydrocarbon liquids (all 2C). It is noted that the ratio of hydrocarbon liquids to natural gas stated in Energean’s report is in a rate higher than the rate previously reported by Energean’s resources evaluator for the Karish reservoir²². On November 10, 2020 Energean released an update on the scope of resources attributed to the Karish, Tanin and Karish North reservoirs (in this section: the “**Reservoirs**”)²³. Energean stated that the update is based on a resources and reserves report prepared therefor by DeGolyer

²² On January 29, 2020, Energean reported that an updated development plan for Karish North, addressing the resources discovered, and a current CPR report would be released in H1/2020.

²³ <https://www.londonstockexchange.com/news-article/ENOG/independent-cpr-on-karish-karish-north-and-tanin/14749552>

and MacNaughton, which report was not presented in the context of this update, reclassifying contingent resources (2C) as reserves (2P), such that the Reservoirs have natural gas reserves (2P) of approx. 98.2 BCM and hydrocarbon liquids of approx. 99.6 million barrels (compared to natural gas resources (2C+2P) of approx. 98.6 BCM and hydrocarbon liquids of about 82 million barrels, according to Energean's release of April 2020). Energean further stated that the development plan for the Karish North reservoir had been approved by the Ministry of Energy, and that a final investment decision for development of the Karish North reservoir was expected to be adopted in Q4/2020, with production from the Karish North reservoir expected from 2023. Energean stated that the FPSO would reach maximum production capacity (approx. 8 BCM per year) at the end of 2023. Energean also released the volume of prospective resources for the areas of the licenses it holds in Israel's EEZ, including in the Karish and Tanin reservoirs. The proximity of the release to the date of release of the valuation, the changes in the content of the liquids, the classification and location of the gas resources, alongside the fact that the release did not include a full report by an external and objective resource evaluator, mandate further examination of the information included in the release, and therefore, the estimations included in this release were not taken into account in this valuation.

- **Agreement signed between INGL and Energean for the construction and delivery of the eastern segment of the infrastructure for gas transmission from the Leases** – On June 25, 2019, Energean announced that it signed an agreement with Israel Natural Gas Lines Ltd. (“INGL”), whereby it will build and transfer to INGL the eastern segment of the gas infrastructure, which includes an offshore segment at a distance of approx. 10 km from the shore and an onshore segment. In consideration therefor, INGL will pay Energean approx. ILS 369 million.

Note that in view of a lack of public information with respect to the effect of the income expected from INGL on the amount of the costs of development of the Leases, in the valuation it was assumed that this agreement has no effect on the cost of development of the Leases, and accordingly, on the Sheshinski levy that shall apply thereto. Insofar as new information shall be released in the future that pertains to the income from INGL, we will check the same for purposes of examination of the scope of the costs of development of the Leases.

- **Selection of a winner in the tender for the sale of the Alon Tavor site** – on July 2, 2019, the IEC reported the winning by MRC Alon Tavor Power Ltd. group (“MRC”), the members of which are Rapac Energy Ltd., Mivtach Shamir Holdings Ltd., and China Harbour Engineering Company Ltd., of the tender for the sale of the Alon Tavor site, in consideration for approx. ILS 1.9 billion. The consideration will be paid to the IEC by the date of handover of possession of the site (the IEC handed over possession by December 3, 2019). The site was purchased without the transfer of the IEC's gas contract vis-à-vis the Tamar reservoir. On November 21, 2019, Rapac Energy Ltd. reported that on November 20, 2019, MRC engaged in an agreement with Energean, for the supply of natural gas to the combined cycle power plant on the site. According to the agreement, which will be effective until the 15th anniversary of the engagement therein, Energean will sell MRC natural gas, starting from the commencement of natural gas flow from the Karish field, in an annual amount of approx. 0.5 BCM (and in total up to 8 BCM throughout the natural gas supply period). The closing of the agreement is contingent

upon the closing of the site purchase transaction. On April 9, 2020, Energean reported that this agreement was converted into a sale agreement.

- **The signing of an MOU between Energean and Greece's gas transmission corporation (DEPA) for the sale of natural gas** – Ahead of the expected signing of the East Med Pipeline agreement by the governments and Energy Ministers of Cyprus, Greece and Israel, on January 2, 2020, Energean signed an MOU with DEPA for the possible sale of up to 2 BCM of natural gas per year from the reservoirs held by the company in Israel, the gas from which will be produced through the FPSO rig.
- **Update to the date of commencement of production from the Karish reservoir** – On April 15, 2020, Energean reported that TechnipFMC, which is managing the construction of the FPSO in Singapore therefor, had announced a temporary cessation of the work at the shipyard due to COVID-19. A report released by Energean on June 8, 2020, about two months after cessation of the work, stated that on June 2 preparation works for lifting of the topside modules of the FPSO commenced at the yard in Singapore. According to the report, the forward work on the FPSO is contingent on the decision of the Singapore authorities, who are conducting an ongoing evaluation in view of the evolution of COVID-19 and the need to protect workers' health. According to the project timetables, the activities that are required to achieve first gas are integration activities on the FPSO in Singapore, expected to take approximately ten months, and then FPSO tow to the Karish field in Israel and subsequent mooring work, expected to take approximately four months more. The report further states that Energean does not expect the revised timetable to have a material financial impact on the company. On June 22, 2020, Energean reported that 80% of the development of the Karish reservoir has been completed, and that TechnipFMC completed, as planned, the laying of the gas sales pipeline and the subsea gas production system. The installation of all the pipes is expected to end by the end of 2020. On August 26, 2020 Energean reported the laying of the first module on the FPSO in Singapore, and the installation of anchors in deep waters in the Karish field. As of November 2020, according to the immediate report that was released by Energean, the expected commencement date for production from the Karish reservoir is Q4/2021.
- **The dispute between Energean and Delek Drilling in connection with the entitlement to receipt of royalties from the reservoirs** – Further to Energean's report of April 9, 2020 regarding an update of the scope of the resources in the "Karish North" well, in April 2020, Energean and the Partnership exchanged letters in connection with the Partnership's entitlement to receive royalties from the Leases. Energean claims, *inter alia*, that its undertaking to pay royalties does not apply with respect to hydrocarbons from the "Karish North" well, and in addition that not all of the hydrocarbon liquids produced from the Karish lease meet the definition of condensate under the agreement for the sale of the Partnership's interests in the Leases. It is the Partnership's position, based on legal advice received, that according to the agreement for the sale of the Partnership's interests in the Leases, the royalty documents and the registration in the Petroleum Register, Energean's obligation to pay royalties applies with respect to natural gas and condensate produced from the Karish lease, including from the "Karish North" well, and that the hydrocarbon liquids to be produced from the Leases constitute condensate, as defined in the agreement.



- **Signing of an agreement for the sale of natural gas with Ramat Hovav partnership** – on September 16, 2020 Energean reported its engagement in agreements for the supply of natural gas from the Karish reservoir with the Ramat Hovav partnership (Edeltech and Shikun & Binui). According to the agreements, Energean will sell the Ramat Hovav partnership natural gas from the date of commencement of natural gas flow from the Karish field, at an annual quantity of approx. 1.4 BCM. The agreements include provisions on a price floor and a Take-or-Pay mechanism, and are expected to generate for Energean approx. \$2.5 billion throughout the life of the contracts. According to the first agreement, which will be valid until expiration of 20 years from the date of the engagement therein, the main quantity sold in the context of the agreements is for the Ramat Hovav power station. Under another agreement, the rest of the gas will be supplied to other power stations held by the owners of the Ramat Hovav partnership – for a period of up to 15 years. With the signing of these agreements, Energean has signed contracts for the supply of natural gas from the Karish reservoir at a total sale volume of 7.0 BCM per year.

5. Valuation of Royalties

5.1 Methodology

According to IFRS 3, contingent consideration is defined as: “...an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met.”

As specified in Chapter 4 above, the consideration to which the Partnership is entitled includes a possibility of receiving future proceeds, in addition to the amounts to be received in cash (\$40 million), which are contingent upon the occurrence of future events as specified below:

- i. Consideration in the amount of \$108.5 million which will be paid to the Sellers in ten equal annual payments plus interest commencing from the date on which the Purchaser made a FID or the Purchaser invested in the development of the reservoir an aggregate sum exceeding \$150 million (the “**Investment Decision**”), whichever is earlier. Therefore, this consideration component is similar in its nature to a financial debt of the Purchaser to the Sellers, which is contingent upon the development of the Leases, whether by a FID or the actual performance of the investment (the “**Debt Component**”).

Note that on March 27, 2018, Energean notified the Partnership of the adoption of an Investment Decision for the development of the Karish reservoir, and therefore the Debt Component is defined as deferred consideration.

- ii. Royalties from revenues (net of existing royalties²⁴) which will be paid to the Sellers at rates of 7.5% before the Levy and 8.25% after the Levy. Therefore, the royalties are also contingent upon the development of the Leases and the ability of the Purchaser to produce revenues from natural gas and Condensate from the reservoirs (the “**Royalties**”).

According to the characteristics of the consideration components specified above and in view of our estimate of the materialization of the transaction and development of the reservoirs, the value of the Royalties in the transaction for the sale of Karish and Tanin Leases is assessed through the Discounted Cash Flow method, while adjusting the cap rates to the risks involved in the development of the reservoirs and the cash flow.

5.2 Working hypotheses

5.2.1 General

The main working hypotheses as specified below are based on market data from public sources, information appearing in the Prospectuses released by Energean, and additional reports of Energean to the stock exchanges where it is traded. **It is emphasized that the assumptions and information specified below, including with respect to forecasts and**

²⁴ The Sold Rights were transferred to the Purchaser together with the existing overriding royalties in the Leases borne by each of the Sellers, with respect to their original share (26.4705%).

the main commercial conditions in the agreement for the sale of the reservoirs, as well as regarding the types of the hydrocarbon liquids which will be produced from the reservoirs and in respect of which royalties will be paid to the Partnership, constitute forward-looking information in the meaning thereof in the Securities Law, 5728-1968, which there is no certainty of the materialization thereof, in whole or in part, in the said manner or in any other manner.

5.2.2 Timetable

On March 22, 2018, Energean announced the adoption of an Investment Decision for the development of the Karish and Tanin reservoirs, and as a result of the purchase agreement, the first three payments for the Debt Component were received in March 2018-2020 (the other annual payments are expected to be received by March 31 of each of the years 2021-2027). As of this Paper, development of the “Karish Center” reservoir is 85% completed. According to Energean’s reports, development of “Karish North” reservoir will begin in 2021 and first gas from the reservoir is expected in 2023. Furthermore, it was assumed that the development of the reservoirs will be done gradually, such that the commencement of the production from the Tanin lease will begin towards the completion of the production from the Karish lease. It was assumed that the production of gas from the Karish reservoir would commence in Q1/2022 (this assumption is conservative relative to Energean’s reports regarding the progress in the development of the reservoir, whereby Energean will commence gas production from the reservoir in Q4/2021), with the production of gas from the Tanin reservoir commencing in Q1/2035.

5.2.3 Quantity forecast and annual production rate

From an analysis of the demand forecast in the local market as released by public companies holding natural gas reservoirs, it arises that the total projected annual demand in the market during the running-in period and in the beginning of the commercial operation period in 2022, is expected to be approx. 15-17 BCM with the main demand deriving from an increase in electricity production (as a result of natural growth) and as a result of the conversion of coal plants to the use of natural gas (as provided in Section 3.3 above).

According to recent publications by Energean regarding the progress of the development plan of the reservoirs, Energean estimates that it is expected to sell approx. 7.0 BCM on average throughout the years of the forecast, of which approx. 4.6 to 5.25 BCM are within the Take-or-Pay mechanisms included in the agreements with its customers. Therefore, and in view of the signing of the agreement with Ramat Hovav, we assumed an annual natural gas production rate of approx. 3.67 BCM in the first year of operation, with a gradual increase up to an annual natural gas sale rate of approx. 6.0 BCM from the fifth year of operation onwards, with the annual Condensate quantity deriving from the ratio between the overall Condensate quantity and the overall natural gas quantity, in each reservoir, and based on the work assumption that all of the hydrocarbon liquids which will be produced are of the Condensate type (for a specification of the annual production rate forecast see Annex A).

Following is a summary of the assumptions regarding the dates of commencement of production and annual production, with respect to each of the Leases:



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Lease	Karish	Tanin
Commencement of operation period	1/2022	1/2035
Conclusion of operation period	9/2035	3/2039
<u>Natural Gas</u>		
Average annual production rate (BCM)	5.55	5.22
Total (BCM)	76.3	22.2
<u>Condensate</u>		
Production ratio*	28.91	5.23
Total (MMBBL)	77.9	4.1

* bbl of Condensate per 1 mmcf of natural gas

5.2.4 Natural gas prices forecast

The natural gas prices forecast relied on the following assumptions:

- The base price in the contracts under which the valuation was carried was estimated through the formulas specified in the price mechanism between Energean and ICL and ORL and between Energean and OPC, as well as in consideration of the price of the gas in the contract with Ramat Hovav power station and the parameters specified below:
 - i. **The Production Component Tariff:** as of the Valuation Date, the production component tariff is 26.78 Agorot (January 2020). Throughout the other forecast years, it was assumed that the production component tariff would change according to the IEC's expected expenses in respect of electricity production, which are affected, *inter alia*, by the prices of natural gas, coal, changes in exchange rate (ILS/\$) and by other production costs. According to our forecasts, the production component tariff is expected to range between approx. 25.01-29.41 Agorot throughout 2020-2037.
 - ii. **ICL and ORL** – floor price of U.S. \$3.975 per MMBTU according to an agreement between the company and ICL and ORL.
 - iii. **OPC** – floor price of U.S. \$3.975 per MMBTU when the production component is larger or equal to 26.4 Agorot, and a floor price of U.S. \$3.8 per MMBTU when the production component is lower than 26.4 according to an agreement between the company and OPC.
 - iv. Ramat Hovav – fixed price of U.S. \$3.95 per MMBTU.
- It was assumed that the gas amount which will be sold will be equally distributed between independent power producers (contracts such as the contract with OPC) and industrial producers (contracts such as the contracts with ICL and ORL).

5.2.5 Condensate prices forecast

The Condensate prices forecast was estimated based on the average of the long-term petroleum prices forecast of the World Bank²⁵, the EIA²⁶ and the forward prices of Brent according to Bloomberg data, and based on the Partnership's assumption that the Condensate price will be derived from the Brent price while corresponding to the differences in the petroleum quality.

5.2.6 The royalties rate

The rate of the royalties to be paid to the State was set, according to the Petroleum Law, at 12.5% of the value of the gas at the wellhead²⁷. The actual royalties' rate is lower as a result of deduction of expenses for the transmission systems and the treatment of the gas up to the gas delivery point on shore. According to the Partnership's estimates, it was assumed that the effective royalty rate which will be paid to the State for the gas and Condensate is 11.5%. Furthermore, the rate of the existing royalties in the Leases, borne by each of the Partnerships were similarly adjusted. We shall note that the actual rate of royalties could change and is not final.

5.2.7 Petroleum profits levy

The Petroleum Profits Levy is a progressive levy which is set according to a mechanism which connects the rate of the levy to the ratio of the net accrued revenues from the petroleum and gas production project and the total accrued investments for the exploration and initial development of the reservoir (the "**Investment Coverage Ratio**"). The minimal levy at a rate of 20% will be charged when the Investment Coverage Ratio will reach 1.5 and rise gradually to a rate of 50% (according to the corporate tax rate²⁸) with the Investment Coverage Ratio reaching 2.3. The levy will be calculated and imposed for every reservoir separately.

Within the cash flow forecast for the Royalties, we deducted the levy from the net royalties (after offsetting the existing royalties) which will be received by the Partnership from each lease, based on the rate of the levy calculated in the financial model of each of the Leases.

5.2.8 Royalties cap rate

- The cap rate used in the valuation prepared by us as of December 31, 2019 (the "**12/19 Valuation**") was estimated at approx. 11% based on the cap rate of the Leviathan reservoir and adjustments due to the risk differences between the reservoirs and the cash flows (for further details, see Section 5.2.9 of the 12/19 Valuation).

²⁵ A World Bank Quarterly Report: Commodity Markets Outlook, April 2020.

²⁶ U.S Energy Information Administration: Analysis & Projections, July 2020.

²⁷ On February 9, 2020, the Ministry of Energy released for public comment directives on the method of calculation of the value of the royalty at the wellhead in connection with offshore petroleum rights. For further details see:

https://www.gov.il/he/departments/publications/Call_for_bids/os_090220

²⁸ Corporate tax of 23% was assumed according to the statutory tax rate known as of the Valuation Date.

- H1/2020 saw steep price drops in the financial markets around the world, including in Israel, as well as steep changes in currency exchange rates, and extreme drops in oil and natural gas prices on the international markets, as a result of the spread of COVID-19 and additional factors that affect the demand and supply of energy products worldwide. In addition, in July 2020, Energean updated the production commencement date to H2/2021 (versus H1/2021 in a previous report). In view of these developments and in view of the second wave outbreak of the COVID-19 pandemic worldwide, we have added a 1% premium which, in our estimation, reflects the increase in the level of risk compared with the 12/19 Valuation, such that the total cap rate for the overriding royalties is 12%.

5.3 Results of the valuation

According to the assumptions specified in the Paper itself, the value of the Royalties is estimated at approx. \$179.0 million. **To clarify, the valuation does not address the disputes, if any, between Energean and the Partnership, and the implications thereof** (for a specification see Section 4.6 above). In addition, on November 10, 2020, Energean released a report with regard to the scope of the resources attributed to the Karish, Tanin and Karish North reservoirs, this valuation does not include an update (for a specification see Section 4.7 above).

5.4 Sensitivity analyses

Following is an analysis of the sensitivity of the royalties' value to the cap rate and to changes in the natural gas prices, in millions of U.S. \$:

		Change in the Natural Gas Price Vector (U.S. \$ per MMBTU)						
		(1.50)	(1.00)	(0.50)	-	0.50	1.00	1.50
Change in Cap Rates (in Base Points)	+250 bp	132.5	142.0	149.5	157.0	164.7	170.9	176.6
	+150 bp	139.5	149.5	157.4	165.2	173.4	180.0	186.0
	+50 bp	147.2	157.7	165.9	174.2	182.9	189.9	196.4
	-	151.2	162.1	170.5	179.0	187.9	195.2	201.9
	-50 bp	155.5	166.7	175.3	184.1	193.2	200.8	207.7
	-150 bp	164.6	176.5	185.5	194.8	204.6	212.7	220.2
	-250 bp	174.7	187.3	196.8	206.7	217.1	225.8	233.9

Following is an analysis of the sensitivity of the royalties' value to the cap rate and to changes in the annual production quantity, in millions of U.S. \$:

		Change in the Annual Production Rate of Natural Gas (BCM)						
		(1.00)	(0.50)	(0.25)	-	0.25	0.50	1.00
Change in Cap Rates (in Base Points)	+250 bp	142.8	149.6	152.1	157.0	157.0	161.5	162.9
	+150 bp	150.9	157.8	160.3	165.2	165.2	169.8	171.1
	+50 bp	159.8	166.8	169.3	174.2	174.0	178.8	180.0
	-	164.6	171.6	174.1	179.0	178.7	183.6	184.7
	-50 bp	169.6	176.7	179.2	184.1	183.7	188.6	189.7
	-150 bp	180.4	187.6	190.0	194.8	194.3	199.4	200.3
	-250 bp	192.5	199.6	202.0	206.7	205.9	211.2	212.0



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Following is an analysis of the sensitivity of the royalties' value to the cap rate and to changes in the Condensate prices, in millions of U.S. \$:

		Change in the Condensate Price Vector (U.S. \$ per bbl)						
		(30.00)	(20.00)	(10.00)	-	10.00	20.00	30.00
Change in Cap Rates (in Base Points)	+250 bp	141.4	145.8	149.8	157.0	160.7	168.1	170.8
	+150 bp	148.9	153.5	157.8	165.2	169.2	176.9	179.7
	+50 bp	157.2	162.0	166.4	174.2	178.4	186.5	189.5
	-	161.6	166.5	171.1	179.0	183.3	191.6	194.7
	-50 bp	166.2	171.2	175.9	184.1	188.5	197.0	200.2
	-150 bp	176.1	181.4	186.3	194.8	199.5	208.5	211.9
	-250 bp	187.0	192.5	197.7	206.7	211.7	221.1	224.7



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Annex A – Cash Flow Forecast

Year	Unit	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<u>Production</u>												
Gas production - Karish	bcm/y	-	-	3.67	4.50	5.30	5.60	6.00	6.00	6.00	6.00	6.00
Gas production - Tanin	bcm/y	-	-	-	-	-	-	-	-	-	-	-
Condensate production - Karish	bbl/y m	-	-	3.80	4.66	5.49	5.80	6.22	6.22	6.22	6.22	6.22
Condensate production - Tanin	bbl/y m	-	-	-	-	-	-	-	-	-	-	-
<u>Prices</u>												
Natural gas price	US\$	-	-	3.90	3.90	3.90	3.97	3.97	3.97	3.97	3.97	3.97
Condensate Price	US\$	-	-	39.26	41.13	42.88	44.67	51.45	54.09	56.85	59.72	62.71
<u>Revenues</u>												
Karish - Revenues												
Natural Gas Revenues	US\$ MM	-	-	514.3	631.7	743.6	800.1	857.3	857.3	857.3	857.3	857.3
Condensate Revenues	US\$ MM	-	-	149.2	191.8	235.6	259.3	320.0	336.4	353.5	371.4	390.0
Total Gross Revenues	US\$ MM	-	-	663.5	823.5	979.2	1,059.3	1,177.2	1,193.7	1,210.8	1,228.6	1,247.3
Tanin - Revenues												
Natural Gas Revenues	US\$ MM	-	-	-	-	-	-	-	-	-	-	-
Condensate Revenues	US\$ MM	-	-	-	-	-	-	-	-	-	-	-
Total Gross Revenues	US\$ MM	-	-	-	-	-	-	-	-	-	-	-
K&T - Total Gross Revenues	US\$ MM	-	-	663.5	823.5	979.2	1,059.3	1,177.2	1,193.7	1,210.8	1,228.6	1,247.3
<u>Delek Drilling - Transaction Revenues</u>												
Transaction ORRI, Net*	US\$ MM	-	-	31.2	38.8	46.1	30.5	22.4	21.3	19.1	19.4	19.7
Total Discounted Transaction Revenues	US\$ MM	-	-	25.5	28.4	30.1	18.0	11.7	9.9	7.9	7.2	6.5

*Net of Existing ORRI net of Petroleum Tax



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Year	Unit	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
<u>Production</u>												
Gas production - Karish	bcm/y	6.00	6.00	6.00	6.00	3.23	-	-	-	-	-	-
Gas production - Tanin	bcm/y	-	-	-	-	2.77	6.00	6.00	6.00	1.43	-	-
Condensate production - Karish	bbl/y m	6.22	6.22	6.22	5.47	2.92	-	-	-	-	-	-
Condensate production - Tanin	bbl/y m	-	-	-	-	0.51	1.11	1.11	1.11	0.26	-	-
<u>Prices</u>												
Natural gas price	US\$	3.97	3.98	4.00	4.01	4.03	4.06	4.09	4.09	4.12	4.12	4.12
Condensate Price	US\$	64.17	65.65	67.17	68.71	70.28	71.89	73.53	75.20	76.90	78.64	80.41
<u>Revenues</u>												
Karish - Revenues												
Natural Gas Revenues	US\$ MM	857.3	860.3	863.0	865.9	468.9	-	-	-	-	-	-
Condensate Revenues	US\$ MM	399.0	408.3	417.7	375.6	205.4	-	-	-	-	-	-
Total Gross Revenues	US\$ MM	1,256.3	1,268.5	1,280.7	1,241.5	674.3	-	-	-	-	-	-
Tanin - Revenues												
Natural Gas Revenues	US\$ MM	-	-	-	-	401.2	876.1	882.8	882.8	212.3	-	-
Condensate Revenues	US\$ MM	-	-	-	-	35.9	79.7	81.5	83.3	20.4	-	-
Total Gross Revenues	US\$ MM	-	-	-	-	437.2	955.7	964.3	966.1	232.7	-	-
K&T - Total Gross Revenues	US\$ MM	1,256.3	1,268.5	1,280.7	1,241.5	1,111.4	955.7	964.3	966.1	232.7	-	-
<u>Delek Drilling - Transaction Revenues</u>												
Transaction ORRI, Net*	US\$ MM	19.8	20.0	20.2	19.6	31.2	17.6	16.4	15.2	3.7	-	-
Total Discounted Transaction Revenues	US\$ MM	5.9	5.3	4.8	4.1	5.8	3.0	2.5	2.0	0.5	-	-

*Net of Existing ORRI net of Petroleum Tax

Definitions

Delek Drilling Limited/the Partnership	Delek Drilling Limited Partnership
Avner	Avner Oil Exploration - Limited Partnership
Natural Gas	A gas mixture containing mainly Methane, used mainly for the production of electricity and as a source of energy for industry
The Purchaser/Energean	Energean E&P Holdings Ltd. through Energean Israel Limited (Formerly Ocean Energean Oil and Gas Ltd.).
The Partnerships/Sellers	Delek Drilling and Avner
The Petroleum Law	The Petroleum Law, 5712-1952
The Gas Framework or the Framework	The resolution of the Israeli government on the creation of a framework for increasing the amount of natural gas produced from the Tamar natural gas field and the quick development of the Leviathan, Karish and Tanin natural gas fields as well as other gas fields
Noble	Noble Energy Mediterranean Ltd.
Condensate	Hydrocarbon liquid created during the production of natural gas, used as raw material for the production of fuels and constitutes a petroleum substitute
Petroleum Asset	A preliminary permit, license or lease by virtue of the Petroleum Law in Israel or a right of similar meaning granted by the entity authorized therefor outside Israel
Ratio	Ratio Oil Exploration (1992), Limited Partnership
Isramco	Isramco Negev 2, Limited Partnership
BCM	Billion Cubic Meters
DCF	Discounted Cash Flows
FID	The date on which the Purchaser adopted a decision for the investment for the development of Karish and Tanin natural gas reservoirs
LNG	Liquid Natural Gas
MMBTU	A Million BTU – an energy unit used as a basis for the determination of natural gas prices