Delek Drilling

2021

FINANCIAL STATEMENTS AS OF 30.9.2021

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Delek Drilling

30.9.2021

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Delek Drilling

Description of the Partnership Business

Update to Chapter A (Description of the Partnership's Business)

of the Periodic Report for 2020

# of Delek Drilling – Limited Partnership (the "Partnership")[1]

1. **Section 1.5 of the Periodic Report – Description of the general development of the Partnership's business**

For details with respect to the Partnership's entry into a binding and contingent agreement for the sale of its 22%-interest in the I/12 "Tamar" and I/13 "Dalit" leases (in this section: the "**Leases**" and the "**Sale Transaction**"), and with respect to the approval of the Sale Transaction by the special general meeting of the holders of participation units of the Partnership, which was held on October 31, 2021, see the Partnership's immediate reports of September 2, 2021, September 24, 2021 and October 31, 2021 (Ref. No. 2021-01-143664, 2021-01-148602 and 2021-01-161679, respectively), the details included in which are incorporated herein by reference.

It is noted that November 3, 2021 saw the receipt of the supervisors' approval of the sale of the Partnership's interests in the Leases ("**Sale of the Interests**") and that, according to the Ministry of Energy's announcement of November 10, 2021[2], the Petroleum Council had advised the Petroleum Commissioner at the Ministry of Energy (in this section: the "**Commissioner**") to approve the Sale of the Interests. It is clarified that receipt of the Commissioner's approval is subject to the receipt of approval from the Competition Authority. Given the foregoing, as of the date of the report, the Partnership is in advanced stages of closing of the Sale Transaction.

2. **Section 7.2.4 of the Periodic Report – Planned and actual work plan for the Leviathan project**

In November 2021, preplanned periodic maintenance work was performed on the Leviathan platform for about seven days, during which the flow of gas from the Leviathan platform was discontinued. As part thereof, various maintenance measures were performed as well as upgrades to the production system, including the replacement of platform filters, which are expected to allow for optimal production, *inter alia*, in the upcoming winter months.

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[1] The update includes material news or changes that occurred in the Partnership's business in the course of Q3/2021 until shortly before the release of this report on any matter required to be described in the periodic report, with the exception of updates that were included in the Q1 report as of March 31, 2021, as released on May 19, 2021 (Ref. No. 2021-01-086418) (the "**Q1/2021 Report**"), and in the Q2 report as of June 30, 2021, as released on August 15, 2021 (Ref. No. 2021-01-131760) (the "**Q2/2021 Report**"). The update refers to the section numbers in Chapter A (Description of the Partnership's Business) of the periodic report for 2020, as released on March 17, 2021 (Ref. No. 2021-01-036588) (the "**Periodic Report**"), unless otherwise indicated.

[2] https://www.gov.il/he/departments/news/press_101121_1

3. **<u>Section 4 of the Periodic Report – Distribution of profits</u>**

For details with respect to a distribution of profits in the amount of 100 million U.S. dollars ("**$**"), which was performed on October 13, 2021, see the Partnership immediate report of September 23, 2021 (Ref. No. 2021-01-148473), the details included in which are incorporated herein by reference.

4. **<u>Sections 7.4.6 and 7.4.11 of the Periodic Report – Planned and actual work plan in Block 12 in Cyprus ("Block 12")</u>**

a. For details with respect to the approval received from the Cypriot Government for extension of the commitment of the partners in Block 12 to drill an appraisal/development well (the "**Well**") by 12 additional months, see the Partnership's immediate report of October 14, 2021 (Ref. No. 2021-01-155937), the details included in which are incorporated herein by reference.

b. As of the date of the report, the partners in Block 12 have approved a work plan and a budget for 2022 in the amount of approx. $32 million (100%), with respect to which the Cypriot Government's approval has not yet been received. It is noted that this budget does not include the cost of drilling of the Well.

5. **<u>Sections 7.5 and 7.25.12 of the Periodic Report – License 405/"New Ofek" (the "New Ofek License")</u>**

a. Further to Section 3 of the Q1/2021 Report and Section 5 of the Q2/2021 Report with respect to the planned and actual work plan for the New Ofek License, it is noted that the operator of the New Ofek License, S.O.A. Energy Israel Ltd. ("**SOA**"), has apprised the Partnership that entry into the "Ofek-2" toward the performance of production tests therein commenced on August 25, 2021, and that as a result of various delays in the commencement of the work, *inter alia*, due to improvement of the lining pipes' sealing, the budget of the production tests increased by approx. $3.7 million (100%) compared with the previous budget approved by the partners in the New Ofek License, which was in the sum of approx. $10-13 million (100%). Furthermore, insofar as the results of the first-stage production tests are positive, the Partnership shall contribute its proportionate share also to a contingent budget of approx. $2.5 million (100%), which will be used for up to four additional production tests. SOA further apprised that upon completion of technical tests for examination of the functionality of the well, it was found to be fit for the performance of production tests on all target layers. As of the date of the report, SOA continues to prepare for the performance of production tests, which are expected to take about three months.

Caution concerning forward-looking information – The Partnership's estimations as set out above with respect to the planned activities, costs, timetables and the mere performance of the planned activities in the New Ofek License, and, in this context, *inter alia*, the estimated duration of the production tests and the

activities entailed thereby, their cost and other aspects pertaining to the New Ofek License and to the production tests, are forward-looking information within the meaning thereof in Section 32A of the Securities Law, 5728-1968 (the "Securities Law"), which is based on the Partnership's estimations with respect to the planned activities, costs and timetables and the mere performance of the planned activities which are all based on estimations the Partnership has received from SOA. The planned activities, costs and timetables may materially differ from the aforesaid estimations and are contingent, *inter alia*, on the adoption of the appropriate decisions by the partners in the New Ofek License, receipt of the approvals required by any law, completion of the detailed planning of the activities' components, receipt of offers from contractors, changes in the suppliers and feedstock market in the world, applicable regulation, technical ability, financial viability, operational conditions and market conditions.

b. On October 25, 2021, Globe Exploration (Y.C.D.) Limited Partnership reported the satisfaction of the conditions precedent stipulated for the validity of an agreement it had entered with SOA for the transfer of 10% of its interests in the New Ofek License to SOA. It is noted that the Partnership has given its consent to such transfer of interests to SOA and to the waiver of its right to participate in the acquisition thereof, in accordance with the joint operating agreement that governs the New Ofek License, and that such transfer of interests has not been completed yet.

6. <u>Section 7.12.2(b)(3)(b) of the Periodic Report – Entry into transmission agreements with Israel Natural Gas Lines Ltd. ("INGL")</u>

In September 2021, the operator of the Leviathan and Tamar reservoirs, Chevron Mediterranean Limited ("**Chevron**"), apprised the Partnership that, according to an update received from INGL with respect to the completion of the offshore Ashdod-Ashkelon section of the transmission system, the date of commencement of piping of the full quantities under the agreement for provision of transmission services for the purpose of piping natural gas from the Leviathan and Tamar reservoirs to EMG's terminal in Ashkelon for the purpose of transmission thereof to Egypt (the "**Piping Commencement Date**") is expected to occur in March 2023. Therefore, as of the date of the report, the Partnership is examining, jointly with Chevron, the possibility of piping natural gas from Israel to Egypt via Jordan, as specified in Section 7.12.2(b)(3)(b) of the Periodic Report. For details with respect to the annual gas quantities the Leviathan partners and the Tamar partners have undertaken to supply under the agreements for export to Egypt, see Sections 7.11.5(a)(2)(d) and 7.11.5(b)(2)(c) of the Periodic Report.

Caution concerning forward-looking information – The Partnership's estimation as set out above with respect to the Piping Commencement Date is forward-looking information, within the meaning thereof in Section 32A of the Securities Law, which is based on estimations the Partnership has received from INGL through Chevron, the materialization of which, in

whole or in part, is completely uncertain, and which may materialize in a materially different manner, due to various factors that are not within the Partnership's control.

7. **Section 7.18 of the Periodic Report – Human capital; and Section 26 of Chapter D of the Periodic Report – Senior officers of the General Partner and/or the Partnership**

On December 31, 2021, Mr. Yossi Gvura will cease to serve as Deputy CEO. In addition, on January 1, 2022, Mr. Tzahi Havusha will assume the position of CFO, replacing Mr. Ronen Edward, who will, at the same date, assume the position of Deputy CEO of the Leviathan project.

8. **Section 7.20 of the Periodic Report – Financing**

a. Bonds of Delek & Avner (Tamar Bond) Ltd. ("**Bonds of Tamar Bond**")

For details with respect to the Bonds of Tamar Bond's rating reports released by S&P Global Ratings and by Ma'alot S&P, see the Partnership's immediate reports of October 5, 2021 and October 6, 2021 (Ref. No. 2021-01-083830 and 2021-01-151914, respectively), the details included in which are incorporated herein by reference.

b. The Partnership's Series A Bonds ("**Series A Bonds**")

(1) Further to Section 10(c)(2) of the Q2/2021 Report regarding the approval of a plan for acquisition of Series A Bonds, it is noted that, up to the date of the report, the Partnership effectuated buybacks of Series A Bonds with a par value of ILS 56,961,790 in consideration for approx. $15 million. For further details, see Section E of the first part of the board of directors' report attached below.

(2) For details with respect to the Series A Bonds' rating report released by Midroog, see the Partnership's immediate report of October 20, 2021 (Ref. No. 2021-01-158367), the details included in which are incorporated herein by reference.

(3) Further to Section 7.20.4 of the Periodic Report, Series A Bonds will reach final maturity on December 31, 2021. As of the date of the report, the Partnership is considering various options for the receipt of a bank credit facility to maintain its financial flexibility.

(4) Further to Section 7.20.12(a) of the Periodic Report, it is noted that the Partnership has complied with the financial covenants undertaken thereby as part of the public offering of Series A Bonds, as specified below:[3]

[3] For details with respect to the calculation method of the terms in the table, see Section 7.20.12(a) of the Periodic Report.

Financial Covenant	The ratio Examined as of September 30, 2021 and as of the Date of the Report
Economic capital of the Partnership	Approx. 3,541
Economic capital to debt ratio	Approx. 9
Distribution	-

9. <u>Section 7.21 of the Periodic Report – Taxation</u>

a. Further to Section 7.21.2 of the Periodic Report and Section 11(a) of the Q2/2021 Report with respect to approval of the Income Tax Regulations (Rules for Calculation of the Tax on Holding and Sale of Participation Units of Oil Exploration Partnerships) (Amendment), 5782-2021 (the "**Regulations**") by the Knesset's Finance Committee, it is noted that the Regulations were published in the Official Gazette on September 14, 2021. For further details, see the Partnership's immediate report of September 19, 2021 (Ref. No. 2021-01-147411), the details included in which are incorporated herein by reference, and Note 6E to the financial statements as of September 30, 2021, which are attached below.

b. Further to Section 7.21.5 of the Periodic Report with respect to the release for public comment of the legislative memorandum on the Taxation of Profit from Natural Sources Law (Amendment), 5781-2021, it is noted that, on November 10, 2021, Amendment No. 3 to the Taxation of Profit from Natural Sources Law, 5782-2021 was approved by the Knesset on second and third reading. For further details, see the Partnership's immediate report of November 11, 2021 (Ref. 2021-01-165723), the details included in which are incorporated herein by reference, and Note 6G to the financial statements as of September 30, 2021, which are attached below.

c. Further to Section 7.21.6 of the Periodic Report with respect to temporary tax certificates for eligible holders in respect of holdings of participation units of the Partnership and of Avner Oil Exploration – Limited Partnership for the 2015 tax year, it is noted that the Partnership issued final tax certificates on October 20, 2021. For further details, see the Partnership's immediate report of October 20, 2021 (Ref. No. 2021-01-158139), the details included in which are incorporated herein by reference.

10. <u>Section 7.22.6 of the Periodic Report – Material legal or administrative proceedings related to environmental protection</u>

a. Further to Section 7.22.6(a) of the Periodic Report, regarding the appeal filed with the Supreme Court by the Homeland Guards nonprofit organization against the Ministry of Environmental Protection and officials thereof and against Chevron, and the Ministry of Energy, in relation to the Leviathan platform's emission permit (in this section: the "**Appeal**"), it is noted that the Supreme Court handed down a judgment on November 2, 2021, which denied the Appeal, with no order for costs, and upheld the costs that had been awarded by the District Court.

b. Further to Section 7.22.6(b) of the Periodic Report and Section 8(a) of the Q1/2021 Report, regarding the appeal filed with the Supreme Court by several local and regional councils against the Head of the Air Quality Department at the Ministry of Environmental Protection and Chevron, in relation to the Leviathan platform's emission permit (in this section: the "**Appeal**"), it is noted that the Supreme Court handed down a judgment on October 7, 2021, which denied the Appeal, with no order for costs.

c. Further to Section 7.22.6(e) of the Periodic Report, regarding the Ministry of Environmental Protection's notice of its intention to impose a financial penalty on Chevron, the sum of which is not material, due to alleged violations of the conditions of the Leviathan platform's emission permit and of the provisions of the Clean Air Law, 5768-2008, in relation to the operation of flares on the production platform, it is noted that the Ministry of Environmental Protection issued a decision on September 5, 2021, imposing on Chevron a reduced financial penalty in the amount of ILS 548,520.

d. Further to Section 7.22.6(g) of the Periodic Report and Section 8(c) of the Q1/2021 Report, regarding a motion for certification of a class action suit, filed by a resident of the Dor Beach area on behalf of "anyone exposed to the pollution of the air, sea and coastal environment resulting from prohibited emissions from the offshore gas platform operated by the Respondents, which is located across from the Dor Beach, and runs the Leviathan natural gas reservoir, during the period between the date of commencement of the platform's operations in December 2019 and the issuance of a judgment in the action" (in this section: the "**Petitioner**" and the "**Certification Motion**", respectively), against Chevron and its parent company[4], it is noted that Chevron filed a response to the Certification Motion on August 31, 2021, and the Petitioner is accordingly required to file his reply by November 19, 2021.

e. On November 1, 2021, Chevron received a letter of notice and summons to a hearing before the Ministry of Environmental Protection due to noncompliance with the conditions of the sea discharge permit issued to the Leviathan platform and violation of the Prevention of Marine Pollution from Onshore Sources Law, 5748-1988, in which letter it is claimed that Chevron has deviated from the specified criteria for discharge into the sea from the open system. The hearing is scheduled for December 12, 2021.

11. <u>Section 7.23 of the Periodic Report – Restrictions on and supervision over the Partnership's operations</u>

a. Further to Section 7.23.3(g) of the Periodic Report and Section 13(a) of the Q2/2021 Report, regarding the Legislative Memorandum for the Economic Plan Law (Legislative Amendments for Implementation of the Economic Policy for Budget Years 2021 and 2022), 5781-2021, Chapter

[4] It is noted that on September 19, 2021 the Court granted the Petitioner's motion to amend the Certification Motion, and ordered that Chevron's parent company be removed as a respondent from the Certification Motion.

___: The Natural Gas Sector (the "**Amendment to the Law**"), which amends the Natural Gas Sector Law, 5762-2002 (the "**Natural Gas Sector Law**"), it is noted that, on November 4, 2021, the Amendment to the Law was approved by the Knesset on second and third reading, as part of the Economic Plan Law (Legislative Amendments for Implementation of the Economic Policy for Budget Years 2021 and 2022), 5782-2021.

b. Further to Section 7.23.5(g) of the Periodic Report, Section 9(d) of the Q1/2021 Report and Section 13(c) of the Q2/2021 Report, regarding the proposed targets for the reduction of emissions by the energy sector in 2050 and Government Resolution No. 171 which concerns a transition to low-carbon economy ("**Resolution 171**"), it is noted that on October 12, 2021, the Ministry of Energy published a long-term strategic plan for compliance with emission reduction targets by the energy sector in 2050[5]. The plan outlines principal courses of action and policy measures derived from such targets, and addresses the electricity, transportation, industry and natural gas sectors, as well as infrastructure planning and regional collaborations. Further thereto, on October 29, 2021, the Office of the Spokesperson of the Prime Minister's Office released an announcement, whereby the Prime Minister and the Minister of Energy had agreed to increase the carbon emission reduction target, such that by 2050 Israel would nullify emissions[6].

c. Further to Section 13(d) of the Q2/2021 Report, regarding the promotion of a plan for implementation of a mechanism for the imposition of carbon tax by the Ministry of Environmental Protection, the Ministry of Finance, the Ministry of Energy and the Ministry of Economic Affairs, it is noted that, further to Resolution 171, August 1, 2021 saw the adoption of Government Resolution No. 286 ("**Resolution 286**"), the key points of which are as follows: (a) To task the Minister of Finance with the amendment of the Fuel Excise Order, the Customs Tariff and Exemptions Order and the purchase tax on goods, in order to lead to the gradual internalization of the environmental externalities of carbon emissions. The taxation pertaining to natural gas will gradually commence in 2023 in the following manner: The amount of the excise and purchase tax on natural gas will be approx. ILS 29 per ton in 2023; approx. ILS 45 per ton in 2024; approx. ILS 65 per ton in 2025; approx. ILS 91 per ton in 2026; approx. ILS 126 per ton in 2027; approx. ILS 170 per ton in 2028, and so forth. Furthermore, the decision specifies a taxation mechanism for all fuels and for mixed waste burial and burning costs; (b) To task a team headed by the Budget Department of the Ministry of Finance and the Ministry of Energy, in consultation with the Bank of Israel and the National Insurance Institute, with advising the Director General of the Ministry of Energy on mechanisms for encouraging energy efficiency and facilitating the

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[5] https://www.gov.il/he/departments/publications/reports/energy_121021?utm_source=InforuMail&utm_medium=email&utm_campaign=%D7%A2%D7%93%D7%9B%D7%95%D7%A0%D7%99%D7%9D+%D7%9E%D7%90%D7%AA%D7%A8+%D7%9E%D7%A9%D7%A8%D7%93+%D7%94%D7%90%D7%A0%D7%A8%D7%92%D7%99%D7%94+%28253%29

[6] https://www.gov.il/he/departments/news/carbon_emissions291021

transition to clear energy for low-income demographics resulting from the imposition of such tax, without negatively affecting the incentives for emission reduction that underpin the tax, within 6 months of the date of issuance of Resolution 286; (c) To present to the Government, within 60 days of the date of Resolution 286, a national multiannual plan for energetic efficiency of the business sector, with an emphasis on industry; and (d) In the event of technological developments that allow for the reduction of carbon emissions from source fuels, the Ministry of Energy, Ministry of Finance and Ministry of Environmental Protection shall examine the implications of such technological developments[7].

d. Further to Section 7.23.5(g) of the Periodic Report, Section 9(d) of Q1/2021 Report and Sections 13(c)-13(d) of Q2/2021 Report, with respect to Resolution 171, which sets targets for the reduction of emissions by the energy sector for the years 2030 and 2050, it is noted that on October 24, 2021, several government resolutions were adopted further to Resolution 171, as follows:

(1) Government Resolution No. 541, which approved an update to the national plan for energy efficiency and greenhouse gas emission reduction, the key points of which are as follows: (a) To adopt an energy-intensity interim target of 131.7 MWh per ILS 1 million of GDP in 2026; (b) To appoint an interministerial task force headed by the Ministry of Energy for monitoring and control of the implementation of the national energy efficiency plan; (c) To impose on all government ministries a duty to report to the Ministry of Energy on activities conducted by the ministries in the interests of energy efficiency and renewable energies; (d) To task the Minister of Energy, the Minister of Environmental Protection and the Minister of Economy and Industry with the implementation of programs of grants and promotion of pioneering projects for energy efficiency and greenhouse gas emission reduction and reduction of the negative effect on competition in the Israeli industry; and (e) To task the Minister of Energy with promoting the preparation and implementation of sustainable energy programs in local authorities.

(2) Government Resolution No. 542, the key points of which are as follows: (a) Determining a new target whereby from 2035, at least 50% of vehicles above 3.5 tons imported into Israel shall be clean or use fuels which reduce 80% of greenhouse emissions relative to diesel; (b) Establishment of an inter-ministerial steering team that will monitor the achievement of the Resolution targets, work to remove barriers to their achievement and recommend changes for promotion of the implementation of the Resolution targets; and (c) Listing of the actions to be taken with the aim of meeting the targets set forth in the Resolution.

(3) Resolution No. 543, which concerns acceleration of infrastructures in the context of the battle against climate change, in which a

[7] https://www.gov.il/he/departments/policies/dec286_2021

decision was made to establish an inter-ministerial taskforce headed by the Director General of the Prime Minister's Office, for the acceleration of infrastructure projects of national importance for the reduction of greenhouse emissions and achievement of the targets of transition to a low-carbon economy.

e. August 18, 2021 saw the release for public comment of the Legislative Memorandum on the Gas Law (Safety and Licensing) (Amendment No. …) (Various Amendments), 5781-2021 (the "**Safety and Licensing Legislative Memorandum**")[8], which proposes changes in the existing safety regulation of the natural gas sector, by enacting amendments both to the Gas Law (Safety and Licensing), 5749-1989, which regulates safety issues in the gas sector and confers the power to determine safety rules and regulations for gas facilities and for persons engaged in the natural gas sector, and to the Natural Gas Sector Law. The Safety and Licensing Legislative Memorandum prescribes rules and directives that will apply to holders of licenses pursuant to the Natural Gas Sector Law, the key provisions of which are as follows: (1) To determine that the installation of a gas facility or a fundamental change in a gas facility will require an installation permit by an inspecting body, *in lieu* of the Director of the Gas Authority; (2) To allow the Minister of Energy to authorize personnel of his Ministry to serve as supervisors who are entrusted with the performance of the provisions of the law, and grant them enforcement powers to conduct activities of investigation, inspection and seizure; (3) To amend the section that requires the construction or change of a gas facility in accordance with specifications, such that the specifications be approved by the CEO and Chief Engineer of the license holder, *in lieu* of approval by the Director of the Gas Authority and the Safety Commissioner; (4) To defined, in a focused and clear manner, which provisions of the law constitute criminal offenses and to determine a penalization hierarchy according to the severity of the offense; and (5) To confer on the Director of the Gas Authority the power to impose a financial penalty for violation of some of the provisions that are suitable for enforcement in this manner.

12. <u>Section 7.26 of the Periodic Report – Legal proceedings</u>

a. Further to Section 7.26.1 of the Periodic Report and Section 14(a) of the Q2/2021 Report, regarding the District Court judgment that denied the motion for certification of a class action suit filed by a consumer of the Israel Electric Corporation Ltd. ("**IEC**" and in this section: the

[8] https://www.tazkirim.gov.il/s/law-item/a093Y00001RdkpCQAR/%D7%AA%D7%96%D7%9B%D7%99%D7%A8-%D7%97%D7%95%D7%A7-%D7%94%D7%92%D7%96-%D7%91%D7%98%D7%99%D7%97%D7%95%D7%AA-%D7%95%D7%A8%D7%99%D7%A9%D7%95%D7%99-%D7%AA%D7%99%D7%A7%D7%95%D7%9F-%D7%9E%D7%A1-%D7%9E%D7%99%D7%AA%D7%A7%D7%A0%D7%99-%D7%92%D7%96-%D7%98%D7%91%D7%A2%D7%99-%D7%9C%D7%A9%D7%99%D7%9E%D7%95%D7%A9-%D7%91%D7%99%D7%AA%D7%99-%D7%94%D7%AA%D7%A9%D7%A4%D7%90?language=iw

"**Petitioner**", respectively) against the Tamar partners, in relation to the price for which natural gas is sold to the IEC by the Tamar partners (in this section: the "**Judgment**"), it is noted that the Judgment was appealed to the Supreme Court by the Petitioner on September 30, 2021. For further details, see the Partnership's immediate report of October 3, 2021 (Ref. No. 2021-01-150261), the details included in which are incorporated herein by reference. According to the Court's decision of October 13, 2021, the Tamar partners are required to file their response to the appeal by December 12, 2021, and a hearing will be held on the appeal on September 19, 2022.

b. Further to Section 7.26.2 of the Periodic Report and Section 14(b) of the Q2/2021 Report, regarding a claim filed with the Jerusalem District Court by the Partnership and Chevron (in this section, together: the "**Plaintiffs**") against the State of Israel, by its Ministry of Energy representatives (in this section: the "**Defendant**"), which chiefly concerns the recovery of excess royalties the Plaintiffs have paid the Defendant under protest, it is noted that, on September 19, 2021, the Defendant filed another motion to extend the time for the filing of the summations on its behalf, such that they be filed by November 28, 2021, and such motion was granted by the Court that same day. Accordingly, the Plaintiffs may submit their response summations by December 28, 2021.

c. Further to Section 7.26.4 of the Periodic Report, Section 10(b) of the Q1/2021 Report and Section 14(d) of the Q2/2021 Report, regarding a class action suit and a motion for certification thereof (in this section: the "**Certification Motion**"), filed with the Tel Aviv District Court (Economic Department) by a shareholder of Tamar Petroleum Ltd. ("**Tamar Petroleum**") and the Public Representatives nonprofit organization, against the Partnership, Tamar Petroleum, officers thereof and Leader Issuances (1993) Ltd., in relation to the offering of Tamar Petroleum shares in July 2017, it is noted that the motion for leave to appeal the decision to approve the amendment of the Certification Motion was denied on November 7, 2021.

d. Further to Section 7.26.5 of the Periodic Report and Section 10(c) of the Q1/2021 Report, regarding a class action suit and a motion for certification thereof (in this section: the "**Certification Motion**") filed with the Tel Aviv District Court by an electricity consumer (in this section: the "**Petitioner**"), against the Partnership and Chevron and against the other holders of the Tamar project and the Leviathan project (as parties against which no remedy is sought), in relation to the competitive process for natural gas supply conducted by the IEC and a possible amendment of the agreement for the supply of gas from the Tamar project to the IEC, as concluded by Isramco Negev 2 – Limited Partnership, Tamar Petroleum, Dor Gas Exploration – Limited Partnership and Everest Infrastructures – Limited Partnership (jointly in this section: the "**Other Holders of the Tamar Project**"), without the Partnership and Chevron's involvement, it is noted that, after the Petitioner had changed his position and filed an agreed motion to remove the Other Holders of the Tamar Project from the Certification Motion, the Court approved their removal on September 9, 2021, and decided that a pretrial hearing on the Certification Motion would be held on April 24, 2022. Furthermore, in accordance with the Court's decision of October 21, 2021, the responses to the Certification Motion will be filed by December 1, 2021.

e. Further to Section 7.26.6 of the Periodic Report, Section 10(d) of the Q1/2021 Report and Section 14(e) of the Q2/2021 Report, regarding a complaint filed by the supervisor against the Partnership, Delek Drilling Management (1993) Ltd. (the "**General Partner**") and the royalty interest owners (which include Delek Group Ltd., the control holder of the Partnership ("**Delek Group**"), Delek Energy Systems Ltd. and Delek Royalties (2012) Ltd.), and a counter-complaint filed by the royalty interest owners, all in relation to the date of recovery of the investment in the Tamar project, it is noted that on November 1, 2021, the parties informed the Court that the mediation process had not yet been exhausted, and the Court ordered that the parties update it again by November 18, 2021.

f. Further to Section 7.26.8 of the Periodic Report, regarding an administrative appeal filed with the District Court in Jerusalem by Lobby 99 Ltd. (CIC) and Success – for the Promotion of a Fair Society (R.A.), against the Competition Commissioner, EMED Pipeline B.V. and Eastern Mediterranean Gas Company S.A.E. (in this section: the "**Administrative Appeal**"), it is noted that trial dates have been scheduled for March 2022.

g. Further to Section 7.26.9 of the Periodic Report, Section 10(e) of the Q1/2021 Report and Section 14(f) of the Q2/2021 Report, regarding a class action suit and a motion for certification thereof filed with the Economic Department of the Tel Aviv District Court by a holder of participation units of the Partnership (in this section: the "**Petitioner**"), against the Partnership, the General Partner, Delek Group, Yitzhak Sharon (Tshuva), the directors of the General Partner, including the former chairman of the board, and the CEO of the General Partner (jointly in this section: the "**Respondents**"), arguing that the Respondents failed to disclose in the Partnership's reports a clause included in agreements for the sale of natural gas from the Leviathan and Tamar reservoirs to Dolphinus Holdings Limited, it is noted that, on September 26, 2021 the Petitioner filed a reply to the Respondents' response to the Certification Motion, attaching an up-to-date expert opinion, and on October 3, 2021, the Court ordered the Attorney General to notify by November 5, 2021 whether he wished to join the case and submit his position thereon. Since no such notice was filed, on November 11, 2021 the Court ruled that it would await receipt thereof until November 25, 2021.

h. Further to Section 7.26.10 of the Periodic Report, Section 10(f) of the Q1/2021 Report and Section 14(g) of the Q2/2021 Report, regarding a petition filed with the Supreme Court, sitting as the High Court of Justice, by the Partnership and Chevron (jointly in this section: the "**Petitioners**"), it is noted that Energean Oil and Gas Plc. ("**Energean**") filed its response to the petition on August 19, 2021, and the Petitioners filed their reply to

Energean's response on October 25, 2021. According to the Court's decision, a follow-on hearing has been scheduled for April 14, 2022.

i. Further to Section 10(g) of the Q1/2021 Report and Section 14(h) of the Q2/2021 Report, regarding an administrative petition filed with the Jerusalem District Court (sitting as the Court for Administrative Affairs), by the nonprofit organization Adam Teva V'Din – Israel Union for Environmental Defense, against the Tax Authority, the Officer in charge of the implementation of the Freedom of Information Law, 5758-1998 at the Tax Authority, Chevron, the Partnership, Ratio Oil Exploration (1992) – Limited Partnership, Givot Olam Oil Exploration – Limited Partnership (1993), E.C.L. Group Ltd., Dead Sea Works Ltd. and Rotem Amfert Negev Ltd., and the other Tamar partners, it is noted that a hearing on the petition has been scheduled for January 11, 2022.

j. Further to Section 10(h) of the Q1/2021 Report and Section 14(i) of the Q2/2021 Report, regarding a petition filed by the Partnership, together with the other Leviathan partners and Tamar partners (in this section, jointly, the "**Petitioners**"), against the Natural Gas Council and the Ministry of Energy (jointly in this section: the "**State Respondents**"), it is noted that on October 26, 2021, Energean, which has been added to the petition as an additional respondent, filed its response whereby the petition is justified, and on October 27, 2021, INGL, which has also been added to the petition as a respondent, filed its response in which it was argued that the petition is marred by bad faith and unclean hands due to the concealment of material facts and the failure to join in the petition parties that may be negatively affected thereby, and that the decision to which the petition pertains was made with authority and is reasonable. In addition, on November 5, 2021, the State Respondents filed their response to the petition, arguing that the petition should be summarily dismissed due to the failure to add the gas consumers as respondents to the petition, and that the petition should also be dismissed on its merits, because the decision was made with authority and is reasonable on its merits. On November 14, 2021 the court granted a motion by the Petitioners to file an answer on their behalf to the response of the State respondents.

k. Further to Section 10(j) of the Q2/2021 Report regarding a suit brought by Haifa Port Company Ltd. ("**Haifa Port**") against Chevron, Coral Maritime Services Ltd. and Gold-Line Shipping Ltd., it is noted that Chevron filed its answer on August 31, 2021, and that Haifa Port has the right to file a reply by December 1, 2021. At the same time, Chevron filed a counter-complaint in the amount of ILS 4,405,842 against Haifa Port, seeking ILS 715,691 for handling fees and infrastructure fees actually charged by Haifa Port, in violation of the law, and seeking ILS 3,690,151 for mooring fees charged to Chevron without a 30%-reduction, in violation of the law, in cases of self-navigation by ships passing through the area of the port. Haifa Port is required to file a counter-answer by December 1, 2021, and Chevron has the right to file a counter-reply by December 15, 2021. A pretrial hearing has been scheduled for February 6, 2022.

13. Section 7.27 of the Periodic Report – Targets and business strategy

Further to Section 7.27.1 of the Periodic Report, Section 11 of the Q1/2021 Report and Section 15(a) of the Q2/2021 Report, regarding the promotion of a possible listing of the Partnership's principal assets on a foreign stock exchange, and, in this context, the filing of a petition with the Court, by the General Partner and Delek Drilling Trusts Ltd., the Limited Partner of the Partnership (jointly in this section: the "**Petitioners**"), under Sections 350 and 351 of the Companies Law, 5759-1999, for permission to convene a general meeting of the holders of the Partnership's participation units (in this section: the "**Petition**") for approval of an arrangement, the core of which is exchange of the participation units for ordinary shares of a new company incorporated in England (the "**Arrangement**"), it is noted that on October 6, 2021, the Petitioners, the supervisors and Delek Group filed responses to the Petition, and on October 13, 2021, a hearing was held on the Petition. For further details, see the Partnership's immediate reports of October 7, 2021 and October 14, 2021 (Ref. No. 2021-01-152595 and 2021-01-155964, respectively), the details included in which are incorporated herein by reference.

Furthermore, on November 2, 2021, the Court approved a procedural arrangement that had been proposed by the parties, whereby Respondents 5-7 would file their response by November 10, 2021, the Israel Securities Authority (ISA) would file its position on Delek Group's royalties by November 16, 2021, and the Petitioners and Delek Group would file their reply to such positions by November 30, 2021, and Respondents 5-7 and the ISA filed their response on November 10, 2021 and November 14, 2021, respectively. For further details, see Partnership's immediate reports of November 11, 2021 and November 15, 2021 (Ref. 2021-01-165603 and 2021-01-166623, respectively), the details included in which are incorporated herein by reference. It is noted that the Petitioners and Delek Group are entitled to respond to the positions filed as aforesaid until November 28, 2021.

It is clarified that, as of the date of the report, there is no certainty as to the timing of approval of the arrangement, the feasibility thereof and the possibility of receiving all of the approvals required for execution thereof.

14. Regulation 21 in Chapter D of the Periodic Report – Compensation of interested parties and senior officers

a. Further to Regulation 21(b)(2) of Chapter D of the Periodic Report with respect to the compensation to which Mr. Yossi Abu, the CEO of the General Partner ("**Mr. Abu**"), is entitled, it is noted that on October 31, 2021, the special general meeting of the holders of the Partnership's participation units approved the payment of a special bonus to Mr. Abu. For details, see the Partnership's immediate reports of September 24, 2021 and October 31, 2021 (Ref. No. 2021-01-148602 and 2021-01-161679, respectively), the details included in which are incorporated herein by reference.

b. Further to Regulation 21(b)(7) and Regulation 22(a) of Chapter D of the Periodic Report with respect to an arrangement for the provision of services between the Partnership and the General Partner, it is noted that the Partnership continues to act for the formulation of mutual understandings with Delek Group with respect to a new services arrangement. In this context, it is noted that, since May 2021, the Partnership has not transferred to the General Partner management fees in respect of the management services the General Partner continues to provide the Partnership. Given the foregoing, a provision in the amount of approx. $400 thousand has been recorded in the Partnership's books.

15. <u>Regulation 24B of Chapter D of the Periodic Report – Register of the Partnership's participation unit holders</u>

For details with respect to a change in the register of Partnership's participation unit holders following the replacement of the transfer agent, see the Partnership's immediate report of October 26, 2021 (Ref. No. 2021-01-159813), the details included in which are incorporated herein by reference.

16. <u>Regulation 26 of Chapter D of the Periodic Report – the Directors of the General Partner</u>

For details with respect to the appointment of Mr. Jacob Zack and Mr. Amos Yaron as external directors on the General Partner's board of directors for a third term of office, which was approved by the special general meeting of the holders of participation units of the Partnership on October 14, 2021, see the Partnership's immediate reports of September 5, 2021, October 3, 2021, October 14, 2021 and October 24, 2021 (Ref. No. 2021-01-144591,2021-01-150285, 2021-01-156177 and 2021-01-158988, respectively), the details included in which are incorporated herein by reference.

17. The following table includes data of natural gas and condensate production in the first three quarters of 2021 in the Tamar project:[9,10]

		Q1		Q2		Q3[11]	
		Natural Gas	**Conde-nsate**	**Natural Gas**	**Conde-nsate**	**Natural Gas**	**Conde-nsate**
Total output (attributable to the holders of the equity interests of the Partnership) during the period (in MMCF for natural gas and in thousands of barrels for condensate)		13,441.26	18.17	12,926.02	16.38	21,416.32	28.82
Average price per output unit (attributable to the holders of the equity interests of the Partnership ($ per MCF and per barrel)[12]		4.59	50.26	4.65	60.01	4.69	62.09
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 (attributable to the holders of the equity interests of the Partnership) ($ per MCF and per barrel)	The State	0.49	5.26	0.50	6.37	0.53	7.02
	Third Parties	0.39	4.15	0.40	5.76	0.42	6.16
	Interested Parties	-	-	-	-	-	-
Average production costs per output unit (attributable to the holders of the equity interests of the Partnership)($ per MCF and per barrel)[13],[14]		0.73	3.98	0.59	3.44	0.32	1.75

[9] The share attributable to the holders of the equity interests of the Partnership in the output, royalties paid, production costs and net proceeds was rounded off to two digits after the decimal point.

[10] The production data for the first two quarters of 2021 are based on the Partnership's direct holding of the Tamar project, the rate of which is only 22%.

[11] It is noted that the effective date of the transaction for sale of the Partnership's interests in the Tamar project, as specified in Section 1 above, is August 1, 2021.

[12] The average price per output unit in the first two quarters of 2021 factors in the Partnership's actual price, which includes the outline for the sale of natural gas between the Tamar project and the Yam Tethys project. On this point, see Sections 7.7 and 7.26.2 of the Periodic Report.

[13] The data include current production costs only and exclude the exploration and development costs of the reservoir and future tax payments to be made by the Partnership.

[14] It is noted that the average production costs per output unit include costs in respect of the transmission of natural gas via INGL's transmission system to EMG's terminal in Ashkelon for the purpose of supplying the gas to Egypt, in the amount of approx. $3.5 million in Q1/2021, in the amount of approx. $3.1 million in Q2/2021 and in the amount of approx. $2.2 million in Q3/2021 (all in 100% terms).

Average net proceeds per output unit (attributable to the holders of the equity interests of the Partnership) ($ per MCF and per barrel)	2.98	36.87	3.16	44.44	3.42	47.16

18. <u>The following table includes data of natural gas and condensate production in the first three quarters of 2021 in the Leviathan project</u>:[15,16]

		Q1	Q2	Q3
		Natural Gas	**Natural Gas**	**Natural Gas**
Total output (attributable to the holders of the equity interests of the Partnership) during the period (in MMCF for natural gas)		43,467.14	44,292.83	45,267.94
Average price per output unit (attributable to the holders of the equity interests of the Partnership) ($ per MCF)		4.98	5.01	5.37
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 (attributable to the holders of the equity interests of the Partnership) ($ per MCF)	The State	0.54	0.55	0.59
	Third Parties	0.13	0.13	0.14
	Interested Parties	0.07	0.07	0.07
Average production costs per output unit (attributable to the holders of the equity interests of the Partnership) ($ per MCF)[17,18]		0.61	0.64	0.61
Average net proceeds per output unit (attributable to the holders of the equity interests of the Partnership) ($ per MCF)		3.63	3.62	3.96

Date: November 17, 2021

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

[15] The data presented in the above table with respect to the share attributable to the holders of the equity interests of the Partnership in the average price per output unit, royalties paid, production costs and net proceeds, was rounded off to two digits after the decimal point.

[16] Since the total costs entailed by the condensate production in Q3/2021 exceeded the total revenues received in respect thereof, and since the condensate is a byproduct of natural gas production, the above table does not present separate data in relation to the condensate production, and all of the costs and expenses in relation to the condensate production are attributed to the natural gas production.

[17] The data include current production costs only and exclude the exploration and development costs of the reservoir and future tax payments to be made by the Partnership.

[18] It is noted that the average production costs per output unit include costs in respect of the transmission of natural gas via INGL's transmission system to EMG's terminal in Ashkelon for the purpose of supplying the gas to Egypt, in the amount of approx. $12.5 million in Q1/2021, in the amount of approx. $11.7 million in Q2/2021 and in the amount of approx. $13.6 million in Q3/2021 (all in 100% terms)

Delek Drilling

Board of Directors Report

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, 2021

Delek Drilling Limited Partnership

Report of the Board of Directors of the General Partner for the Period Ended September 30, 2021

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, 2021 (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 2020 (the "**Periodic Report**"), and the condensed interim financial statements as of March 31, 2021 and June 30, 2021 and the condensed interim statements as of September 30, 2021 (the "**Condensed Interim Financial Statements**"), which are attached below.

2. Results of operations

A. General

As of the date of approval of the Condensed Interim Financial Statements, the Partnership is in advanced stages of closing the sale of its 22% interest in the Tamar project, a binding and contingent sale agreement for the sale of which was signed on September 2, 2021. For details, see Note 4A to the financial statements attached below.

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. At the same time, the Partnership explores various business opportunities with characteristics similar to those in which the Partnership is active.

On May 4, 2021 the General Partner and the trustee moved the court to exercise the authority vested in it by Sections 350 and 351 of the Companies Law, 5759-1999 (the "**Companies Law**"), and order the convening of a general meeting of the holders of the participation units issued by the trustee (the "**Participation Units**"), to discuss approval of an arrangement for exchange of the Participation Units for ordinary shares of a new company, New Med Energy Plc. ("**New Med**"), which was incorporated in England and is due to hold the full rights of the trustee and the General Partner in the Partnership (100%). New Med's shares will be listed for concurrent trading on the Tel Aviv Stock Exchange and the London Stock Exchange. For further details, see Note 1C to the financial statements attached below.

The Partnership's net profit in the Report Period amounted to approx. $187 million, compared with approx. $223 million in the same period last year.

The decrease in the net profit in the Report Period relative to the same period last year resulted mainly from an accounting provision for deferred taxes in the sum of approx. $216 million due to a change in the tax regulations that apply to gas and oil partnerships (see Note 6E to the financial statements attached below) which was offset by an increase in net revenues from the sale of natural gas from the Leviathan reservoir and a decrease in the financial expenses.

It is noted that the Partnership's net profit in the Report Period, before deduction of the accounting provision, as aforesaid, was approx. $403 million compared with approx. $223 million in the same period last year. The increase mainly derived from the increase in the gas quantities sold in the period, approx. 14.5 BCM from the Tamar and Leviathan reservoirs (100%) compared with approx. 11.1 BCM from the Tamar and Leviathan reservoirs (100%) in the same period last year.

The Partnership's loss in Q3/2021 amounted to approx. $50 million, compared with a net profit of approx. $103 million in the same period last year.

The loss in Q3, as aforesaid, derived from an accounting provision for deferred taxes as aforesaid, which was mainly offset by the increase in net revenues from the sale of natural gas from the Leviathan reservoir and a decrease in the financial expenses.

It is noted that the Partnership's net profit in Q3/2021, before deduction of the accounting provision, as aforesaid, was approx. $166 million compared with approx. $103 million in the same quarter last year. The increase mainly derived from the increase in the gas quantities sold in the quarter, approx. 5.6 BCM from the Tamar and Leviathan reservoirs (100%) compared with approx. 4.7 BCM from the Tamar and Leviathan reservoirs (100%) in the same quarter 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):

	1-3/2021	4-6/2021	7-9/2021	1-9/2021	[1]1-9/2020	[1]7-9/2020	[1]2020
Revenues							
From natural gas and condensate sales	216,455	221,578	243,240	681,273	436,524	180,702	587,086
Net of royalties	32,164	32,902	36,569	101,635	65,069	26,977	86,327
Revenues, net	**184,291**	**188,676**	**206,671**	**579,638**	**371,455**	**153,725**	**500,759**
Expenses and costs:							
Cost of natural gas and condensate production	26,910	28,438	28,073	83,421	61,356	24,649	89,673
Depreciation, depletion and amortization expenses	21,034	27,776	19,841	68,651	60,629	21,570	79,446
Other direct expenses	766	1,143	630	2,539	2,809	863	3,410
G&A expenses	3,022	4,649	4,217	11,888	11,049	5,154	14,630
Total expenses and costs	**51,732**	**62,006**	**52,761**	**166,499**	**135,843**	**52,236**	**187,159**
Partnership's share in the losses of a company accounted for at equity	(1,215)	(1,220)	(1,218)	(3,653)	(3,773)	(3,778)	(7,707)
Operating income	**131,344**	**125,450**	**152,692**	**409,486**	**231,839**	**97,711**	**305,893**
Financial expenses	(51,073)	(51,173)	(51,053)	(153,299)	(180,467)	(70,927)	(231,847)
Financial income	12,920	10,632	5,981	29,533	22,269	10,991	87,985
Financial expenses, net	(38,153)	(40,541)	(45,072)	(123,766)	(158,198)	(59,936)	(143,862)
Profit before taxes on income	**93,191**	**84,909**	**107,620**	**285,720**	**73,641**	**37,775**	**162,031**
Deferred taxes on income	-	-	(216,251)	(216,251)	-	-	-
Income (loss) from continuing operations	**93,191**	**84,909**	**(108,631)**	**69,469**	**73,641**	**37,775**	**162,031**
Income from discontinued operations, net	**21,548**	**37,257**	**58,772**	**117,577**	**149,041**	**65,375**	**203,089**
Net profit (loss)	**114,739**	**122,166**	**(49,859)**	**187,046**	**222,682**	**103,150**	**365,120**
Other comprehensive income (loss) from continuing operations:							
Amounts which may subsequently be carried to the income statement:							
Loss from cash flow hedging transactions	-	-	-	-	(4,757)	(166)	(4,757)
Carried to the income statement for cash flow hedging transactions	-	-	-	-	7,360	6,827	7,360
Comprehensive income (loss) from continuing operations	**93,191**	**84,909**	**(108,631)**	**69,469**	**76,244**	**44,436**	**164,634**
Other comprehensive income (loss) from discontinued operations:							
Amounts which will not be subsequently carried to the income statement:							
Profit (loss) from investment in equity instruments designated for measurement at fair value through other comprehensive income	9,086	4,511	-	13,597	(33,846)	1,545	(29,322)
Comprehensive income from discontinued operations	**30,634**	**41,768**	**58,772**	**131,174**	**115,195**	**66,920**	**173,767**
Total comprehensive income (loss)	**123,825**	**126,677**	**(49,859)**	**200,643**	**191,439**	**111,356**	**338,401**

[1] Reclassified to reflect discontinued operations, see Note 4 to the financial statements attached below.

Net revenues in the Report Period amounted to approx. $580 million, compared with approx. $371 million in the same period last year, an increase of approx. 56%. The increase chiefly derives from the increase in the quantities of natural gas sold from the Leviathan reservoir, from a total of approx. 5.3 BCM in the same period last year to a total of approx. 8.3 BCM in the Report Period.

Net revenues in Q3/2021 amounted to approx. $207 million, compared with approx. $154 million in the same period last year, an increase of approx. 34%. The increase chiefly derives from the increase in the quantities of natural gas sold from the Leviathan reservoir, from a total of approx. 2.3 BCM in Q3/2020 to a total of approx. 2.8 BCM in Q3/2021.

Following is a table detailing the gas quantities (100%) sold from the Leviathan reservoir in the Report Period, by geographic location of customer:

		(BCM)		
	Israel	**Jordan**	**Egypt**	**Total**
1-9/2020	2.9	1.3	1.1	5.3
1-9/2021	3.8	2.0	2.5	8.3
Q3/2020	1.1	0.5	0.7	2.3
Q3/2021	1.1	0.8	0.9	2.8

Cost of gas and condensate production mainly includes management and operating expenses in the Leviathan project which include, *inter alia*, expenses of haulage and transport, salaries, consulting, maintenance, insurance and cost of transmission of natural gas to Egypt. The cost of gas and condensate production in the Report Period amounted to approx. $83 million, compared with approx. $61 million in the same period last year, an increase of approx. 36%.
The increase in the Report Period mainly derives from the increase in sales of natural gas to Egypt and from maintenance expenses.

The cost of gas and condensate production in Q3/2021 amounted to approx. $28 million, compared with approx. $25 million in the same period last year. The increase chiefly derived from the reason stated above.

Depreciation, depletion and amortization expenses in the Report Period amounted to approx. $69 million, compared with approx. $61 million in the same period last year, an increase of approx. 13%. The increase derives primarily from the increase in the gas quantities produced from the Leviathan reservoir, which was offset by one-time inventory impairments which were performed in the same period last year.

Depreciation, depletion and amortization expenses in Q3/2021 amounted to approx. $20 million, compared with approx. $22 million in the same period last year. Depreciation expenses in the Report Period include depreciation depletion in the Leviathan project. The decrease mainly derives from expenses attributed to the update of the costs for abandonment of the platform and the terminal in the Yam Tethys project, which was offset by the increase in the quantities of gas produced from the Leviathan reservoir.

Other direct expenses in the Report Period amounted to approx. $2.5 million, compared with approx. $2.8 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 which are not in the production stage.

Other direct expenses in Q3/2021 amounted to approx. $1 million similarly to the same quarter last year.

G&A expenses in the Report Period amounted to approx. $12 million, compared with approx. $11 million in the same period last year, and include, *inter alia,* expenses for professional services and payroll expenses and management fees to the General Partner. In addition, G&A expenses include expenses in the amount of approx. $3 million (similarly to the same period last year), 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 the Report Period derived chiefly from an increase in expenses for D&O insurance. In this context, it is noted that since May 2021, the Partnership has not transferred to the General Partner management fees against the management services which the General Partner continues to provide to the Partnership. For further details see Note 8A to the financial statements attached below.

G&A expenses in Q3/2021 totaled approx. $4 million compared with approx. $5 million in the same period last year, and include, *inter alia*, expenses in the sum of approx. $1 million (similarly to the same period last year) which were recorded against a capital reserve for transactions between a corporation and a controlling interest holder thereof as aforesaid. The decrease mainly derived from a decrease in the professional services and payroll expenses.

The Partnership's share in the losses of a company accounted for at equity in the Report Period amounted to a loss of approx. $3.7 million, compared with a loss of approx. $3.8 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 Partnership's share in the profits (losses) of a company accounted for at equity in Q3/2021 amounted to a loss of approx. $1.2 million, compared with a loss of approx. $3.8 million in the same quarter last year.

Financial expenses in the Report Period amounted to approx. $153 million, compared with approx. $180 million in the same period last year. Most of the financial expenses in the Report Period derived mainly from interest in respect of bonds in the sum of approx. $151 million. Financial expenses in the same period last year, derived from interest in respect of bonds, and from liabilities to banking corporations in the sum of approx. $71 million and approx. $107 million, respectively. The decrease in financial expenses derived mainly from the issuance of bonds of Leviathan Bond concurrently with the repayment of the liabilities to banking corporations in connection with the Leviathan project and from repayment of the principal of the Tamar Bond bonds in the sum of $320 million. The aforesaid acts were performed in H2/2020.

The financial expenses in Q3/2021 amounted to approx. $51 million compared with approx. $71 million in the same period last year. Most of the financial expenses in the quarter derived from interest in respect of bonds in the sum of approx. $50 million. Financial expenses in the same quarter last year, derived from interest in respect of bonds and in respect of liabilities to banking corporations in the sum of approx. $37 million and approx. $35 million, respectively.
The decrease in financial expenses derived mainly from the aforesaid reasons.

Financial income in the Report Period amounted to approx. $30 million, compared with approx. $22 million in the same period last year. The increase in financial income mainly derives from an increase in income from the revaluation of royalties and annual payments receivable from the Karish and Tanin leases in the sum of approx. $8 million, which mainly derived from the passage of time, a forecasted increase in the electricity production tariff which affects the natural gas prices, and reduction of the capitalization interest rate of the annual payments receivable. For further details, see Note 8B to the financial statements attached below, Annex C to the Board of Directors' Report and the Valuation attached hereto.

Financial income in Q3/2021 amounted to approx. $6 million compared with approx. $11 million in the same period last year. The decrease mainly derived from the decrease in revenues from revaluation of royalties and annual payments receivable from the Karish and Tanin leases.

Net income from discontinued operations (Tamar reservoir), net in the Report Period amounted to approx. $118 million, compared with approx. $149 million in the same period last year and derives from the Partnership's holdings in the Tamar project (see Section 3C below regarding an agreement for the sale of all of the Partnership's holdings in the Tamar project). The decrease in the profit compared with the same period last year mainly derived from payment of the oil and gas profit levy in the Tamar project, which was offset by non-recording of depreciation, depletion and amortization expenses in Q2 and Q3 of 2021 due to discontinuation of the operations.
In the Report Period, approx. 6.2 BCM were sold from the Tamar reservoir compared with approx. 5.8 BCM in the same period last year.

Net income from discontinued operations, net, in Q3/2021, totaled approx. $59 million, compared with approx. $65 million in the same period last year. The decrease in profit compared with the same quarter last year, derived from the reasons stated above. In Q3/2021, approx. 2.8 BCM was sold from the Tamar reservoir, compared with approx. 2.4 BCM in the same period last year.
For further details, see Note 4 to the financial statements attached below.

Deferred taxes on income which were initially recognized in Q3/2021 totaled approx. $216 million due to the initial recognition of expenses of deferred taxes on income which derived from approval of an amendment to the Income Tax Regulations "Rules for the Calculation of Tax due to the Holding and Selling of Participation Units in an Oil Exploration Partnership". For further details, see Note 6E to the financial statements attached below.

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, 2021, compared with the statement of financial position as of December 31, 2020:

Total condensed statement of financial position as of September 30, 2021 amounts to approx. $4,969 million, compared with approx. $4,585 million as of December 31, 2020.

Current assets of the Partnership as of September 30, 2021 amount to approx. $840 million, compared with approx. $418 million as of December 31, 2020, as specified below:

1) **Cash and cash equivalents** as of September 30, 2021 total approx. $288 million, compared with approx. $70 million as of December 31, 2020. The increase derives primarily from the Partnership's proceeds from the sale of natural gas from the Leviathan project, proceeds from the sale of the shares of Tamar Petroleum as provided in Note 4E to the financial statements attached hereto and from proceeds for repayment of a loan given to Energean. Conversely, the Partnership paid tax for individual holders and a balancing payment to non-individual holders in the sum of approx. $37 million, paid tax advances for holders of the Participation Units in the sum of approx. $47 million and invested money in the Leviathan project, in short-term investments and in other projects.

2) **Short-term investments** as of September 30, 2021 total approx. $304 million, compared with approx. $169 million as of December 31, 2020, and primarily include deposits serving as a safety cushion for the bonds of Tamar Bond in the sum of approx. $139 million (approx. $35 million as of December 31, 2020) and a deposit serving as a safety cushion for the bonds of Leviathan Bond in the sum of approx. $146 million (approx. $134 million as of December 31, 2020). The increase in deposits as aforesaid mainly derived from income in respect of gas sales from the Leviathan reservoir and the Tamar reservoir which was setoff by withdrawal of money to the Partnership's cash accounts in accordance with the bonds agreements.

3) **Trade receivables** as of September 30, 2021 total approx. $193 million, compared with approx. $146 million as of December 31, 2020. The increase derived primarily from an increase in the trade receivables balance in the Leviathan project.

4) **Other receivables** as of September 30, 2021 total approx. $54 million compared with approx. $33 million as of December 31, 2020. The increase mainly derived from an increase in receivables and from payment of tax advances for the participation unit holders.

Assets held for sale as of September 30, 2021 total approx. $851 million, and include the Partnership's assets attributed to the Tamar project, see Note 4 to the financial statements attached hereto.

Non-current assets as of September 30, 2021 total approx. $3,277 million, compared with approx. $4,167 million on December 31, 2020, as specified below:

1) **Investments in oil and gas assets** as of September 30, 2021 total approx. $2,566 million, compared with approx. $3,440 million as of December 31, 2020. The decrease mainly derives from the classification of the investment in the Tamar project as assets held for sale, as well as the recording of depreciation, depletion and amortization expenses in the Leviathan project in the sum of approx. $58 million.
2) **Investment in a company accounted for at equity** as of September 30, 2021 totaled approx. $64 million compared with approx. $67 million as of December 31, 2020 and includes the investment in EMED shares.
3) **Long-term bank deposits** as of September 30, 2021 amount to approx. $101 million, similarly to the balance as of December 31, 2020, serving primarily as a safety cushion for the bonds of Leviathan Bond.
4) **Other long-term assets** as of September 30, 2021 totaled approx. $547 million, compared with approx. $559 million as of December 31, 2020. The decrease mainly derived from the sale of the Partnership's investment in Tamar Petroleum shares, reduction of access fees in respect of the Dolphinus agreement and from the classification of receivables from a company accounted for at equity as short-term. Conversely, royalties receivable have increased in respect of the Karish and Tanin leases as provided in Note 5V to the financial statements attached hereto and from an increase in the long-term assets item as part of the joint transactions (mainly in connection with the costs of construction of a transmission pipeline from Israel to Jordan and Egypt).

Current liabilities as of September 30, 2021 amount to approx. $1,313 million, compared with approx. $566 million as of December 31, 2020, as specified below:

1) **Bonds** include the Series A bonds in the sum of approx. $388 million (net of issue expenses), maturing in December 2021 and the bonds of Tamar Bond maturing in December 2023 and December 2025, in the sum of approx. $636 million (net of issue expenses) which were classified as current liabilities in view of the classification of the Tamar project under the assets held for sale item. See also Part Four below.
2) **Declared profits for distribution** as of September 30, 2021 totaled approx. $100 million, see Section D below.
3) **Provision for tax and balancing payments** as of December 31, 2020 totaled approx. $36 million, paid in January 2021.
4) **Trade and other payables** as of September 30, 2021 amounted to approx. $151 million, compared with approx. $74 million as of December 31, 2020. The increase derives primarily from an increase in the positive balance of the operator in the Leviathan and Tamar projects, and from an

entry of expenses for interest payable on bonds.

5) **Other short-term liabilities** as of September 30, 2021 amounted to approx. $37 million, compared with approx. $62 million as of December 31, 2020, and they derive from the oil and gas asset retirement obligation in the Yam Tethys project. The decrease derived mainly from the progress in the well-abandonment work.

Liabilities referring to assets held for sale as of September 30, 2021 total approx. $35 million and include the Partnership's liabilities attributed to the Tamar project. See Note 4 to the financial statements attached hereto.

Non-current liabilities as of September 30, 2021 amount to approx. $2,514 million, compared with approx. $3,021 million as of December 31, 2020, as specified below:

1) **Bonds** – in the sum of approx. $2,223 million include the bonds of Leviathan Bond (net of issue expenses) (see Part Four below), compared with the sum of approx. $2,855 million as of December 31, 2020. The decrease derived from the classification of the Tamar Bond bonds as current liabilities, as aforesaid.
2) **Other long-term liabilities** as of September 30, 2021 total approx. $74 million, compared with approx. $166 million as of December 31, 2020. The decrease mainly derives from the classification of the oil and gas asset retirement obligation in the Tamar project as "liabilities referring to assets held for sale".
3) **Deferred tax liability** as of September 30, 2021 totals approx. $216 million. The initial recognition of the deferred taxes on income liability derived from release of the Income Tax Regulations "Rules for the Calculation of Tax due to the Holding and Selling of Participation Units in an Oil Exploration Partnership" after approval thereof by the Finance Committee of the Knesset. For further details, see Note 5AA to the financial statements attached below.

The capital of the limited partnership as of September 30, 2021 totals approx. $1,107 million, compared with approx. $998 million as of December 31, 2020. The increase in capital mainly derives from the profit in the Report Period in the sum of approx. $187 million, and the recording of profit from an investment in an equity instrument designated for measurement at fair value through other comprehensive income in the sum of approx. $14 million. Conversely, the Partnership declared profits for distribution in the sum of approx. $100 million which were distributed after the date of the Condensed Interim Statement of Financial Position.

B. <u>Cash flow</u>

Cash flows generated by the Partnership from operating activities in the Report Period amounted to approx. $417 million, compared with approx. $210 million in the same period last year. The increase mainly derived from the increase in pre-tax profit for the period.

Cash flows generated by the Partnership from operating activities in Q3/2021 amounted to approx. $169 million, compared with approx. $77 million in the same period last year. The increase mainly derived from the increase in pre-tax profit for the period.

Cash flows used for investment activities in the Report Period amounted to approx. $142 million, compared with approx. $168 million in the same period last year. In the Report Period, the Partnership invested approx. $24 million, mainly in the Leviathan project, the sum of approx. $115 million in short-term deposits that serve as a safety cushion for the Tamar Bond and Leviathan Bond bonds, invested approx. $20 million ETFs, and invested approx. $26 million in long-term assets, mainly in connection with the expansion of infrastructures for transmission to Egypt. Conversely, approx. $14 million were received from repayment on account of a loan that was given in the context of the transaction for the sale of the Karish and Tanin leases and approx. $31 million from the sale of a financial asset available for sale (the Tamar Petroleum shares).

Cash flows used for investment activities in Q3/2021 amounted to approx. $122 million, compared with approx. $57 million which derived from investment activities in the same period last year. In Q3/2021, the Partnership invested in short-term investments approx. $112 million, mainly in short-term deposits which serve as a safety cushion for Tamar Bond and Leviathan Bond bonds. In addition, the Partnership invested approx. $8 million mainly in the Leviathan Project, and approx. $2 million mainly in expansion of infrastructures for transmission to Egypt. In the same period last year, the cash flows from investment activity mainly derived from disposition of short-term investments.

Cash flows used for financing activities in the Report Period totaled approx. $57 million, compared with approx. $4 million which derived from financing activities in the same period last year. Cash flows from financing activities in the Report Period were used mainly for tax and balancing payments and for a buyback of Series A bonds as stated in Section E below.

Cash flows used for financing activities in Q3/2021 totaled approx. $1 million, compared with approx. $12 million used for financing activities in the same period last year. Cash flows used for financing activities in Q3/2021 were used mainly for a buyback of Series A bonds, and conversely refunds were received on account of tax for which the participation unit holders are liable that was paid by the Partnership.

C. <u>Financing</u>

1. Further to an MOU of April 26, 2021, on September 2, 2021, the Partnership signed a binding and contingent agreement for the sale of its interests in the Tamar project to two SPVs which were established for purposes of the transaction and are held (indirectly) by MDC Oil & Gas Holding Company LLC ("**MDC**"), a corporation from the group Mubadala Investment Company PJSC, which is a company owned by the Abu Dhabi government (the "**Agreement**").

   For a concise description of the highlights of the Agreement, see Note 4(a) of the attached financial statements.

The sale proceeds will first be used to repay the Partnership's liabilities to the holders of the bonds of Tamar Bond, 50% of the Series A bonds, and payment of applicable taxes for the sale[2]. It is noted that on October 31, 2021, the special general meeting of the holders of the Partnership's Participation Units approved the sale transaction, and on November 3, 2021, the supervisor's approval was received for the sale of the Partnership's interests in the leases. As of the date of approval of the financial statements, the Partnership is in advanced stages of closing the sale transaction.

2. On April 27, 2021 the Partnership entered into an agreement with a third party for the off-TASE sale of all of its holdings (22.6%) in Tamar Petroleum, in consideration for a total cash amount of approx. ILS 100 million (approx. $30.6 million), reflecting a price per share of 500.035 Agorot (the "**Transaction**"). On May 5, 2021, the transaction as aforesaid was closed and, in such context, the shares were transferred against payment of the consideration.

D. <u>Profit distribution, balancing payments and tax payments and a distribution to the limited partner</u>

1. On January 20, 2021, the Partnership made a payment of approx. ILS 117 million (ILS 0.0998676 per participation unit) (approx. $36 million), which was approved by the board of directors of the General Partner on December 25, 2020. The said payment includes tax payments to entitled individual holders and balancing payments to holders that are not individuals.

2. On May 27, 2021 the General Partner's board of directors approved a distribution to the limited partner in the sum of ILS 1 million (approx. $308 thousand), 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 October 13, 2021, the Partnership performed a profit distribution to the participation unit holders in the sum of $100 million ($0.08519 per participation unit), which was approved by the General Partner's board of directors on September 22, 2021.

E. <u>Buy-back plan</u>

At its meeting of August 12, 2021, the board of directors of the Partnership's General Partner adopted a plan to buy Series A bonds for a total estimated cost of up to $100 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 from

[2] Note that the cost of the Partnership's interests in the Tamar project for tax purposes is estimated as of June 30, 2021, at approx. $154 million. See Note 20A to the annual financial statements.

the date of the signing of an agreement with the TASE member for purposes of its implementation thereby (i.e., September 3, 2021) until December 31, 2021, 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 engaged 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.

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

1. In the current market situation, a buyback of the Partnership's bonds is a good business and economic opportunity for the Partnership.
2. The Plan will enable the reduction of the Partnership's debt.
3. The Plan is not expected to affect the cash flow forecast and the dividend distribution capacity of the Partnership.
4. The Plan is not expected to adversely affect the compliance with the financial covenants undertaken by the Partnership.
5. The Plan meets the provisions of the 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.
6. The Plan meets the conditions set forth in the buyback procedure adopted by the Partnership, as well as the Safe Harbor Directive.
7. 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 with regard to the prohibition on the use of inside information.

Further to the resolution of the board of directors as aforesaid, the Partnership has performed, as of the date of the report, buybacks of ILS 56,961,790 par value of Series A bonds in the sum total of approx. $15 million.

F. Further to Note 20A4 of the annual financial statements regarding 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, it is noted that on September 14, 2021, the regulations were published in the Official Gazette (the "**Amended Language of the Regulations**"). According to the Amended Language of the Regulations, *inter alia*, from the tax year 2022, the Partnership will be taxed as a company (i.e. by a two-stage method).

In view of the approval of the Amended Language of the Regulations as aforesaid and according to the Partnership's estimation, the Partnership recorded a deferred tax liability in the sum of approx. $216 million against an expense in the Statement of Comprehensive Profit.

The said liability amount is for temporary differences created until the date of the financial statements is mainly for differences between the depreciation on oil & gas assets recognized for tax purposes and the depreciation recorded in the financial statements. This liability does not include a liability for deferred taxes for the Tamar project in the sum of approx. $126 million. Since the Partnership is in advanced stages for the closing of the sale transaction (as stated in Note 4(a) to the attached financial statements) before the Amended

Language of the Regulations takes effect.

It is noted that from January 1, 2022 forth, the Partnership will record current tax expenses in the Statement of Comprehensive Profit, in addition to deferred tax expenses, as aforesaid.

G. **The spread of Covid-19 and its possible impact on the Partnership's business**:

For a comprehensive description of the possible implications of the spread of Covid-19 for the Partnership's operations, see Note 1F to the annual financial statements. As of the date of approval of the financial statements, it is difficult to assess the continued development of the Covid-19 crisis in the coming years, the scope of its impact on the global economy, and its effect on the demand and sales from the Leviathan reservoir in the coming years.

Caution concerning forward-looking information – The Partnership's assessments regarding the possible implications 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.

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 2020, except as stated below:

1. Report on linkage bases in Dollars in thousands, as of September 30, 2021[3]

	Financial Balances			
	In dollars or dollar-linked	**In non-linked ILS**	**Non-financial balances**	**Total**
Assets				
Cash and cash equivalents	286,422	1,749	-	288,171
Short-term investments	304,263	217	-	304,480
Trade receivables	193,227	-	-	193,227
Other receivables	27,343	-	27,057	54,400
Assets held for sale	1,490	-	849,443	850,933
Investments in oil and gas assets	-	-	2,565,769	2,565,769
Investment in company accounted for at equity	-	-	63,636	63,636
Long-term deposits in banks	100,646	-	-	100,646
Other long-term assets	324,660	-	222,594	547,254
Total assets	**1,238,051**	**1,966**	**3,728,499**	**4,968,516**
Liabilities				
Trade and other payables	68,922	22,396	59,716	151,034
Other short-term liabilities	-	-	37,471	37,471
Declared profits for distribution	100,000	-	-	100,000
Bonds	3,247,885	-	-	3,247,885
Deferred tax liability	-	-	216,251	216,251
Liabilities referring to assets held for sale	-	-	35,144	35,144
Other long-term liabilities	-	-	73,923	73,923
Total liabilities	**3,416,807**	**22,396**	**422,505**	**3,861,708**
Total net balance	**(2,187,756)**	**(20,430)**	**3,305,994**	**1,106,808**

[3] Note that the net negative balance of the financial liabilities derives from the classification of the oil and gas assets which constitute the basis for repayment of the liabilities as non-financial assets due to their accounting presentation at historical cost.

2. Report on linkage bases in Dollars in thousands, as of December 31, 2020

	Financial Balances				
	In dollars or dollar-linked	In non-linked ILS	Non-linked	Non-financial balances	Total
Assets					
Cash and cash equivalents	63,351	6,628	-	-	69,979
Short-term investments	169,149	218	-	-	169,367
Trade receivables	145,681	-	-	-	145,681
Other receivables	20,212	-	-	12,664	32,876
Investments in oil and gas assets	-	-	-	3,439,902	3,439,902
Investment in company accounted for at equity	-	-	-	67,288	67,288
Long-term deposits	100,529	-	-	-	100,529
Other long-term assets	323,664	-	17,033	218,368	559,065
Total assets	**822,586**	**6,846**	**17,033**	**3,738,222**	**4,584,687**
Liabilities					
Trade and other payables	35,145	917	-	37,505	73,567
Other short-term liabilities	-	-	-	62,212	62,212
Provision for tax and balancing	-	-	-	36,462	36,462
Bonds	3,248,505	-	-	-	3,248,505
Other long-term liabilities	-	-	-	166,246	166,246
Total liabilities	**3,283,650**	**917**	**-**	**302,425**	**3,586,992**
Total net balance	**(2,461,064)**	**5,929**	**17,033**	**3,435,797**	**997,695**

3. Sensitivity tests

In accordance with Amendment 5767 to the provisions of the Second Schedule to the Securities Regulations, 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, 2021
Dollar interest	According to the LIBOR curve

<u>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):</u>

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	(20,595)	(10,675)	260,300	11,511	23,949
Loan to Energean as part of the sale of the Karish and Tanin leases	(3,190)	(1,631)	64,800	1,706	3,492
Total	**(23,785)**	**12,306)**	**325,100**	**13,217**	**27,441**

<u>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):</u>

Following the provisions of Section G. of Part One 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	24,139	20,932	10,568	4,643	260,300	1,001	(4,896)	(14,292)	(19,929)

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	15,613	15,554	7,197	4,232	260,300	2,751	(1,525)	(9,477)	(11,467)

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%**
	3.552	**3.390**	**3.229**	**3.068**	**2.906**
Cash and cash equivalents	(175)	(87)	1,749	87	175
Bank deposits	(22)	(11)	217	11	22
Trade and other payables	2,240	1,120	(22,396)	(1,120)	(2,240)
Total	**2,043**	**1,022**	**(20,430)**	**(1,022)**	**(2,043)**

Tests of sensitivity to changes in prices of securities ($ in thousands):

Dollar interest	**Profit/(Loss) from the Changes**		**Fair Value**	**Profit/(Loss) from the Changes**	
	10%	**5%**		**-5%**	**-10%**
ETFs	2,001	1,001	20,012	(1,001)	(2,001)

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 10 to the financial statements as of September 30, 2021, which are attached below.

2. Critical accounting estimates

No material change occurred in the Report Period compared with the report in the Board of Director's Report for 2020, except as stated in Note 4 to the financial statements attached below in connection with assets held for sale and in Note 6E to the financial statements attached below in connection with a deferred tax liability.

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 bond series[4]	2023	2025
Par value on issue date	400,000	400,000
Issue date	19/05/2014	19/05/2014
Par value as of September 30, 2021	320,000	320,000
Linked par value as of September 30, 2021	320,000	320,000
Value on the Partnership's books as of September 30, 2021	322,760	321,864
TASE value as of September 30, 2021[5]	326,170	327,376
Fixed annual interest rate	5.082%	5.412%
Principal payment date (see Section C in Part I)	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 2014-2023	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2014-2025
Linkage base: base index[6]	None	
Conversion right	None	
Right to prepayment or mandatory conversion[7]	Right to prepayment	
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 date[8]	Moody's: Baa3 Stable S&P: BBB- Midroog Ltd: Aa2 Stable Standard & Poor's Maalot: ilAA	
Rating as of the report date[9]	Moody's: Baa3 Negative S&P: BBB- Negative Midroog Ltd: Aa2 Negative Standard & Poor's Maalot: ilAA Negative	
Until September 30, 2021 and during the report year, did the company meet all of the conditions and obligations under the indenture?	Yes	
Is the bond series material?[10]	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.	

[4] $80 million were 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.
[5] The bonds are traded in Israel on "TACT-Institutional" on TASE.
[6] The principal and interest of the bonds are in dollars.
[7] 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.
[8] 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.
[9] See the Partnership's immediate reports of May 12, 2021, June 14, 2021, October 5, 2021 and October 6, 2021 (Ref. No.: 2021-01-083913, 2021-01-100275, 2021-01-083830 and 2021-01-151914, respectively), the information included in which is incorporated herein by reference.
[10] A series of bond certificates is 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.

Leviathan Bond bond series	2023	2025	2027	2030
Par value on the issue date	500,000	600,000	600,000	550,000
Issue date	18/08/2020	18/08/2020	18/08/2020	18/08/2020
Par value as of September 30, 2021	500,000	600,000	600,000	550,000
Linked par value as of September 30, 2021	500,000	600,000	600,000	550,000
Value on the Partnership's books as of September 30, 2021	504,822	603,482	601,585	548,962
TASE value as of September 30, 2021[11]	528,550	660,720	670,800	621,775
Fixed annual interest rate	5.750%	6.125%	6.500%	6.750%
Principal payment date	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 index[12]	None			
Conversion right	None			
Right to prepayment or mandatory conversion[13]	Right to prepayment			
Guarantee for payment of the liability	See Note 10C to the annual financial statements.			
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 date[14]	Fitch Rating: BB stable Moody's: Ba3 Stable S&P: BB- Stable Standard & Poor's Maalot: ilA+ stable			
Rating as of the report date[15]	Fitch Rating: BB stable Moody's: Ba3 Stable S&P: BB- Stable Standard & Poor's Maalot: ilA+ stable			
Until September 30, 2021 and during the report year, has the company fulfilled all of the conditions and obligations under the indenture?	Yes			
Is the bond series material?[16]	Yes			
Have any conditions establishing cause for acceleration of the bonds been fulfilled?	No			
Pledges to secure the bonds	See Note 10C to the annual financial statements.			

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

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

13 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.

14 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.

15 For updated rating reports, see the Partnership's immediate reports of July 29, 2021, August 1, 2021 and August 10, 2021 (Ref. No. 2021-01-125100, 2021-01-125451 and 2021-01-130161, respectively), the information included in which is incorporated herein by reference.

16 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.

The Bond Series	Series A
Par value on the issue date in ILS in thousands	1,528,533
Issue date	26/12/2016
Par value as of September 30, 2021 in ILS	1,484,797
Linked par value as of September 30, 2021 in ILS in thousands	1,255,410
Value on the Partnership's books as of September 30, 2021 in ILS in thousands	1,253,936
TASE value as of September 30, 2021 in ILS in thousands	1,273,213
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 conversion[17]	Right to prepayment
Guarantee for payment of the liability	See Note 10E 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 date[18]	Midroog Ltd.: A1 stable
Rating as of the report date[19]	Midroog Ltd.: A2 stable
Until September 30, 2021 and during the report year, has the Partnership met 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 10E to the annual financial statements.
The Partnership's financial equity as of September 30, 2021, as defined in the indenture[20]	Approx. $3,541 thousand
The financial equity to debt ratio as of September 30, 2021, as defined in the indenture[21]	Approx. 9
Is it material[21]	Yes

[17] 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.

[18] 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.

[19] For updated rating reports, see the Partnership's immediate reports of June 5, 2020 (Ref. No.: 2020-01-057768), October 15, 2020 (Ref. No. 2020-01-103519), and May 5, 2021 (Ref. No. 2021-01-078234), the information included in which is incorporated herein by reference.

[20] Included in accordance with the Partnership's undertaking on the date of issue of the bonds – for further details, see Note 10E to the financial statements below. The ratio was calculated, *inter alia*, based on the discounted cash flows of the Tamar project included in Section 7.3.11 of the Description of the Partnership's Business Chapter in Chapter A of the periodic reports as of December 31, 2020 and of the Leviathan project (as released in the immediate report of June 17, 2021, Ref. no. 2021-01-040042) as of March 31, 2021.

[21] A series of bond certificates is 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

a. 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.

b. Mr. Yossi Gvura will end his term of office as Deputy CEO of the General Partner of the Partnership on December 31, 2021. The Board of Directors of the General Partner thanks Mr. Gvura for his dedication, professional achievements, and significant contribution to the promotion of the Partnership's business and wishes him success going forward.

Sincerely,

Gabi Last	**Yossi Abu**
Chairman of the Board	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 annual financial statements 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)

	30.09.2021	30.09.2020	31.12.2020
	Unaudited	Unaudited	Audited
Assets:			
Bank deposits	100,135	45,181	89
Interest receivable	8,686	9,282	-
Related parties	-	54,819	99,911
Loans to shareholders	639,507	719,470	639,491
Total assets:	748,328	828,752	739,491
Liabilities and Equity:			
Liabilities:			
Interest payable	8,686	9,282	
Related parties	135	-	-
Loans from shareholders	100,000	100,000	100,000
Bonds	640,000	720,000	640,000
Total Liabilities:	748,821	829,282	740,000
Equity (Deficit)	(493)	(530)	(509)
	748,328	828,752	739,491

Statements of Comprehensive Income (Expressed in US$ Thousands)

	For the Nine Month Ended 30.09.2021 Unaudited	For the Nine Month Ended 30.09.2020 Unaudited	For the Three Month Ended 30.09.2021 Unaudited	For the Three Month Ended 30.09.2020 Unaudited	For the Year Ended 31.12.2020 Audited
Financial expenses	25,624	38,817	8,713	13,886	48,119
Financial income	(25,640)	(39,445)	(8,648)	(14,047)	(48,768)
Total comprehensive expenses (income)	(16)	(628)	65	(161)	(649)

SPONSOR FINANCIAL DATA REPORT[22]
Cash flow for the period from July 1, 2021 – September 30, 2021

	Item	Quantity/Actual Amount (In thousands)
A.	Total Offtake (BCM) (100%)[23]	2.8
B.	Tamar Revenues (100%) [20]	463,107
C.	Loss Proceeds, if any, paid to Revenue Accounts	-
D.	Sponsor Deposits, if any, into Revenue Accounts	-
E.	Gross Revenues (before Royalties)[24]	101,113
F.	Overriding Royalties	
	(a) Statutory Royalties	(10,784)
	(b) Third Party Royalties	(7,961)
G.	Net Revenues	82,368
H.	Costs and Expenses:	
	(a) Fees Under the Financing Documents (interest income)	7
	(b) Taxes	(8,784)
	(c) Operation and Maintenance Expenses	(7,423)
	(d) Capital Expenditures	(1,683)
	(e) Payments under the Tamar FUA	-
	(f) Insurance	(3,298)
I.	Total Costs and Expenses (sum of Items H(a), (b), (c), (d), (e) and (f)	(21,181)
J.	Total Cash Flows Available for Debt Service (Item G minus Item H)	61,187
K.	Total Debt Service	-

[22] 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.
[23] Sections A and B are based on 100% of Tamar partners on an accrual basis.
[24] Sections C-K are based on Delek Drilling Share in Tamar (22%) and on actual cash flow of the Sponsor Accounts as part of the Tamar Bond indenture.

Annex B to the Board of Directors' Report

Figures regarding Leviathan Bond Ltd.

Further to Note 10C to the annual financial statements below and Part Five 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)

	30.09.2021 Unaudited	30.09.2020 Unaudited	31.12.2020 Audited
Assets:			
Current Assets:			
Short term Bank deposits	8	4	15
Related parties	-	-	**
Interest receivable	35,406	16,685	-
	35,414	16,689	15
Noncurrent Assets:			
Loans to shareholders	2,248,020	2,247,814	2,247,611
Long term bank deposits	100,141	100,000	100,000
	2,348,161	2,347,814	2,347,611
	2,383,575	2,364,503	2,347,626
Liabilities and Equity:			
Current Liabilities:			
Related parties	149	4	15
Interest payable	35,406	16,685	-
	35,555	16,689	15
Noncurrent Liabilities:			
Bonds	2,250,000	2,250,000	2,250,000
Loans from shareholders	100,000	100,000	100,000
	2,350,000	2,350,000	2,350,000
Equity (Deficit)	(1,980)	(2,186)	(2,389)
	2,383,575	2,364,503	2,347,626

*** Date of incorporation**
**** Less than $1,000**

Statements of Comprehensive Income (Expressed in US$ Thousands)

	For the Nine Month Ended 30.09.2021	For the Nine Month Ended 30.09.2020	For the Three Month Ended 30.09.2021	For the Three Month Ended 30.09.2020	For the Year Ended 31.12.2020
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Audited**
Financial expenses	106,461	18,873	35,493	18,873	54,427
Financial income	(106,870)	(16,687)	(35,508)	(16,687)	(52,038)
Total comprehensive expenses (income)	(409)	2,186	(15)	2,186	2,389

<u>SPONSOR FINANCIAL DATA REPORT</u>[25]

		Nine Month Ended
		30.09.2021
	<u>Item</u>	<u>Quantity/Actual Amount (in USD$,000)</u>
A.	Total Offtake (BCM)	2.8
B.	Leviathan Revenues (100%)	1,503,961
C.	Loss Proceeds, if any, paid to Revenue Account	-
D.	Sponsor Deposits, if any, into Revenue Account	-
E.	Gross Revenues (before Royalties)	234,930
F.	Overriding Royalties	
	(a) Statutory Royalties	(28,198)
	(b) Third Party Royalties	(11,184)
G.	Net Revenues	195,548
H.	<u>Costs and Expenses</u>:	
	(a) Fees Under the Financing Documents (Interest Income)	(19)
	(b) Taxes	-
	(c) Operation and Maintenance Expenses	(27,714)
	(d) Capital Expenditures	(19,558)
	(e) Insurance (income)	(7,343)
I.	Total Costs and Expenses (sum of Items H(a), (b), (c), (d) and (e))	(54,634)
J.	Total Cash Flows Available for Debt Service (Item G *<u>minus</u>* Item H)	140,914
K.	Total Cash Flow from operation (Item G minus Items H(c) and H(e)	160,491
L.	Total Debt Service	-
M.	Total Distribution to the Sponsor	110,000

[25] 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.

Annex C to the Board of Directors' Report

Summary of Data of the Valuation of Royalties from the Karish and Tanin Leases

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 5V to the financial statements attached below 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, 2021.
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. $260.3 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:	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. The work was performed by a team headed by CPA Nir Harush, partner and CEO of the Economic Department at Giza Singer Even. Nir has vast experience in financing and infrastructure projects. Holds a B.A. in Accounting and Business Administration and an MBA from the College of Management. 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 valuation. Furthermore, the Valuator has confirmed that its fee is not contingent on

	the results of the valuation. 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.
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:	The key assumptions underlying the valuation are as follows: 1. Dates of production of gas from the Karish leases: July 1, 2022 to December 31, 2040; 2. Average annual production rate from the Karish lease: approx. 3.85 BCM of natural gas; average annual rate of condensate production from the Karish lease of approx. 5.04 million barrels of condensate; 3. Dates of production of gas from the Tanin lease: January 1, 2027 to December 31, 2036; 4. Average annual rate of production from the Tanin lease: approx. 2.51 BCM of natural gas; average annual rate of condensate production from the Tanin lease of approx. 0.44 million barrels of condensate; 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%; 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; 8. Condensate price: The condensate price forecast was estimated based on a long-term oil price forecast average of the World Bank[26] and the EIA[27] 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; 9. On February 11, 2021, Energean released an updated resource report of D&M, a qualified resources and reserves evaluator, for the Karish and Tanin leases. According to this report, the quantity of gas in Karish Center is approx. 40.2 BCM and the quantity of hydrocarbon liquids is approx. 65.1 MMBBL, in Karish North the quantity of gas is approx. 33.1 BCM and the quantity of hydrocarbon liquids is approx. 30.6 MMBBL, and in Tanin, the quantity of gas is approx. 25.1 BCM and the quantity of hydrocarbon liquids is approx. 3.9 MMBBL. 10. Petroleum profit levy: According to the Petroleum Profit Taxation Law, 5771-2011; 11. Corporate tax rate: 23%, according to the statutory tax rate throughout the years of the forecast.

[26] A world Bank Quarterly Report: Commodity Markets Outlook, October 2021.
[27] U.S Energy Information Administration: Analysis & Projections, October 2021.

Delek Drilling

Financial Statements

Delek Drilling – Limited Partnership

Condensed Interim Financial Statements as of September 30, 2021

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, 2021. 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, 2021

in U.S. Dollars in Thousands

Unaudited

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Auditors' review report to the holders of the participation units 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, 2021 and the Condensed Statements of Comprehensive Income, Changes in the Partnership's Equity and Cash Flows for the nine- and three-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 (financial reporting for the interim periods).

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, 2021

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)

	30.9.2021	30.9.2020	31.12.2020
	Unaudited	Unaudited	Audited
Assets:			
Current assets:			
Cash and cash equivalents	288,171	209,131	69,979
Short-term investments	304,480	112,857	169,367
Trade receivables	193,227	161,316	145,681
Other receivables	54,400	65,656	32,876
	840,278	548,960	417,903
Assets held for sale (Note 4)	850,933	-	-
	1,691,211	548,960	417,903
Non-current assets:			
Investments in oil and gas assets	2,565,769	3,450,903	3,439,902
Investment in a company accounted for at equity	63,636	71,222	67,288
Long-term deposits in banks	100,646	100,504	100,529
Other long-term assets	547,254	498,618	559,065
	3,277,305	4,121,247	4,166,784
	4,968,516	4,670,207	4,584,687
Liabilities and equity:			
Current liabilities:			
Bonds	1,024,493	79,964	393,806
Declared profits for distribution	100,000	-	-
Provision for tax and balancing payments	-	-	36,462
Trade and other payables	151,034	102,671	73,567
Other short-term liabilities	37,471	49,044	62,212
	1,312,998	231,679	566,047
Liabilities relating to assets held for sale (Note 4)	35,144	-	-
	1,348,142	231,679	566,047
Non-current liabilities:			
Bonds	2,223,392	3,250,202	2,854,699
Deferred tax liability (Note 6E)	216,251	-	-
Other long-term liabilities	73,923	181,203	166,246
	2,513,566	3,431,405	3,020,945
Equity:			
Partnership's equity	154,791	154,791	154,791
Capital reserves	(32,458)	(53,622)	(48,616)
Retained earnings	984,475	905,954	891,520
	1,106,808	1,007,123	997,695
	4,968,516	4,670,207	4,584,687

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

November 17, 2021			
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
	30.9.2021	[1]30.9.2020	30.9.2021	[1]30.9.2020	[1]31.12.2020
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Revenues:					
From natural gas and condensate sales	681,273	436,524	243,240	180,702	587,086
Net of royalties	101,635	65,069	36,569	26,977	86,327
	579,638	371,455	206,671	153,725	500,759
Expenses and costs:					
Cost of production of natural gas and condensate	83,421	61,356	28,073	24,649	89,673
Depreciation, depletion and amortization expenses	68,651	60,629	19,841	21,570	79,446
Other direct expenses	2,539	2,809	630	863	3,410
G&A expenses	11,888	11,049	4,217	5,154	14,630
Total expenses and costs	166,499	135,843	52,761	52,236	187,159
Partnership's share of losses of company accounted for at equity	(3,653)	(3,773)	(1,218)	(3,778)	(7,707)
Operating income	409,486	231,839	152,692	97,711	305,893
Financial expenses	(153,299)	(180,467)	(51,053)	(70,927)	(231,847)
Financial income	29,533	22,269	5,981	10,991	87,985
Financial expenses, net	(123,766)	(158,198)	(45,072)	(59,936)	(143,862)
Profit before taxes on income	285,720	73,641	107,620	37,775	162,031
Deferred taxes on income (Note 6E)	(216,251)	-	(216,251)	-	-
Profit (loss) from continuing operations	69,469	73,641	(108,631)	37,775	162,031
Profit from discontinued operations, net (Note 4)	117,577	149,041	58,772	65,375	203,089
Net profit (loss)	**187,046**	**222,682**	**(49,859)**	**103,150**	**365,120**
Other comprehensive income (loss) from continuing operations:					
Amounts which may subsequently be reclassified to profit or loss:					
Loss from cash flow hedging transactions	-	(4,757)	-	(166)	(4,757)
Carried to profit or loss for cash flow hedging transactions	-	7,360	-	6,827	7,360
	-	2,603	-	6,661	2,603
Comprehensive income (loss) from continuing operations	**69,469**	**76,244**	**(108,631)**	**44,436**	**164,634**
Other comprehensive income (loss) from discontinued operations					
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	13,597	(33,846)	-	1,545	(29,322)
Comprehensive income from discontinued operations	**131,174**	**115,195**	**58,772**	**66,920**	**173,767**
Total comprehensive income (loss)	**200,643**	**191,439**	**(49,859)**	**111,356**	**338,401**
Basic and diluted profit (loss) per participation unit (in dollars):					
From continuing operations	0.059	0.063	(0.093)	0.032	0.138
From discontinued operations	0.100	0.127	0.050	0.056	0.173
Net profit (loss)	0.159	0.190	(0.043)	0.088	0.311
The weighted number of participation units for the purpose of said calculation (in thousands)	1,173,815	1,173,815	1,173,815	1,173,815	1,173,815

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

[1] Reclassified in order to reflect discontinued operations, see Note 4 below.

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	Retained earnings	Total
	Unaudited					
For the nine-month period ended September 30, 2021:						
Balance as of January 1, 2021 (audited)	154,791	1,631	20,331	(70,578)	891,520	997,695
Net profit	-	-	-	-	187,046	187,046
Other comprehensive income	-	-	-	13,597	-	13,597
Total comprehensive income	-	-	-	13,597	187,046	200,643
Declared profits for distribution	-	-	-	-	(100,000)	(100,000)
Update to the tax liability owed by the participation unit holders	-	-	-	-	3,901	3,901
Tax revenues for previous years	-	-	-	-	2,316	2,316
Profits distributed	-	-	-	-	(308)	(308)
Capital reserve for benefits from a control holder	-	-	2,561	-	-	2,561
Balance as of September 30, 2021	154,791	1,631	22,892	(56,981)	984,475	1,106,808

	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 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	Retained earnings	Total
	Unaudited					
For the three-month period ended September 30, 2021:						
Balance as of July 1, 2021	154,791	1,631	22,294	(56,981)	1,132,018	1,253,753
Total comprehensive loss	-	-	-	-	(49,859)	(49,859)
Declared profits for distribution	-	-	-	-	(100,000)	(100,000)
Tax revenues for previous years	-	-	-	-	2,316	2,316
Capital reserve for benefits from a control holder	-	-	598	-	-	598
Balance as of September 30, 2021	154,791	1,631	22,892	(56,981)	984,475	1,106,808

	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 loss	-	-	-	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	154,791	1,631	19,849	(75,102)	905,954	1,007,123

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, 2020:						
Balance as of January 1, 2020	154,791	1,631	17,377	(43,859)	683,567	813,507
Net profit	-	-	-	-	365,120	365,120
Other comprehensive loss	-	-	-	(26,719)	-	(26,719)
Total comprehensive income (loss)	-	-	-	(26,719)	365,120	338,401
Profits distributed	-	-	-	-	(65,593)	(65,593)
Declared tax payments and balancing payments	-	-	-	-	(36,428)	(36,428)
Advance tax payments on account of the tax owed by the participation unit holders	-	-	-	-	(55,146)	(55,146)
Capital reserve for benefits from a control holder	-	-	2,954	-	-	2,954
Balance as of December 31, 2020	**154,791**	**1,631**	**20,331**	**(70,578)**	**891,520**	**997,695**

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
	30.9.2021	30.9.2020	30.9.2021	30.9.2020	31.12.2020
	Unaudited				Audited
Cash flows – operating activities:					
Net profit (loss)	187,046	222,682	(49,859)	103,150	365,120
Adjustments for:					
Depreciation, depletion and amortization	82,057	109,758	21,429	46,581	140,295
Deferred taxes on income (Note 6E)	216,251	-	216,251	-	-
Change in fair value of financial derivatives, net	-	(2,920)	-	(6,155)	(2,920)
Update of asset retirement obligations	(13,544)	1,634	(11,827)	(358)	(631)
Revaluation of short-term and long-term investments and deposits	(126)	2,415	(28)	3,027	2,390
Income due to revaluation of share-based payment	(11)	(19)	-	4	(13)
Benefit from a control holder included in expenses against a capital reserve	2,561	2,472	598	1,265	2,954
Revaluation of other long-term assets	(28,945)	(19,143)	(6,286)	(10,682)	(84,836)
Partnership's share in losses of company accounted for at equity	3,653	3,773	1,218	3,778	7,707
Changes in assets and liabilities items:					
Increase in trade receivables	(47,546)	(114,454)	(14,475)	(81,494)	(98,819)
Decrease (increase) in other receivables	(26,886)	(7,461)	(26,403)	(3,991)	23,319
Increase in other long-term assets	(2,999)	(2,331)	(766)	(519)	(5,697)
Increase (decrease) in trade and other payables	39,567	15,661	31,279	23,223	(21,060)
Increase (decrease) in liability for oil and gas profit levy	7,423	-	7,645	-	(1,333)
Increase (decrease) in other long-term liabilities	(1,431)	(2,526)	-	(645)	2,199
	230,024	(13,141)	218,635	(25,966)	(36,445)
Net cash deriving from operating activities	**417,070**	**209,541**	**168,776**	**77,184**	**328,675**
Cash flows - investment activity:					
Investment in oil and gas assets	(24,448)	(146,014)	(7,650)	(20,825)	(165,085)
Investment in other long-term assets	(26,563)	(16,145)	(1,720)	898	(14,596)
Disposition of investment in a financial asset	30,629	-	-	-	-
Repayment of a loan granted	14,343	14,843	-	-	14,843
Decrease (increase) in short-term investments, net	(135,104)	(49,398)	(112,136)	76,150	(105,908)
Deposit in long-term deposits in banks	-	(100,000)	-	(100,000)	(100,000)
Maturity of long-term bank deposits	-	100,000	-	100,000	100,000
Change in respect of operator of joint ventures	(1,073)	29,113	(708)	780	28,921
Net cash deriving from (used for) investment activity	**(142,216)**	**(167,601)**	**(122,214)**	**57,003**	**(241,825)**
Cash flows - financing activity:					
Bond offering (net of issue costs)	-	2,217,588	-	2,217,588	2,217,332
Receipt of loans from banking corporations (net of debt-raising expenses)	-	103,831	-	4,152	103,831
Repayment of long-term loans from banking corporations	-	(2,050,000)	-	(1,992,230)	(2,050,000)
Profit, tax and balancing payments distributed	(36,570)	(33,825)	-	-	(99,120)
Returns (payments) on account of the tax owed by the holders of participation units	(13,579)	-	5,533	-	(35,021)
Buy-back of bonds issued	(6,513)	-	(6,513)	-	(4,939)
Repayment of bonds	-	(241,449)	-	(241,449)	(320,000)
Net cash used for financing activity	**(56,662)**	**(3,855)**	**(980)**	**(11,939)**	**(187,917)**
Increase (decrease) in cash and cash equivalents	218,192	38,085	45,582	122,248	(101,067)
Balance of cash and cash equivalents as of beginning of period	69,979	171,046	242,589	86,883	171,046
Balance of cash and cash equivalents as of end of period	288,171	209,131	288,171	209,131	69,979
Annex A – Non-cash flow financing and investment activity:					
Investments in oil and gas assets against liabilities	8,186	56,114	6,435	56,114	42,259
Declared profits for distribution, balancing payments and tax	100,000	-	100,000	-	36,428
Annex B – Additional information on cash flows:					
Interest paid	97,185	177,446	30	77,441	256,977
Interest received	4,115	3,389	245	768	3,663
Paid oil and gas profit levy	24,420	-	7,866	-	2,003

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

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**" or "**Delek Management**") 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., CPAs, and Adv. Uri Keidar on behalf of Keidar Supervision and Management (collectively: the "**Supervisor**").

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 have been traded thereon since 1993. The address of the Partnership's registered office is 19 Abba Eban Blvd., Herzliya.

B. As of the date of approval of the 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. Concurrently, the Partnership is exploring various business opportunities with characteristics similar to those in which it is active. See also Note 8E below.

C. As of the date of approval of the Financial Statements, the Partnership is in advanced stages for the closing of a transaction for the sale of its 22% interest in the Tamar project. For details, see Note 4A below. In addition, on April 27, 2021, the Partnership sold its holdings in Tamar Petroleum Ltd. ("**Tamar Petroleum**") in consideration for approx. $30.6 million. For details, see Note 4F below.

D. On May 4, 2021, the General Partner and the Trustee moved the court to exercise its authority under Sections 350 and 351 of the Companies Law, 5759-1999 (the "**Companies Law**") and to order that a general meeting of holders of the participation units issued by the Trustee (the "**Participation Units**") be convened, to discuss approval of an arrangement concerning the exchange of the Participation Units for ordinary shares of a new company, New Med Energy Plc. ("**New Med**") (the "**Arrangement**"), incorporated in England, which will hold all of the rights of the Trustee and the General Partner in the Partnership (100%). New Med's shares will be listed concurrently on TASE and on the London Stock Exchange on the Standard Main Market list. The General Partner shall assign the management rights in the Partnership to a new general partner which will be wholly owned and fully controlled (100%) by New Med. In the context of the Arrangement, insofar as it is approved, changes shall be made to the current limited partnership agreement in order to make it consistent with the new corporate structure and with the Partnership's becoming a private partnership wholly owned and fully controlled (100%) by New Med.

Note 1 – General (Cont.):

D. (Cont.)

The purpose of the Arrangement is to apply the following restructuring in the rights of the holders of the Participation Units, on the Arrangement closing date: (1) New Med shall wholly own and fully control the Partnership (100%), as specified above; (2) Delek Group and the public investing in the Participation Units shall hold, in lieu of the Participation Units that they held (and which conferred on them a right to participate in the company's rights in the Partnership), New Med shares, which shall confer on them 99.99% of its share capital (the "**Exchange of Units**"). The holding in New Med's shares on the closing date of the Arrangement shall be according to the rate of their holdings in the Participation Units on the effective date for the closing of the Arrangement (*pro rata*). Consequently, Delek Group shall hold the majority of New Med's shares by virtue of its holdings upon the closing of the Arrangement, if closed, and it shall be deemed the controlling shareholder of New Med; (3) the present General Partner (which shall continue to be held by Delek Group) shall hold New Med shares that confer thereon 0.01% of its share capital (in addition to New Med shares that shall be allotted thereto in the context of the Exchange of Units in respect of the Participation Units currently held thereby), although it will stop being the Partnership's general partner and will assign the management rights in the Partnership to a new general partner which shall be wholly owned and fully controlled (100%) by New Med; and (4) the Partnership itself shall remain "as is", without any change, including all of its operations, and with all of its assets and liabilities, and in this context its undertakings to pay the royalties, remaining unchanged, although with respect to additional rights or new petroleum assets that New Med shall purchase in the future (after the closing of the Arrangement), the royalty interest owners shall not be entitled to royalties in respect thereof, insofar as the new rights are not acquired by the Partnership but rather by New Med or other subsidiaries thereof. The Partnership is expected to retain its status as a "reporting corporation" until the final repayment of Series A bonds, which, according to the terms and conditions thereof, will be on December 31, 2021. Following the closing of the Arrangement and the listing of New Med's shares on the London Stock Exchange and on TASE, New Med will be subject to two reporting regimes, i.e., the reporting regime under the English law applicable to English companies listed on the London Stock Exchange, as well as the reporting regime applicable to a "reporting corporation" under the Israeli Securities Law. In addition, New Med and the holders of its shares will be subject to a tax regime which is derived from New Med's tax status, which is different to the unique tax regime determined in Israeli law in relation to public petroleum partnerships that are traded on the stock exchange and in relation to the holders of the Participation Units. For details regarding taxation of a partnership as a company from tax year 2022, see Note 5E below.

Note 1 – General (Cont.):

D. (Cont.)

Performance of the proposed Arrangement and the closing thereof are subject to standard conditions precedent and to receipt of all of the required approvals, which include, *inter alia*, approval of the proposed Arrangement by the general meeting of the unitholders, in accordance with the majority required under Sections 350 and 351 of the Companies Law and, for the sake of caution, also as a special majority resolution; approval of the proposed Arrangement by the court in accordance with the provisions of Sections 350 and 351 of the Companies Law; approval by the competent authority in England for the publication of the English prospectus and the listing of New Med's shares on the London Stock Exchange; receipt of a tax ruling in connection with performance of the proposed Arrangement; and receipt of regulatory approvals, insofar as required, from the Israeli Ministry of Energy and the competent authority in Cyprus (in connection with the petroleum asset Aphrodite).

Further to the filing of the motion as aforesaid, on May 11, 2021, an objection to the motion was filed with the court on behalf of the holders of Participation Units, and on May 11, 2021 and May 12, 2021, the court's decisions were received in connection with the objection, whereby a preliminary hearing will be held on the objection only after the lapse of the deadline for the filing of objections to the motion on May 25, 2021. It is noted that on May 24, 2021 and May 26, 2021, the Partnership reported the response to the motion of the Tel Aviv Stock Exchange Ltd. and of the Israel Securities Authority, respectively.

On July 5, 2021, Cohen Development Gas & Oil Ltd., Y.N.U Nominee Company Ltd. and J.O.E.L. Jerusalem Oil Exploration Ltd. (the "**Parties Moving to Join the Proceeding**") filed a motion to join the proceeding as a party and for clarification of provisions of the Arrangement, on July 18, 2021 Delek Management filed a response to the said motion, and on July 26, 2021 the court ruled that the Parties Moving to Join the Proceeding would be joined to the proceeding as a party, and that there was no room to split the hearing. On October 13, 2021, a hearing was held on the motion. On November 10, 2021 and November 14, 2021, some of the respondents and the Israel Securities Authority, respectively, filed their response. The General Partner and the limited partner, as well as Delek Group, are required to file their response by November 28, 2021.

It is clarified that as of the date of approval of the Financial Statements, there is no certainty with respect to the date of approval of the Arrangement, its feasibility and the possibility of obtaining all of the approvals required for performance thereof.

Note 1 – General (Cont.):

E. The Partnership's income in the report period from the sale of natural gas is affected mainly by the volume of natural gas consumption for the domestic market, Egypt and Jordan. Below is the Partnership's share in the income and in the natural gas quantities sold to the domestic market and to the regional market in the report period from the Leviathan project (in $ in millions).

	For the nine-month period ended		For the three-month period ended		For the year ended
	30.9.2021	30.9.2020	30.9.2021	30.9.2020	31.12.2020
	Unaudited		Unaudited		Audited
Revenues:					
Domestic market	268.8	222.4	82.1	82.7	263.5
Regional market	412.5	214.1	161.1	98.0	323.6
	681.3	436.5	243.2	180.7	587.1
Quantities (BCM)					
Domestic market	1.72	1.32	0.53	0.49	1.57
Regional market	2.05	1.10	0.75	0.53	1.71
	3.77	2.42	1.28	1.02	3.28

F. As of the date of approval of the Financial Statements, it is difficult to assess the continued development of the Covid-19 crisis in the coming years, the scope of its impact on the global economy, and its effect on the demand and sales from the Leviathan reservoir in the coming years. It is stated that towards the end of 2020 and during 2021, there has been a significant increase in the prices of energy products worldwide, including in the prices of oil and LNG.

G. The Partnership's Condensed Interim Financial Statements should be read together with the financial statements as of December 31, 2020 (the "**Annual Financial Statements**"). Accordingly, notes regarding insignificant updates with respect to information already reported in the notes to the Annual Financial Statements were not included in these Financial Statements.

H. The Condensed Interim Financial Statements comply with the provisions of IAS 34.

I. 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. A non-current asset or group of assets held for sale and discontinued operations:

A non-current asset or group of assets are classified as held for sale when their settlement is done mainly through a sale transaction and not through ongoing use. The aforesaid occurs where the assets are available for immediate sale in their 'as is' condition, the Partnership has an obligation to sell, there is a plan to identify a buyer, and it is highly probable that the disposition will be completed within one year from the date of the classification.

Note 2 - Significant Accounting Policies (Cont.):

These assets are not depreciated from the date of their initial classification as such, and are presented as current assets separately, according to the lower of their value in the financial statements and their fair value net of sale costs. Other comprehensive income (loss) in respect of a non-current asset or group of assets classified as held for sale is presented separately under equity. Where the Partnership changes the planning of the sale such that recovery of the asset will not be performed through a sale transaction, it ceases to classify the asset as held for sale and measures it according to the lower of the book value thereof had it not been classified as held for sale or according to the recoverable amount of the asset on the date of adoption of the decision not to sell.

Discontinued operations are a component of the Partnership which constitutes operations that have been disposed of or are classified as held for sale. The results of operations relating to discontinued operations (including comparison figures) are presented separately in profit or loss (see Note 4 below).

B. Taxes on income:

Deferred taxes:
Deferred taxes are calculated in respect of temporary differences between the amounts included in the financial statements and the amounts taken into account for tax purposes. Deferred tax balances are calculated according to the tax rate expected to apply when the asset is realized or the liability is settled, based on the tax laws enacted or whose enactment has actually been completed by the reporting date.

In calculating the deferred taxes, the taxes that would have applied in the event of realization of the investments in investee companies are not taken into account, as long as a sale of the investments in the investee companies is not expected in the foreseeable future.

C. Initial application of amendments to existing accounting standards:

Amendments to IFRS 9, IFRS 7, IFRS 16, IFRS 4 and IAS 39 regarding the IBOR reform

In August 2020, the IASB published amendments to IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 4 Insurance Contracts, and IFRS 16 Leases (the "**Amendments**").

The Amendments provide practical reliefs to handle the effect of the accounting treatment in the financial statements where IBORs (Interbank Offered Rates) shall be replaced with RFRs (Risk Free Interest Rates). In accordance with one of the practical reliefs, the Partnership shall treat contractual amendments or amendments to the cash flows that are required as a direct consequence of implementation of the reform similarly to the accounting treatment of changes in variable interest. In other words, an entity is required to recognize the changes in the interest rates through adjustment of the effective interest rate without changing the book value of the financial instrument.

Note 2 - Significant Accounting Policies (Cont.):

Use of this practical relief is dependent on the transition from IBOR to RFR occurring on the basis of economically equivalent conditions. In addition, the Amendments allow the changes required by the IBOR reform to be made to the designation of the hedging and the documentation without causing the hedging ratios to stop when certain conditions are fulfilled. In the context of the Amendments, temporary practical relief was also given in connection with the application of hedge accounting pertaining to identification of the hedged risk as separately identifiable.

The Amendments added disclosure requirements in connection with the effect of the expected reform on the entity's financial statements, including reference to the manner in which the entity manages implementation of the interest rate reform, the risks to which it is exposed as a result of the expected reform, and quantitative disclosures with respect to financial instruments at LIBORs that are expected to change.
The Amendments are applied from the annual periods commencing on or after January 1, 2021. The Amendments are applied retroactively, but restatement of comparison figures is not required. The above Amendments had no material effect on the Partnership's Financial Statements.

D. Disclosure for new IFRSs in the period ahead of application thereof:

Amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
In February 2021, the IASB published an amendment to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors (the "**Amendment**"). The purpose of the Amendment is to provide a new definition of the term "accounting estimates".
Accounting estimates are defined as "monetary amounts in the financial statements that are subject to measurement uncertainty". The Amendment clarifies what changes to accounting estimates are and how they differ from changes to the accounting policy and error corrections.
The Amendment will be applied prospectively to annual periods commencing on January 1, 2023, and applies to changes in the accounting policy and accounting estimates occurring at the beginning of such period or thereafter. Early application is possible.

Notes to the Condensed Interim Financial Statements as of September 30, 2021 (Dollars in thousands)

Note 3 – Investments in Oil and Gas Assets:

A. Composition:

	30.9.2021	30.9.2020	31.12.2020
	Unaudited	Unaudited	Audited
Oil and gas assets:			
Michal Matan (Tamar project) (Note 4B)	-	844,764	831,208
Ratio Yam (Leviathan project)	2,436,159	2,482,661	2,483,265
	2,436,159	3,327,425	3,314,473
Appraisal and exploration assets:			
Block 12 Cyprus	121,402	118,469	119,051
New Ofek	7,695	4,496	5,865
New Yahel	513	513	513
	129,610	123,478	125,429
Total	2,565,769	3,450,903	3,439,902

B. Developments in investments in oil and gas assets:

1. Leviathan project:

a) Further to Note 7C2c to the Annual Financial Statements regarding examination of various alternatives for increasing the production volume from the Leviathan project, considering the volume of production from the Leviathan reservoir and the demand during the first half of 2021, and in order to improve the redundancy in the production system, the operator recommended bringing forward the drilling of another development and production well, which was planned to be drilled in later years, to 2022.
Accordingly, on July 12, 2021, the Leviathan partners announced that they had adopted a decision regarding the drilling of the Leviathan-8 development and production well in the area of the I/15 Leviathan North lease, with a budget of approx. $248 million (100%, the Partnership's share is approx. $112 million) (including completion and connection to the production system of the Leviathan reservoir).

The operator stated that this budget is a preliminary estimate, and there may be an addition to or reduction in the said budget of up to around 20%, depending, *inter alia*, on the scope of the actions in the well and the actual costs of equipment, materials and the various service companies. The well will be integrated as part of the system of production wells in the Leviathan reservoir in the context of the development plan. In addition, the necessary infrastructures will be built in the Leviathan leases for the purpose of connection of the well to the existing subsea production system of the Leviathan project.

Note 3 – Investments in Oil and Gas Assets (Cont.):
B. Developments in investments in oil and gas assets (Cont.)
1. Leviathan project (Cont.)

The said drilling is subject to receipt of all of the required regulatory approvals, including the required approvals from the Petroleum Commissioner at the Ministry of Energy (the "**Commissioner**") and from the Ministry of Environmental Protection (the "**Ministry**") for the drilling of the well. In addition, the operator updated that the completion activities and connection of the well to the production system shall be performed, probably, at the beginning of 2023.

It is noted that during November 2021, periodic and preplanned maintenance work was carried out on the Leviathan platform for about seven days, during which the flow of the gas from the Leviathan platform was halted. In this framework, various maintenance actions and upgrades were performed in the production system, including replacement of filters on the platform, which are expected to facilitate optimal production, *inter alia*, during the upcoming winter months.

b) Further to Note 7C2C to the Annual Financial Statements regarding engagement in two separate interim agreements with FLNG service and technology providers, on June 4, 2021, the Leviathan partners notified Golar LNG Limited that they had decided not to extend the agreement signed with them. In addition, on July 6, 2021, the Leviathan partners and Exmar NV signed an amendment and an addendum to the agreement signed between them in order to extend the agreement and continue to develop the collaboration between them.
As of the date of approval of the Financial Statements, the Leviathan partners are continuing to examine the construction of the FLNG facility for the Leviathan project, which will be positioned in Israel's EEZ, including receipt of the necessary regulatory approvals.

c) On June 14, 2021, Chevron Mediterranean Limited ("**Chevron**")[2] signed a non-binding MOU with Petroleum & Energy Infrastructures Ltd. ("**PEI**"), which defines the division of the responsibility between Chevron and PEI in a project for the construction and operation of a designated infrastructure for the piping of condensate from the Leviathan platform to storage containers on the site of the Orot Rabin power plant, which will be rented for this purpose, and the loading thereof onto tankers. It is clarified that performance of the project described above is subject to the signing of a binding agreement between the parties, the signing of an agreement between PEI and the IEC regarding the use of areas on the power plant's site, and receipt of regulatory approvals insofar as required.

d) In June 2021, a report evaluating reserves and contingent resources in the Leviathan leases was received from NSAI, updated as of March 31, 2021. According to the report, the total quantity of resources is estimated at approx. 639.2 BCM and approx. 49.6 million barrels, and is divided into categories of reserves and contingent resources.

[2] On June 27, 2021, Noble Energy Mediterranean Ltd., the operator in the Leviathan and Tamar projects, notified the Partnership that from June 28, 2021, its name would officially be changed to Chevron Mediterranean Limited.

Note 3 – Investments in Oil and Gas Assets (Cont.):
B. Developments in investments in oil and gas assets (Cont.)
1. Leviathan project (Cont.)

The quantity of the Proved Developed Producing reserves is approx. 342.9 BCM and the quantity of the Proved + Probable Reserves is approx. 384 BCM.
Additionally, the Proved Developed Producing condensate reserves are approx. 26.6 million barrels, and the quantity of Proved + Probable Reserves is approx. 29.8 million barrels.
In the contingent resource report, the contingent resources were divided into two categories, which relate to each of the reservoir's development stages, as follows:

1. 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 as part of Phase 1A.

2. Future Development: resources that are 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. 362 BCM (the high estimate) and approx. 128 BCM (the low estimate) and the contingent condensate resources range between approx. 28.1 million barrels (the high estimate) and approx. 10 million barrels (the low estimate).

The above estimates regarding the reserves of natural gas, condensate, and the contingent and prospective resources of natural gas and oil in the Partnership's interests in the Leviathan leases are based, *inter alia*, on geological, geophysical, engineering and other information received from the wells and from the operator in the said interests. The above estimates constitute professional appraisals and conjecture of NSAI, in respect of which there is no certainty. The quantities of natural gas and/or condensate that will actually be produced may be different to the said appraisals and conjecture, *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 conditions and/or the actual performance of the reservoirs. The above appraisals and conjecture may be updated insofar as additional information is accrued and/or as a result of a gamut of factors relating to the oil and natural gas exploration and production projects.

2. Tamar project:

On May 12, 2021, the Partnership reported that the operator in the Tamar project had received notice on May 11, 2021 from the competent entities that in view of the geopolitical situation, it was required to halt production of natural gas from the Tamar reservoir and the flow of natural gas to Egypt, and accordingly the production of natural gas from the Tamar reservoir was halted. Accordingly, natural gas was supplied to customers of the Tamar reservoir in the domestic market from the Leviathan reservoir. It is noted that on May 21, 2021, production of natural gas from the Tamar reservoir was resumed, as well as the flow of natural gas to Egypt.

Note 3 – Investments in Oil and Gas Assets (Cont.):
B. Developments in investments in oil and gas assets (Cont.)
2. Tamar project (Cont.)

It is noted that the halting of production as aforesaid had no material effect on the Partnership's revenues from the sale of natural gas.

3. **Block 12 in Cyprus:**

Further to Note 7C4 to the Annual Financial Statements, on October 13, 2021, the approval of the Government of Cyprus was received for the extension of the partners' commitment in Block 12 to drill an appraisal/development well, by an additional 12 months, i.e., until November 2022.
As of the date of approval of the Financial Statements, the partners in Block 12 have approved a work plan and budget for 2022 in the amount of approx. $32 million (100%, the Partnership's share is approx. $9.6 million), for which the approval of the Government of Cyprus has not yet been obtained. It is noted that this budget does not include the cost of the drilling of the aforesaid well.

4. Further to Note 7C6 to the Annual Financial Statements regarding a petition filed by the Partnership and Chevron, which hold the Alon D license (in this section: the "**License Holders**" or the "**Petitioners**"), with the Supreme Court sitting as the High Court of Justice, which shall state that on May 13, 2020, the State filed its preliminary response to the petition, in which it asserted, *inter alia*, that the petition should be dismissed with prejudice due to the non-joining of Energean Israel Ltd. ("**Energean**") as a respondent. On the same date, Energean filed a motion to summarily dismiss the petition with prejudice, or alternatively to join it to the proceeding as a respondent and allow it to raise its claims. On May 18, 2021, the License Holders filed a response to the motion on behalf of Energean, in which they moved that its motion be denied. On May 19, 2021, the hearing on the petition was held. On the date of the hearing, the parties reached an agreement whereby Energean will be joined to the proceeding as a respondent, and will file a response on its behalf within 60 days, and on the same date the parties will also give an update on the progress of the competitive process in Block 72, assuming that by such date, a winner of the competitive process will have been chosen, which is expected to affect the claims in the petition. The court approved the stipulation between the parties and ruled that the updated date for the filing of Energean's response and the update on behalf of the parties is August 19, 2021. On August 19, 2021, Energean filed its response to the petition, and on October 25, 2021, the Petitioners filed their reply to Energean's response. In accordance with the decision of the court, a follow-on hearing is set for April 14, 2022.

Note 3 – Investments in Oil and Gas Assets (Cont.):
B. Developments in investments in oil and gas assets (Cont.)

5. **The 405/New Ofek and 406/New Yahel licenses (the "Licenses"):**

   Further to Note 7C7 to the Annual Financial Statements, on May 4, 2021, the operator in the Licenses reported that the Commissioner had approved the extension of the Licenses until June 20, 2022, and on July 27, 2021, the Commissioner approved an updated work plan in the New Ofek license, and in this context, *inter alia*, postponement of the date of commencement of the production tests in the area of the license to August 15, 2021. The operator informed the Partnership that on August 25, 2021, entry to the well has commenced in preparation for the performance of the production tests therein, and that due to many and various delays in commencement of the work, including due to the improvement of the sealing of the shoring pipe, the budget for the production tests had increased by around $3.7 million (100%, the Partnership's share approx. $925 thousand), compared with the previous budget that was approved by the partners in the sum of between approx. $10-13 million (100%, the Partnership's share between approx. $7.5-8.5 million).
   In addition, insofar as the results of the production tests at the initial stage are positive, the Partnership will participate in its proportionate share also in a contingent budget in the sum of approx. $2.5 million (100%, the Partnership's share approx. $625 thousand), which will be used for up to four additional production tests. The operator further informed the Partnership that after completion of technical tests to examine the integrity of the well, it was found to be fit for production tests in all target layers. As of the date of approval of the Financial Statements, the operator is continuing to prepare for performance of the production tests, which are expected to take around three months.

6. **Engagement in a transmission agreement for the export of gas to Egypt:**

   Further to Note 12M to the Annual Financial Statements, in September 2021, Chevron, which operates the Leviathan and Tamar reservoirs, informed the Partnership that in accordance with an update received from Israel Natural Gas Lines Ltd. ("**INGL**"), the date of commencement of piping of the full quantities under the agreement for the supply of transmission services, for the purpose of transmission of natural gas from the Leviathan and Tamar reservoirs to the EMG terminal in Ashkelon and transmission to Egypt, is projected for March 2023. Therefore, as of the date of approval of the Financial Statements, the Partnership is examining, together with Chevron, the possibility of piping natural gas from Israel to Egypt though Jordan.

Note 4 – Tamar Project Discontinued Operations:

Further to an MOU of April 26, 2021, on September 2, 2021, the Partnership signed a binding and contingent agreement for the sale of its interests in the Tamar project to Tamar Investment 1 RSC Limited and Tamar Investment 2 RSC Limited (collectively: the "**Buyers**"), (the "**Agreement**").

A. Below is a concise description of the main clauses of the Agreement:

1. Subject to fulfillment of the closing conditions, as specified below, the Buyers will purchase from the Partnership (equally between them) the Partnership's interests at the rate of 22% in each one of the leases, together with the Partnership's share in the shares of Tamar 10-Inch Pipeline Ltd. (the holder of the transmission license pursuant to Section 10 of the Natural Gas Sector Law, 5762-2002), and the Partnership's rights and undertakings in the joint operating agreement that applies to the leases, the agreement for use of the Yam Tethys facilities (in relation to the Partnership's share as a holder of interests in the Tamar lease), in agreements for the sale of natural gas and condensate from the Tamar lease, agreements for the export of natural gas (including the agreements relating to the agreements and permits for export to Jordan and to Egypt), and in other ancillary agreements between the holders of the interests in the leases (collectively: the "**Object of Sale**").

2. In consideration for the Object of Sale, on the transaction closing date, the Buyers will pay the Partnership a total sum of U.S. $1.025 billion, while the effective date was determined as August 1, 2021 (the "**Effective Date**")[3]. The consideration will be calculated subject to certain adjustments in respect of revenues and expenses that the Partnership shall have in connection with the Object of Sale for the period between the Effective Date and the transaction closing date.

3. The Partnership's interests in the leases will be transferred to the Buyers subject to the existing royalties in the leases which were borne by the Partnership, and accordingly, the obligation to pay the royalty interest owners will apply to the Buyers.

4. Subject to the closing of the transaction, from the Effective Date, the Buyers will bear, each according to its share, any and all expenses, payments, guaranties, securities and liabilities that apply in respect of the Object of Sale and pursuant to the provisions of any law, with the exception of certain liabilities in respect of which the Agreement determined would remain the Partnership's responsibility also after the closing of the transaction, as described below.

[3] It is noted that the effective date which was determined in the MOU of April 26, 2021 was April 1, 2021 (versus August 1, 2021 which was determined in the Agreement as the effective date for the transaction). The cash flow from operating activities before tax which the Partnership derived from the Object of Sale in respect of the period from April 1, 2021 until August 1, 2021 is estimated at approx. U.S. $50 million.

Note 4 – Tamar Project Discontinued Operations (Cont.):

5. The Partnership will bear any and all expenses, payments, guaranties, securities and liabilities that apply in respect of the Object of Sale and pursuant to the provisions of any law until the Effective Date, including the taxes in respect of the sale of the Object of Sale and the levy under the Taxation of Profits from Natural Resources Law, 5771-2011 (the "**Petroleum Profits Levy**") for the quantities of hydrocarbons that were sold until the Effective Date.
In addition, the Partnership will remain responsible for the following liabilities also after the closing of the transaction: (a) liabilities in connection with the Object of Sale in relation to the period that preceded the Effective Date (with the exception of faults and wear and tear in facilities and equipment of the Tamar project which existed prior to the Effective Date but were not known to the Partnership); (b) liabilities in relation to hydrocarbons which were produced from the leases prior to the Effective Date; (c) liabilities in connection with the class certification motion which was filed by a consumer of the Israel Electric Corp. Ltd. against the holders of the interests in the Tamar lease, including any appeal and other proceeding in connection therewith[4]; (d) payment demands according to the joint operating agreement in the leases, which were sent by the operator in the Tamar project prior to the Effective Date; and (e) liabilities in connection with environmental hazards in the area of the leases, insofar as they existed prior to the Effective Date or were known to the Partnership prior to the transaction closing date.

6. The Agreement prescribed closing conditions, as is standard in transactions of this type, including the following main conditions:

   (a) Receipt of regulatory approvals in connection with the transaction, including the approval of the Commissioner at the Ministry of Energy for the transfer of the interests in the leases to the Buyers subject to the existing royalties;

   (b) Receipt of approval for assignment of the Partnership's rights and undertakings under the joint operating agreement in the leases, the agreement for use of the Yam Tethys facilities, agreements for the sale of natural gas and condensate from the Tamar lease, agreements for the export of natural gas, and other ancillary agreements, from the other parties to such agreements, all insofar as the consent of the said parties is required for purposes of assignment of the rights and the undertakings as aforesaid to the Buyers;

   (c) Receipt of approval of the Supervisor and (insofar as shall be required in the circumstances) receipt of approval of the meeting of the holders of the Partnership's Participation Units for engagement in the Agreement and for the sale of the Object of Sale to the Buyers;

   (d) Removal of the pledges imposed on the Object of Sale to secure payment of the bonds that were issued by Delek & Avner (Tamar Bond) Ltd. ("**Tamar Bond**").

[4] See Note 5C below.

Note 4 – Tamar Project Discontinued Operations (Cont.):

7. The transaction closing date was scheduled for the last business day of the month in which the closing conditions are fulfilled (with the exception of the conditions which will be fulfilled on the closing date itself), but if the date of fulfillment of the closing conditions shall be less than 7 business days before the end of the month, the closing date will be on the seventh business day in the following month. In addition, in the event that no VAT exemption is received for the transaction, the Buyers will be entitled to postpone the transaction closing date until a date that is 5 business days after receipt of the VAT exemption or November 30, 2021, whichever is earlier.

8. The Agreement determined provisions regarding the parties' rights to terminate the Agreement prior to the closing date, including that:

   (a) Each of the parties is entitled to terminate the Agreement in the event that the closing conditions shall not have been fulfilled within 90 days from the date of the signing of the Agreement, insofar as such party is not in breach, or in the event that the request for approval of the transfer of the interests in the leases or for receipt of the required consent from a third party is refused or is not expected to be received within 90 days, insofar as the party seeking to terminate the Agreement shall not have caused the delay.

   (b) The Buyers are entitled to terminate the Agreement before the transaction closing date if a 'material adverse change' shall have occurred in relation to the Object of Sale or the transaction (as defined in the Agreement), and, under certain conditions that were determined, in the event of a breach of representations of the Partnership which were included in the Agreement.

   (c) The Partnership is entitled to terminate the Agreement before the transaction closing date, under certain conditions that were determined, in the event of a breach of the Buyers' undertakings according to the Agreement.

9. In the context of the Agreement, the Partnership made various representations to the Buyers, as is standard in transactions of this type, including representations with respect to its rights in the Object of Sale and disclosure to the Buyers of the material information pertaining to the Object of Sale, including, *inter alia*, compliance with the terms and conditions of the leases, the validity of the material agreements and absence of breach, legal proceedings that are relevant to the Object of Sale, compliance with the legal provisions that apply to the Object of Sale, the applicable taxation and financial data of the joint project.

Note 4 – Tamar Project Discontinued Operations (Cont.):

10. The Agreement determined provisions whereby the Partnership undertook to indemnify the Buyers in respect of any damage or liability that shall be caused thereto in connection with lawsuits, claims or another legal proceeding as a result of a breach of a representation, provided that the Partnership shall not be liable for damage until the total damage exceeds U.S. $2.5 million, and provided that the indemnity amount for which the Partnership shall be liable shall not exceed 35% of the consideration paid for the Object of Sale, other than with respect to certain representations that were defined as ‘fundamental representations’ (for which the total indemnity will not exceed 100% of the consideration) or fraud (with respect to which no liability cap was determined).The Partnership will not be liable to the Buyers for breach of the representations unless an indemnity demand is delivered within 18 months from the transaction closing date (or 36 months with respect to the fundamental representations as aforesaid, and until expiration of the applicable statute of limitations with respect to representations pertaining to tax liabilities).

11. The Partnership undertook to indemnify the Buyers for irregular events, including the overcharging of the Buyers with the Petroleum Profits Levy in connection with certain existing disputes between the Partnership and the tax authorities with respect to the method of calculation of the levy in relation to revenues and expenses in the period prior to the Effective Date, in accordance with the mechanism determined in the Agreement, up to a maximum indemnity cap of U.S. $15 million.

12. The law that governs the Agreement is English law. Any dispute between the parties to the Agreement will be decided in an arbitration proceeding to be held before 3 arbitrators in London according to the London Court of International Arbitration rules.

Notes to the Condensed Interim Financial Statements as of September 30, 2021 (Dollars in thousands)

Note 4 – Tamar Project Discontinued Operations (Cont.):

B. To the best of the Partnership's knowledge, the Buyers are SPVs which were established for purposes of the transaction and are held (indirectly) by MDC Oil & Gas Holding Company LLC, a corporation from the group Mubadala Investment Company PJSC, which is a company owned by the Abu Dhabi government. It is noted that the parent companies of the Buyers are not a party to the Agreement and are not guarantors for the Buyers' undertakings.

The sale proceeds will first be used to repay the Partnership's liabilities to the holders of the Tamar Bond bonds, 50% of the Series A bonds, and payment of taxes that apply to the sale[5].

It is stated that on October 31, 2021, the special general meeting of the holders of Participation Units of the Partnership approved the sale transaction (see Note 8H below), and on November 3, 2021, the approval of the commissioners was received for the sale of the Partnership's interests in the leases. In addition, according to the announcement of the Ministry of Energy dated November 10, 2021, the Petroleum Council recommended the Commissioner to approve the sale of the interests. It is clarified that receipt of the Commissioner's approval is subject to the receipt of approval of the Competition Authority. As of the date of approval of the Financial Statements, the Partnership is in advanced stages for closing the sale agreement.

C. Below are the main groups of assets and liabilities classified as held for sale:

	30.9.2021
	Unaudited
Trade and other receivables	7,528
Investments in oil and gas assets	823,510
Other long-term assets	19,895
	850,933
Other long-term liabilities[6]	35,144

[5] It is noted that the cost of the Partnership's interests in the Tamar project for tax purposes is estimated, as of September 30, 2021, at approx. $154 million. See Note 20A to the Annual Financial Statements.

[6] The other long-term liabilities do not include Tamar Bond bonds in the sum of approx. $636 million, which are classified as short-term liabilities and are expected to be prepaid upon the sale of the Partnership's holdings in the Tamar and Dalit leases.

Notes to the Condensed Interim Financial Statements as of September 30, 2021 (Dollars in thousands)

Note 4 – Tamar Project Discontinued Operations (Cont.):

D. Below are figures on the results of the actions relating to discontinued operations:

	For the nine-month period ended		For the three-month period ended		For the year ended
	30.9.2021	30.9.2020	30.9.2021	30.9.2020	31.12.2020
	Unaudited		Unaudited		Audited
Revenues:					
From natural gas and condensate sales	225,897	238,575	102,195	101,477	332,036
Net of royalties	(44,606)	(48,911)	(20,915)	(20,984)	(67,937)
	181,291	189,664	81,280	80,493	264,099
Costs and expenses:					
Cost of natural gas and condensate production	(24,402)	(17,303)	(6,902)	(6,071)	(24,284)
Depreciation, depletion and amortization expenses	(7,274)	(22,892)	-	(9,129)	(32,361)
Other direct expenses	(185)	(183)	(90)	(65)	(201)
Total costs and expenses	(31,861)	(40,378)	(6,992)	(15,265)	(56,846)
Operating income before oil and gas profit levy	149,430	149,286	74,288	65,228	207,253
Oil and gas profit levy	(31,843)	-	(15,511)	-	(3,837)
Operating income	117,587	149,286	58,777	65,228	203,416
Financial expenses	(311)	(508)	(104)	-	(664)
Financial income	301	263	99	147	337
Net financial income (expenses)	(10)	(245)	(5)	147	(327)
Net profit	117,577	149,041	58,772	65,375	203,089
Other comprehensive income (loss) from discontinued operations					
Amounts that will not be carried in the future to the income statement:					
Profit (loss) from investment in equity instruments designated for measurement at fair value through other comprehensive income	13,597	(33,846)	-	1,545	(29,322)
Total comprehensive income from discontinued operations	131,174	115,195	58,772	66,920	173,767

E. Below are figures on the net cash flows relating to discontinued operations and which derived from (were used for) operations:

	For the nine-month period ended		For the three-month period ended		For the year ended
	30.9.2021	30.9.2020	30.9.2021	30.9.2020	31.12.2020
	Unaudited		Unaudited		Audited
Current	124,627	177,830	59,635	63,473	253,884
Investment	23,079	(16,498)	(843)	(6,451)	(18,720)
Financing	-	-	-	-	-

Note 4 – Tamar Project Discontinued Operations (Cont.):

F. On April 27, 2021, the Partnership entered into an agreement with a third party for the off-exchange sale of all of its holdings (22.6%) in Tamar Petroleum, in consideration for the total sum of approx. ILS 100 million in cash (approx. $30.6 million), which reflects a share price of 500.035 agorot. On May 5, 2021, the said transaction was closed, and in the context thereof, the shares were transferred against payment of the consideration. In May 2021, the Partnership paid the capital gain tax balance which was deferred to the date of the sale of the shares, in the sum of approx. $15 million.

Note 5 – Engagements for Natural Gas Supply:

A. Further to Notes 12C1d and 12C2b to the Annual Financial Statements in connection with the settlement agreements that were signed on January 30, 2021 between the Tamar partners and Israel Electric Corp. Ltd. (the "**IEC**") and between the Leviathan partners and the IEC, on May 2, 2021, the parties to the Tamar settlement agreement agreed to an extension of the timeframe for fulfillment of the condition precedent pertaining to the taking effect of an agreed order between Chevron and the Competition Authority, according to Section 50B of the Economic Competition Law, 5748-1988, until May 31, 2021, and the parties to the Leviathan settlement agreement agreed to an extension of the timeframe for fulfillment of the conditions precedent until such date. On May 31, 2021, the agreed order was approved by the Competition Court, and thus, all of the conditions precedent for the settlement agreements signed between the Tamar partners and the IEC and the Leviathan partners and the IEC to take effect were met.

B. Further to Note 12C1b to the Annual Financial Statements in connection with the agreement for the supply of gas between the Tamar partners and the IEC, on July 4, 2021, the Partnership reported of advanced negotiations between the IEC and all of the Tamar partners, with the exception of the Partnership (the "**Other Tamar Partners**"), in connection with the sale of gas to the IEC. It is further noted that on July 27, 2021, a non-binding MOU was signed between the Other Tamar Partners and the IEC, which is subject to the completion of negotiations between them and to the signing of an agreement.

C. Further to Note 12C2b to the Annual Financial Statements in connection with an agreement for the supply of gas between the Leviathan partners and the IEC, on June 7, 2021, the Partnership reported that it had received a letter from the Competition Authority whereby the Partnership and Chevron were required to immediately revoke the 'exclusivity clause' in the agreement for the supply of natural gas between the Leviathan partners and the IEC, since Section 22(a) of Annex A to the government's resolution regarding the Gas Framework, had been breached, as the Competition Authority claims. The Partnership's position, according to legal advice received thereby, is that its actions in connection with the said agreement did not contradict the provisions of the Gas Framework, and it disputed the Competition Authority's authority in this regard.

Note 5 – Engagements for Natural Gas Supply (Cont.):

The aforesaid notwithstanding, on June 10, 2021, the Leviathan partners notified the Competition Authority of their consent to revocation of the said clause, and on June 14, 2021, notice was given to the IEC regarding revocation of the clause, without the same constituting an admission or consent to the notice of the Competition Authority and/or any of the claims raised against the said agreement and/or the said clause. The said notice had no effect on the Partnership's revenues.

D. Further to Note 12N to the Annual Financial Statements in connection with a balancing agreement for separate sale from the Tamar reservoir ("**Balancing Agreement**"), on May 26, 2021, the Partnership reported that after completion of the self-assessment performed by all of the partners in the Tamar project in accordance with the requirement of the Competition Authority, the parties agreed, on May 25, 2021, that no additional approval is required from the Competition Authority, and therefore, the Balancing Agreement took effect on May 11, 2021. As of the date of approval of the Financial Statements, no agreements have yet been signed for separate sales from the Tamar reservoir.

E. On July 4, 2021, the Leviathan partners signed a framework agreement with the IEC for the supply of natural gas on an interruptible basis (SPOT) for a period of one year, according to a price to be agreed between the parties from time to time. The agreement does not obligate the parties to purchase or sell any quantities of natural gas, and each party may terminate the agreement at any time.

Note 6 – Oil and Gas Profit Levy and Taxes:

A. Further to Note 20A12 to the Annual Financial Statements, in connection with the taxable income of the Partnership, which was attributed to an entitled holder in respect of the holding of Participation Units of the Partnership in 2018, in view of the disputes that have arisen between the Partnership and the Tax Authority and disagreements regarding the amount of the Partnership's taxable income for 2018, on March 24, 2021, a non-agreed assessment was received from the Tax Authority, pursuant to Section 145(a)(2)(b) of the Income Tax Ordinance, 5721-1961 (the "**Tax Assessment**"), whereby the Partnership's taxable business income for 2018 is approx. $202 million (instead of approx. $153 million, as was included in the Partnership's tax report which was filed with the Tax Authority), and the Partnership's capital gain for 2018 is approx. $17.9 million, as declared in the report which was filed by the Partnership as aforesaid.
The disputes primarily pertain to the interpretation of the manner of recognition of financial expenses and other expenses borne by the Partnership.

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 sum of approx. $13 million. It is noted that the amounts as aforesaid were translated from shekels to dollars according to the dollar exchange rate as of September 30, 2021.

Note 6 – Oil and Gas Profit Levy and Taxes (Cont.):

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 for the tax year 2018, until completion of the proceedings required for determination of the final assessment. On June 10, 2021, the Partnership submitted a reasoned administrative objection to all of the determinations made by the assessing officer in the assessment for the contested year. In the Partnership's estimation, based on its professional advisors' opinion, the prospects of most of the Partnership's arguments being accepted are higher than 50%.

B. Further to Note 20A9 to the Annual Financial Statements, on May 3, 2021, the Partnership filed with the court grounds for an appeal of assessments by an order in respect of disputes that have arisen between the Partnership and the Tax Authority and the disagreements regarding the amount of the Partnership's taxable income for 2016. It is noted that, in accordance with the court's decision, the date for a pretrial hearing in the appeal has been scheduled for November 25, 2021. In the Partnership's estimation, based on the opinion of its professional advisors, the chances of most of the Partnership's claims being accepted are higher than 50%.

C. Further to Note 20A7 to the Annual Financial Statements in connection with a legal proceeding regarding Section 19 of the Taxation of Profits from Natural Resources Law, 5771-2011, it is noted that on June 28, 2021, the court's judgment was received, mainly ruling that:

1. With respect to tax payments made by the Partnership for the tax years 2015 and 2016, the Partnership is required to pay corporate holders in the past balancing payments in accordance with the "net of the financial loss" alternative described in the judgment, i.e., payment of the "surplus" amount that was paid for the individual holders.
2. With respect to 2017 forth, it is the Partnership that will bear payment of the tax assessment differences, if any, but no balancing payments will be made in respect thereof. With regards to the manner of the balancing and tax payments in the future, according to the judgment, the Partnership will continue to act in accordance with the arrangement according to which it has acted since the tax year 2017, as specified in Note 20A7 to the Annual Financial Statements. The judgment thus grants all of the holders of the Partnership certainty as to the manner of the making of future balancing and tax payments.

In addition, on July 1, 2021, several holders filed a clarification motion with the court, in which the court was moved to order how the payment should be made according to the "net of the financial loss" alternative set forth in the judgment with respect to payment of interest and linkage, and on August 9, 2021, the court ruled that lawful interest and linkage differentials be added to such payment, in accordance with the provisions of the Adjudication of Interest and Linkage Law, 5721-1961.

In the Partnership's estimation, the Partnership is required to pay corporate holders, in respect of the past, the sum of approx. $12.4 million, in respect of which there is a sufficient provision in the Partnership's Financial Statements.

Note 6 – Oil and Gas Profit Levy and Taxes (Cont.):

D. On July 14, 2021, the Partnership released a temporary tax certificate for entitled holders due to the holding of a participation unit for the tax year 2019. A final tax certificate will be produced upon completion of the audit proceeding of the income tax authorities. The final tax certificate may be materially different to the temporary tax certificate.

E. Further to Note 20A4 to the Annual Financial Statements regarding the draft Income Tax Regulations (Rules for the Calculation of Tax due to the Holding and Selling of Participation Units in an Oil Exploration Partnership) (Amendment), 5781-2020, it is noted that on September 14, 2021, the regulations were published in the Official Gazette (the "**Amended Language of the Regulations**"). According to the Amended Language of the Regulations, *inter alia*, from the tax year 2022, the Partnership will be taxed as a company (i.e., using a two-stage method).

In view of the approval of the Amended Language of the Regulations as aforesaid, and according to the Partnership's estimation, the Partnership recorded a deferred tax liability in the sum of approx. $216 million against an expense in the Statement of Comprehensive Income.

The sum of the liability as aforesaid is for temporary differences recorded until the date of the financial statements, mainly for differences between the depreciation on oil and gas assets which were recognized for tax purposes, and the deprecation recorded in the financial statements. This liability does not include a deferred tax liability for the Tamar project in the sum of approx. $126 million, since the Partnership is in advanced stages of closing the sale transaction (as stated in Note 4A above) prior to the taking effect of the Amended Language of the Regulations.

It is noted that from January 1, 2022 forth, the Partnership will record current tax expenses in the Statement of Comprehensive Income, in addition to deferred tax expenses as aforesaid.

F. Further to Note 20A8 to the Annual Financial Statements regarding tax certificates for an entitled holder in respect of the tax year 2015, it is noted that due to publication of the Income Tax Regulations as stated in Section E. above, on October 20, 2021, the Partnership published final tax certificates for an entitled holder due to the holding of a participation unit of the Partnership and of Avner Oil Exploration, Limited Partnership ("**Avner**") for the tax year 2015.

Note 6 – Oil and Gas Profit Levy and Taxes (Cont.):

G. Further to Note 20B to the Annual Financial Statements regarding the publication for public comments of the Memorandum on the Taxation of Profits from Natural Resources Law (Amendment), 5781-2021, it is noted that on November 10, 2021, the Knesset approved in second and third reading, Amendment No. 3 to the Taxation of Profits from Natural Resources Law, 5781-2021 (the "**Amendment to the Law**"), according to which, *inter alia*, an advance payment of oil and gas profit levies will be required in the amount of 75% of the disputed amounts, subject to the decision of the assessing officer on the objection (prior to completion of legal proceedings which are under dispute in court, if any). It is clarified that to the extent that it is determined in a final and binding proceeding that the position of the Tax Authority regarding the disputes therewith in connection with the Tamar venture, is accepted in full, the Partnership may incur an additional liability for an oil and gas profit levy payment to the Tax Authority in an amount estimated, as of September 30, 2021, at approx. $22 million, such that in accordance with the Amendment to the Law, 75% of the said amount may be advanced.

Note 7 – Contingent Liabilities:

A. Further to Note 12K1 to the Annual Financial Statements regarding a claim filed by the Partnership and Chevron (collectively in this section: the "**Plaintiffs**") with the Jerusalem District Court against the State of Israel, through its representatives from the Ministry of Energy (in this section: the "**Defendant**"), which mainly includes restitution of royalties which were overpaid by the Plaintiffs to the Defendant, under protest, it is noted that on September 19, 2021, the Defendant filed another motion for an extension for the filing of the closing statements on its behalf, such that they shall be filed by November 28, 2021, and on the same date the court granted the said motion. Accordingly, the Plaintiffs will be entitled to file responding summations on their behalf until December 28, 2021.

B. Further to Note 12K2 to the Annual Financial Statements regarding a motion for class certification that was filed by a consumer of the IEC against the Tamar partners in connection with the price at which the Tamar partners sell natural gas to the IEC, it is noted that on June 8, 2021, the District Court's judgment was received which denies the certification motion. On September 30, 2021, the petitioner filed an appeal from the judgment with the Supreme Court. In accordance with the court's decision of October 13, 2021, the Tamar partners are required to file their response to the appeal by December 12, 2021. A hearing on the appeal will be held on September 19, 2022.

C. 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 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 the petitioners filed their closing statements by August 16, 2021, and the respondents are required to file their closing statements by January 2, 2022.

Note 7 – Contingent Liabilities (Cont.):

D. Further to Note 12K4 to the Annual Financial Statements regarding a class action and a motion for class certification (in this section: the "**Certification Motion**") in connection with the issuance of shares of Tamar Petroleum in July 2017, it is noted that on April 6, 2021, the court granted the petitioners' motion for amendment of the Certification Motion, ruling that the petitioners may file the amended certification motion according to the language that was filed with the court, subject to payment of costs to the respondents in the sum total of ILS 100,000. On November 7, 2021, the motion for leave to appeal the decision to approve the amendment of the Certification Motion, was denied.

E. Further to Note 12K6 to the Annual Financial Statements regarding a complaint filed by the Supervisor against the Partnership, the Partnership's General Partner and the royalty interest owners (which include Delek Group, Delek Energy and Delek Royalties (2012) Ltd.), and a counter-complaint filed by the royalty interest owners, all in connection with the investment recovery date in the Tamar project, it is noted that on March 17, 2021, an affidavit in lieu of direct testimony was filed on behalf of the Partnership, as well as a supplementary economic opinion on its behalf.

In addition, on April 5, 2021, a pretrial hearing was held, during which it was proposed that the parties resort to mediation, and after the parties' consent to approach Supreme Court justice (Ret.) Yoram Danziger as mediator, the court ruled that the parties are required to provide it with an update on the progress of the mediation proceeding by May 20, 2021, and that insofar as the mediation is successful, the trial hearing dates will be obviated.

On May 5, 2021, a hearing was held before the mediator in the parties' presence, at which it was ruled that each party would present its claims to the mediator separately. In this context, a meeting with the Supervisors' counsel was held on May 9, 2021. After the mediator met with the parties' counsel, the mediator also met with the experts on behalf of the parties, at his request. In addition, on November 1, 2021, the parties updated the court that the mediation proceeding has yet to be exhausted and the court ordered the parties to continue to update it by November 18, 2021.

F. Further to Note 12K8 to the Annual Financial Statements regarding a class action and a motion for class certification which was filed by a holder of Participation Units of the Partnership (in this section: the "**Petitioner**"), with the Economic Department of the Tel Aviv District Court against the Partnership, the General Partner, Delek Group, Yitzhak Sharon (Tshuva), the directors of the General Partner (including the former chairman of the board) and the CEO of the General Partner (in this section: the "**Respondents**"), alleging that the Respondents refrained from disclosing, in the Partnership's reports, the existence of a clause in the agreements for the sale of natural gas from the Leviathan and Tamar reservoirs to Dolphinus Holdings Limited, it is noted that on September 26, 2021, the Petitioner filed a reply to the Respondents' response to the certification motion, together with an updated expert opinion, and on October 3, 2021, the court ordered the Attorney General to give notice by November 5, 2021, of whether he wishes to join the case and file a position therein. Since no such position has been filed, on November 11, 2021 the court ruled that it would await receipt thereof until November 25, 2021.

Note 7 – Contingent Liabilities (Cont.):

G. Further to Note 12K10 to the Financial Statements regarding an appeal that was filed with the Supreme Court by the Homeland Guards association against the Ministry and position holders therein and against the operator in the Leviathan project and the Ministry of Energy, in connection with the emission permit for the Leviathan platform (in this section: the "**Appeal**"), it is noted that on November 2, 2021, the Supreme Court's judgment was received, which dismisses the Appeal, with no order for costs, upholding the costs that were awarded by the District Court.

H. Further to Note 12K11 to the Annual Financial Statements regarding an appeal that was filed with the Supreme Court by several local and regional councils against the Head of the Air Quality Division at the Ministry of Environmental Protection and against Chevron in connection with the emission permit for the Leviathan platform, it is noted that on April 5, 2021, a hearing was held on the appeal, and on October 7, 2021, the judgment of the Supreme Court was issued, which denied the appeal, with no order for costs.

I. Further to Note 12K12 to the Annual Financial Statements regarding a petition that was filed by the association Homeland Guards with the Jerusalem District Court against the Ministry and Chevron, in the context of which the Ministry was requested to order the release of a reasoned decision, at Chevron's request, to deem information about the flow of wells in the Leviathan reservoir as containing information that amounts to a trade secret, it is noted that on May 23, 2021, a hearing was held on the petition, in the context of which, in view of the consent of the Ministry to post on the website a reasoned decision regarding the information being a trade secret, the court dismissed it without prejudice.

J. Further to Note 12K13 to the Annual Financial Statements regarding a motion for class certification that was filed by a resident of the Dor Beach area against Chevron and its parent company, it is noted that on May 5, 2021, the court referred the parties to negotiate with the aim of reaching a stipulation that would obviate the need for litigation, and ordered that an update on the negotiations be provided by June 20, 2021. On June 21, 2021, the petitioner and Chevron updated the court that they had failed to reach agreements that would move the proceeding forward, and therefore it needs to continue to be conducted before the court. It is noted that on August 31, 2021, Chevron filed a response to the certification motion and the petitioner is required to file its response by November 19, 2021. In addition, on September 19, 2021, the court approved the motion for amendment of the certification motion which was filed by the petitioner, and ordered the removal from the certification motion of Chevron's parent company as a respondent.

K. Further to Note 12L2c to the Annual Financial Statements regarding a caution and a summons to a hearing received by Chevron from the Ministry with respect to an ostensible violation of the sea discharge permit that was issued for the Leviathan platform with respect to the standards for open system emissions determined in the permit, it is noted that on March 22, 2021, a hearing was held on the matter, and on March 24, 2021, a summary of the hearing on behalf of the Ministry was received, which stated that the Ministry would not recommend a punitive sanction for the alleged deviations, but in the event of additional deviations, it would consider exercising all of its lawful powers. It was further determined that Chevron is required to prepare procedures and to complete actions for the cleaning and identification of sources of oils.

Note 7 – Contingent Liabilities (Cont.):

L. On April 7, 2021, the Partnership, together with the other Tamar partners and Leviathan partners (in this section: the "**Petitioners**"), filed a petition against the Natural Gas Commission and the Ministry of Energy (in this section: the "**Respondents of the State**"). In the petition, the respondents moved for annulment of decision no. 5/2020 of December 29, 2020 – Amendment to Commission decision 8/2019 – criteria and tariffs for the operation of the transmission system in a flow control regime (Amendment No. 2), of the Natural Gas Commission (in this section, the "**Commission**"), which was published on January 3, 2021 (in this section: the "**Decision**"). According to the Decision, the natural gas suppliers shall bear the cost of one half of the "Unaccounted For Gas Target (UFG-T)", which is defined in the Decision as a difference of up to 0.5% between the quantity of gas measured by the meter at the entrance to the national natural gas transmission system and the quantity measured by the meter at the exit therefrom. The petition argued that this Decision was issued without any lawful authority and is extremely unreasonable. On October 26, 2021, Energean, which was joined as an additional respondent in the petition, filed its response according to which the petition is justified, and on October 27, 2021, INGL, which too was joined as a respondent in the petition, filed its response, in the framework of which it was argued that the petition is tainted with bad faith and unclean hands due to the concealment of material facts and failure to join parties that may be harmed by the petition and that the Decision contemplated in the petition was adopted with authority and reasonably. On November 5, 2021, the Respondents of the State filed their response to the petition, according to which the petition should be summarily dismissed with prejudice due to failure to join the gas consumers as respondents and that the petition should be denied on the merits since the Decision was adopted with authority and is reasonable on the merits. On November 14, 2021, the court granted the motion on behalf of the Petitioners to file a reply on their behalf to the response of the Respondents of the State.

M. On April 21, 2021, the Israel Union for Environmental Defense (Adam Teva V'Din) (in this section: the "**Petitioner**") filed an administrative petition with the Jerusalem District Court (sitting as the Court for Administrative Matters), against the Tax Authority, the Supervisor for Implementation of the Freedom of Information Law at the Tax Authority, Chevron, the Partnership, Ratio Oil Exploration (1992) – Limited Partnership, Givot Olam Oil Exploration – Limited Partnership (1993), E.C.L. Group Ltd., Dead Sea Works Ltd. and Rotem Amfert Negev Ltd. (in this section: the "**Respondents in the Original Petition**"). In the petition, the court was moved to order the Tax Authority to provide the Petitioner with information about the revenues from the State's income from Israel's natural resources, together with general information regarding reports received by the Tax Authority and the handling thereof since the enactment of the Taxation of Profits from Natural Resources Law, 5771-2011.

Note 7 – Contingent Liabilities (Cont.):

According to the petition, it was filed after the Tax Authority refused, in March 2021, to grant a freedom of information application submitted by the Petitioner, in which the Tax Authority was requested to provide the requested information. On May 6, 2021, the Petitioner filed, after receiving the court's permission therefor, an amended petition in which it added to the Respondents in the Original Petition all of the partners in the Tamar project which were not named in the original petition (in this section, together with the respondents in the original claim: the "**Respondents**"). On July 15, 2021 and August 1, 2021, the Respondents filed their responses to the petition, in the context of which they claimed that it was necessary to dismiss the petition and refuse to provide the Petitioner with the information requested, *inter alia* because it is protected by the duty of fiscal confidentiality that applies to information provided to the tax authorities. A hearing on the petition is scheduled for January 11, 2022.

N. On May 3, 2021, Haifa Port Co. Ltd. ("**Haifa Port**") filed a claim against Chevron, Coral Maritime Services Ltd. ("**Coral**") and Gold Line Shipping Ltd. ("**Gold Line**") in the sum of approx. ILS 77 million. According to Haifa Port, direct unloading of cargos in the area of the Leviathan platform, as was done by Chevron, without first unloading such cargos at one of Israel's ports, is unlawful and was done so as to evade making mandatory payments to the port, and the port was thus caused financial loss. The complaint claims that from July 2018 forth, Chevron performed direct unloading as aforesaid, while declaring to the tax authorities that Haifa Port was the 'unloading port', even though the cargos that were unloaded did not pass through Haifa Port in practice. The claim against the companies Coral and Gold Line is that they acted, at the relevant times, as the shipping agents for Chevron, which imposes on them, so Haifa Port claims, a duty to pay the handling fees on Chevron's behalf. On August 31, 2021, Chevron filed an Answer and accordingly Haifa Port has the right to file a Replication by December 1, 2021.
Concurrently, Chevron filed a counterclaim against Haifa Port, in the amount of ILS 4,405,842, due to a claim in the amount of ILS 715,691 for infrastructure and handling fees actually charged, unlawfully, by Haifa Port, and due to a claim in the amount of ILS 3,690,151 for mooring fees for which Chevron was charged and in which a 30% reduction was not made, contrary to the law, in cases of self-routing of ships that passed through the port area. The Haifa Port is required to file a Reply by December 1, 2021 and Chevron has the right to file a Replication by December 15, 2021. A pretrial in the proceeding has been set for February 6, 2022.

O. On June 6, 2021, notice was received from the Ministry of an intention to impose on Chevron an administrative sanction pursuant to the Clean Air Law in a non-material amount, due to an incident of activation of a flare which occurred on October 17, 2020, during which gases were ostensibly diverted to flares and were not burned (cold venting). The Ministry is claiming two alleged violations of the emission permit for the Leviathan platform, including the absence of a pilot flame for the burning of the gases and a malfunction in the pilot flame's indication sensor, but it announced that it intends to impose one sanction in respect thereof only. Chevron delivered its response to the notice on July 6, 2021. It is noted that on September 5, 2021, the decision of the Ministry was received, according to which, Chevron was imposed with a reduced administrative sanction in the amount of ILS 548,520.

Note 7 – Contingent Liabilities (Cont.):

In addition, on November 1, 2121, Chevron received a cease-and-desist letter and invitation to a hearing before the Ministry for non-compliance with the conditions of the sea discharge permit which was granted to the Leviathan platform and violation of the Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988, in the framework of which it was argued that Chevron deviated from the standards determined for sea discharge from the open system. The hearing is set for December 12, 2021.

P. Further to Note 12K5 to the Annual Financial Statements regarding the filing of a class action and a motion for its certification, which was filed with the Tel Aviv District Court, by an electricity consumer, it is noted that, after the petitioner changed his position and filed an agreed motion to strike off the other holders of the Tamar project from the certification motion, the court approved their strike off on September 9, 2021, and on September 30, 2021 ruled that a pre-trial hearing on the certification motion will take place on April 24, 2022. In addition, in accordance with the court's decision of October 21, 2021, the responses to the certification motion will be filed by December 1, 2021.

Note 8 – Additional Information:

A. Further to Note 12A to the Annual Financial Statements regarding the General Partner's entitlement to management fees, it is stated that the partnership agreement determines an arrangement according to which the Partnership pays the General Partner management fees in consideration for the provision of the management services. According to the Law Amending the Partnerships Ordinance (No. 5), 5775-2015, which took effect on April 23, 2015 (the "**Commencement Date**") and the transitional provisions included therein, an arrangement for the provision of services between the Partnership and the General Partner will be subject to approval by the Audit Committee, the Board and the general meeting by a special majority pursuant to Section 65YY(c) of the Partnerships Ordinance [new version], 5735-1975, within six years from the Commencement Date, i.e. on April 23, 2021. As of the date of approval of the financial statements, the Partnership is working to adopt a new service arrangement which will be presented for approval in accordance with the requirements of the law. In this context it is noted that since May 2021, the Partnership has not transferred management fees to the General Partner against the management services that the General Partner continues to provide to the Partnership. In view of the above, a provision in the amount of approx. $400 thousand was recorded in the Partnership's books.

B. 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**"), in March 2021, Energean reported a bond offering, and in April 2021, it reported, *inter alia*, that the expected date of commencement of production of natural gas from the Karish reservoir will be in the second half of 2022.

In view of Energean's notice of the raising of the bonds, the cap rate used to calculate the receivables in connection with the loan to Energean was updated. The financial income recorded in the report period includes approx. $25 million which derives from the update of the value of the royalties from the Leases in the sum of approx. $18.1 million and from the update of the receivables in connection with the loan to Energean in the sum of approx. $6.9 million.

Note 8 – Additional Information (Cont.):

Below are main parameters from the valuations that were used for measurement of the royalties and the receivables: the cap rate for receivables was estimated at 5.66%; the cap rate for the royalties component was estimated at 12%; the sum total of the contingent resources of natural gas and hydrocarbon liquids used in the valuation for measurement of the royalties is estimated at approx. 98.4 BCM and at approx. 99.6 MMBBL, respectively; average annual production rate from the Karish lease: approx. 3.85 BCM of natural gas; average annual condensate production rate from the Karish lease of approx. 5.04 million barrels of condensate; average annual production rate from the Tanin lease: approx. 2.51 BCM of natural gas; average annual condensate production rate from the Tanin lease of approx. 0.44 million barrels of condensate.
It is stated that in recent months, letters were exchanged between Energean and the Partnership in connection with the Partnership's demand for payment of the balance of the consideration for the receivables in connection with the loan to Energean, in the sum of approx. $65 million (not including interest) in a single and immediate payment, in accordance with the terms and conditions of the agreement for the sale of the interests in Karish and Tanin. As of the date of approval of the Financial Statements, the Partnership is considering filing a claim against Energean on the matter.

C. On May 9, 2021, the Partnership announced that the ISA had decided to extend the period for the offering of securities under the Partnership's shelf prospectus, which was released on May 14, 2019, until May 14, 2022.

D. On May 27, 2021, the General Partner's board of directors approved a distribution to the limited partner in the sum of ILS 1 million (approx. $308 thousand), which will be used for payment of the Supervisor's fee and the Trustee's fee and expenses, in accordance with the provisions of the trust agreement.

E. On June 20, 2021, the resolution of TASE's board of directors was published, whereby the amendment which will allow oil and gas partnerships to incorporate into their activity projects in the field of renewable energies, was approved. On July 7, 2021, TASE published the final language of the amendment, which was approved by the authorities as prescribed by the Securities Law, 5728-1968. Accordingly, the Partnership intends to examine the possibilities to operate also in the field of renewable energies as aforesaid.

F. On August 12, 2021, the board of the Partnership's General Partner approved a plan for the buyback of Series A Bonds at an estimated total cost of up to $100 million. As of the date of approval of the Financial Statements, the Partnership performed buyback of ILS 56,961,790 par value Series A Bonds in consideration for approx. $15 million.
It is noted that the maturity date of the Series A Bonds is December 31, 2021, and that as of the date of approval of the Financial Statements, the Partnership is examining various alternatives for obtaining a bank credit facility to maintain its financial flexibility.

G. On September 22, 2021, the board of the Partnership's General Partner approved, after accepting the recommendation of the Financial Statements Review Committee of the General Partner in the Partnership, a profit distribution totalling U.S. $100 million. The distribution was made on October 13, 2021.

Note 8 – Additional Information (Cont.):

H. The special general meeting of the holders of the Participation Units in the Partnership, which was held on October 31, 2021, approved the sale of the Partnership's interests at a rate of 22% in the I/12 lease "Tamar" and I/13 "Dalit" in accordance with the terms and conditions of the transaction, as specified in Note 4A above, and also authorized the Partnership to pay Mr. Yossi Abu, the CEO of the General Partner, a special bonus of 6 gross monthly salaries, in deviation from the compensation policy, in view of his special contribution to the promotion and closing of the transaction.

Notes to the Condensed Interim Financial Statements as of September 30, 2021 (Dollars in thousands)

Note 9 – Financial Instruments:

Fair value of financial instruments:

A. The fair value of the financial instruments presented in the Financial Statements is at or around their book value, with the exception of the bonds that were issued as stated in Note 10 to the Financial Statements as of December 31, 2020:

	As of September 30, 2021	
	Fair Value	Book Value
	Unaudited	
Bonds:		
Series A	394,306	392,638
Tamar Bond	653,546	644,624
Leviathan Bond	2,481,845	2,258,798
Total	3,529,697	3,296,060

	As of September 30, 2020	
	Fair Value	Book Value
	Unaudited	
Bonds:		
Series A	386,304	396,906
Tamar Bond	738,125	715,033
Leviathan Bond	2,347,674	2,218,227
Total	3,472,103	3,330,166

	As of December 31, 2020	
	Fair Value	Book Value
	Audited	
Bonds:		
Series A	391,716	393,806
Tamar Bond	666,022	635,358
Leviathan Bond	2,500,236	2,219,341
Total	3,557,974	3,248,505

Notes to the Condensed Interim Financial Statements as of September 30, 2021 (Dollars in thousands)

Note 9 – Financial Instruments (Cont.):
Fair value of financial instruments (Cont.):

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, 2021			
	Level 1	Level 2	Level 3	Total
	Unaudited			
Financial assets at fair value through profit or loss:				
- ETF	20,012	-	-	20,012
- Royalties receivable from the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	-	260,300	260,300
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	64,800	-	64,800
Total financial assets at fair value through profit or loss	20,012	64,800	260,300	345,112

	September 30, 2020			
	Level 1	Level 2	Level 3	Total
	Unaudited			
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	179,000
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	71,900	-	71,900
Total financial assets at fair value through profit or loss	-	71,900	179,000	250,900
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	-	-	12,508
Total financial assets	12,508	71,900	179,000	263,408

Notes to the Condensed Interim Financial Statements as of September 30, 2021 (Dollars in thousands)

Note 9 – Financial Instruments (Cont.):
Fair value of financial instruments (Cont.):
B. (Cont.):

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
	Audited			
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)	-	-	242,200	242,200
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	72,300	-	72,300
Total financial assets at fair value through profit or loss	-	72,300	242,200	314,500
Financial assets at fair value through other comprehensive income:				
- Investments in equity instruments designated for measurement at fair value through other comprehensive income	17,033	-	-	17,033
Total financial assets	17,033	72,300	242,200	331,533

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, 2021	
	Royalties based on Future Production	Total
	Unaudited	
Balance as of January 1, 2021 (audited)	242,200	242,200
Remeasurement recognized in profit or loss	18,100	18,100
Balance as of September 30, 2021	260,300	260,300

Notes to the Condensed Interim Financial Statements as of September 30, 2021 (Dollars in thousands)

Note 9 – 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
Remeasurement recognized in profit or loss	17,100	(34)	17,066
Remeasurement recognized in other comprehensive income	-	(4,757)	(4,757)
Dispositions	-	10,314	10,314
Balance as of September 30, 2020	179,000	-	179,000

	For the three-month period ended September 30, 2021	
	Royalties based on Future Production	Total
	Unaudited	
Balance as of July 1, 2021	256,500	256,500
Remeasurement recognized in profit or loss	3,800	3,800
Balance as of September 30, 2021	260,300	260,300

	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
Remeasurement recognized in profit or loss	9,403	(34)	9,369
Remeasurement recognized in other comprehensive income	-	1,454	1,454
Dispositions	-	10,314	10,314
Balance as of September 30, 2020	179,000	-	179,000

Notes to the Condensed Interim Financial Statements as of September 30, 2021 (Dollars in thousands)

Note 9 – Financial Instruments (Cont.):
Fair value of financial instruments (Cont.):
B. (Cont.):

	For the year ended December 31, 2020		
	Royalties based on Future Production	Cash Flow Hedging Transactions	Total
		Audited	
Balance as of January 1, 2020	161,900	(5,523)	156,377
Remeasurement recognized in profit or loss	80,300	(34)	80,266
Remeasurement recognized in other comprehensive income	-	(4,757)	(4,757)
Dispositions	-	10,314	10,314
Balance as of December 31, 2020	242,200	-	242,200

Note 10 – Subsequent Events:

A. See Note 7B for details regarding an appeal filed from the judgment on the class certification motion that was filed by an IEC consumer.

B. See Note 8F for details regarding the buyback of Series A Bonds.

C. See Note 3B3 for details regarding the approval of the Government of Cyprus to extend the commitment of the partners to drill a well.

D. See Note 8H for details regarding the general meeting's approval of the sale of the Partnership's interests in the Tamar project.

E. See Note 6F for details regarding the release of final tax certificates of the Partnership for the tax year 2015.

F. See Note 6G for details regarding the Knesset's approval of the Amendment to the Taxation of Profits from Natural Resources Law, 5782-2021.

November 17, 2021

To

The Board of Directors of the General Partner of Delek Drilling – Limited Partnership (the "Partnership")

19 Abba Eban St., 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 as specified below:

A review report of November 17, 2021 on the Partnership's condensed financial statement as of September 30, 2021 and for the nine- and three-month periods then ended.

Kost Forer Gabbay & Kasierer Certified Public Accountants	Ziv Haft Certified Public Accountants

Delek Drilling

Report on the Effectiveness of internal controls

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.

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 on the effectiveness of internal control over financial reporting and disclosure, which was attached to the quarterly report for the period ended June 30, 2021 (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 was found in the Most Recent Quarterly Report on Internal Control.

As of the date of the report, based on the 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 Q3/2021 (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 occurrence or issue have been brought to my attention that occurred during the period between the date of the most recent report (the quarterly report as of June 30, 2021) 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, 2021	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 Q3/2021 (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 occurrence 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 as of June 30, 2021) 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, 2021	Yossi Gvura, CPA Deputy CEO

Delek Drilling

Valuation

Delek Drilling - Limited Partnership

Valuation of Royalties

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

****

November 2021

This document is a translation of the original Hebrew-language document of Giza Singer Even Ltd. of November 2021. 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 Drilling[1] ("**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 "**Royalties**") as of September 30, 2021 (the "**Valuation Date**"). 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 Royalties 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 Royalties 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.

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, and the Royalties agreed therein, constitute forward-looking information in the meaning thereof in the

[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.

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 accordance with the engagement agreement, if we are charged with payment of any amount to a third party in connection with performance of the services specified in the engagement agreement in a legal proceeding or in another binding proceeding, the Partnership undertakes to indemnify us for any such amount that shall be paid by us over and above an amount equal to three times our fees. The indemnity undertaking shall not apply if it is ruled that we acted in performance of the work maliciously or with gross negligence.

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

<u>The main sources of information used in the preparation of the Opinion are specified below:</u>

- 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.

- Reports and publications released by Energean Oil & Gas plc (the parent company of Energean Israel Limited), including a resources and reserves report as of December 31, 2020 prepared by DeGolyer and MacNaughton ("**D&M CPR**").

- 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 Nir Harush, a partner and CEO of the economic department at Giza Singer Even. Nir has vast experience with financing and infrastructure projects. Nir holds a BA in accounting and business administration and an MBA from the College of Management Academic Studies.

Sincerely,

GSE Financial Advisory

November 17, 2021

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 within 14 months of the signing date of the exemption resolutions related to the Gas Framework (December 17, 2015) 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 royalties,[2] by which the Partnerships are 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[3] on March 29, 2018 and has since been regularly paid each year on that date.

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

[3] In May 2017, Delek Drilling merged with Avner, as a result of which Avner was delisted from the stock exchange.

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 D&M CPR's report of February 11, 2021 by Energean Oil & Gas plc,[4] the parent company of Energean Israel Limited[5] ("**Energean**" and/or the "**Purchaser**"):

Lease	Reserves and Contingent Resources	
	Natural Gas (BCM)	Hydrocarbon Liquids (MMBBL)
	2P	2P
Karish Center	40.2	65.1
Karish North	33.1	30.6
Tanin	25.1	3.9
Total	**98.4**	**99.6**

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, 2021 is estimated at approx. $260.3 million.

Below is the sensitivity analysis for the value of the Royalties in relation to changes in 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	208.1	222.2	229.2	235.1	247.4	259.4	263.0
	+150 bp	216.4	231.0	238.4	244.6	257.5	269.9	273.9
	+50 bp	225.3	240.6	248.4	254.9	268.3	281.3	285.6
	-	230.0	245.6	253.6	**260.3**	274.0	287.3	291.8
	-50 bp	234.9	250.8	259.1	266.0	279.9	293.5	298.2
	-150 bp	245.2	261.9	270.6	278.0	292.5	306.7	311.8
	-250 bp	256.4	273.8	283.1	290.9	306.2	321.0	326.5

[4] https://www.energean.com/media/4751/energean-israel-2020-cpr.pdf.
[5] Formerly Ocean Energean Oil and Gas Ltd.

3. Description of Transaction for the Sale of the Interests 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[6] (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.

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**

[6] 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 7.25.10 of Delek Drilling's periodic report for 2020.

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 December 17, 2015, the Prime Minister (in his capacity as Minister of Economic Affairs) signed several exemptions from the Antitrust Law which were adopted in the context of the government resolution on the Gas Framework.

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**").[7] 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 Partnerships of the adoption of an investment decision for the development of the Karish reservoir. In addition, on January 14, 2021, Energean reported the adoption of a Final Investment Decision (FID) in the "Karish North" 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, 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

[7] Energean Israel Ltd. serves as the operational arm of Energean E&P Holdings Ltd. in Israel.

development of the leases, or on the date which the total expenses of the Purchaser in relation to the development of the leases will exceed $150 million, whichever is earlier[8];

iv. 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 royalties[9] borne by the Sellers 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.

[8] On March 27, 2018 Energean notified the Partnerships of the adoption of an investment decision for the development of the Karish reservoir, and in March 2018, March 2019, March 2020 and March 2021 it paid Delek Drilling the first four payments.

[9] 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 costs,[10] shorter construction time, smaller areas of land[11] 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 therefore power plants and enterprises operate with a high energetic efficiency level which is also ultimately reflected

[10] 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.

[11] 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.

in cost saving[12]. According to the estimates of the Natural Gas Authority[13], the transition to natural gas in the years 2004-2020 saved the Israeli market an estimated total of approx. ILS 78.6 billion. Most of such saving derives from the electricity sector (approx. ILS 59.9 billion), total consumption by which in 2020 amounted to approx. 9.23 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 18.7 billion), total consumption by which in 2020 amounted to approx. 2.51 BCM which represents an increase of 13% versus 2019.

- **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. In such context it is noted that thanks to the conversion of most of the electricity production in Israel from coal, fuel oil and diesel oil to use of natural gas, air pollution levels caused by electricity production in Israel have been reduced by tens of percentage points.

- **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 directly benefiting and is expected to continue 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 products[14]. 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.

- **Israel's geostrategic position has been upgraded** – Thanks to the development of the gas reservoirs in Israel's EEZ, the State has at its disposal gas resources at a scope that exceeds the existing and expected needs of the domestic market. Thus, and further to Government

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[12] 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%.
[13] https://www.gov.il/BlobFolder/reports/ng_2020/he/ng_2020.pdf
[14] Other than the electricity and industry sectors in which consumers do not pay excise tax for the gas.

Resolution 442 of June 13, 2014 regarding the policy on the export of natural gas, commercial quantities of natural gas are being exported from Israel to the countries in the region. In such context, export from the Tamar reservoir to industrial enterprises located on the Jordanian side of the Dead Sea commenced in 2017, and from 2020, with the beginning of production from the Leviathan reservoir, very significant quantities of natural gas are being exported to Jordan and Egypt.

4.2 Consumers

The natural gas market in Israel comprises several groups 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 2020, the IEC purchased approx. 4.9 BCM of natural gas from the Tamar and Leviathan partnerships and also imported and consumed approx. 0.4 million ton of LNG, relatively to 2019 in which it purchased approx. 4.23 BCM from the Tamar partnership and also imported and consumed approx. 0.4 million ton of LNG. The rate of electricity produced by the IEC through natural and liquefied gas is estimated in 2019 and 2020 at approx. 53.1% and approx. 56.9%, respectively.[15] In such context it is noted that recently, the Minister of Energy decided to stop the engagement with the regasification vessel used by the IEC for reception and regasification of imported LNG until the end of 2022. Accordingly, on October 21, 2020, the IEC notified the owners of the regasification vessel that the engagement for the lease of the vessel will end on October 25, 2022.

- **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, renewable energies IPPs, pumped energy (this technology does not produce power but rather stores the energy for use during peak hours or hours where it is not possible to produce power from renewable energies) 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 2020, the natural gas consumption of the IPPs amounted to approx. 3.77 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

[15] Source: 2020 financial statement of IEC.

purchase agreements signed by most of the large industrial enterprises thus far also have the characteristics of agreements with private power plants. In 2020, natural gas consumption by the industry sector amounted to approx. 2.51 BCM, an increase of 13% compared with 2019. The increase chiefly derives from the higher demand of a number or large industrial consumers.

- **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 (24 hours), some of which not yet connected to the onshore transmission systems, or the distribution, and therefore consuming Compressed 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.

- **Additional markets and consumers** – In addition to the electricity and industry sectors, several other sectors are expected to develop in the coming years and increase the demand for natural gas, including the transportation sector which is expected to significantly increase the scope of use of natural gas, in view of a forecast for entry into the market of electric vehicles and steps promoting use of CNG-fueled heavy vehicles and construction of CNG fueling stations, as well as enterprises using natural gas as a feedstock. In addition, the government is promoting measures designed to enable integration of natural gas in the housing sector for purposes of various household uses.

4.3 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, restrictions on exporting the gas outside of Israel, pertaining to the gas prices, etc. 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 finalized.[16] Commencing from 2019, the partners in the Tamar project made annual 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, 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

[16] In May 2020, the Natural Resources Administration at the Ministry of Energy published the final version of the directives on the method of calculation of the value of the royalty at the wellhead pursuant to Section 32(b) of the Petroleum Law, 5712-1952.

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 specific characteristics of the lease. On September 6, 2020, the Ministry of Energy published specific instructions for the Tamar reservoir.

- **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. On March 8, 2021, the Knesset approved in the first reading a bill which prescribes, *inter alia*, rules on payment of disputed assessments. On October 4, 2021, the bill was approved by the Finance Committee for the second and third readings. As of the date of the Paper, the bill has not yet been presented to the Knesset for second and third readings.[17]

- **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**").[18] 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

[17] Taxation of Profits from Natural Resources Bill (Amendment no. 3), 5781-2021. https://main.knesset.gov.il/Activity/Legislation/Laws/Pages/LawBill.aspx?t=lawsuggestionssearch&lawitemid=2155633

[18] 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 H2/2013 (November 13, 2012) Restrictive Trade Practices 500249.

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.

The sale of the entire rights of Delek Drilling in the 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. On May 5, 2021, the Partnership engaged with a third party in an agreement for the sale of all its holdings in Tamar Petroleum (22.6%) in consideration for a sum of ILS 100 million in cash. As of the date of the Paper, the Partnership holds directly 22% of the Tamar reservoir.
On September 2, 2021, the Partnership engaged in a binding agreement with a group of investors headed by Mubadala Petroleum for the sale of all its holdings in the Tamar project (22%) in consideration for approx. $1.025 billion (calculation of the consideration will be made subject to certain adjustments for income and expenses the Partnership has in connection with the object of sale until the transaction closing date).

- 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 regulation** – 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, 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.

4.4 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 are 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 as updated by the IEC on an annual basis, 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 also adversely affect 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. 5.7% of actual power production in the State of Israel in 2020 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. 20% of the total demand for energy in 2025, and 30% by 2030.[19] The rates of renewable energies have been gradually reduced by the Authority since 2008 due to the decrease in the construction and financing costs and the holding of competitive processes. These trends indicate that renewable energies may account for a larger share of future power production in Israel.

- **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.

[19] "Electricity generation targets using solar power and natural gas" – the Ministry of Energy, July 22, 2020.

- **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. Israel granted exploration licenses in its EEZ, following two competitive processes (in 2017 and 2019), which could lead to further discoveries. In 2017, material production began from the Egyptian Zohr reservoir, which supplies gas to the Egyptian market. In addition, significant reservoirs were discovered in 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. On October 25, 2020, the government decided to form a professional team that will periodically examine the recommendations of the committee for the examination of the Government’s policy regarding the natural gas sector in Israel. Considering the government policy on the export of natural gas and the raising of the targets of use of renewable energies, no restriction is expected to reduce the scope of permitted export of natural gas to customers overseas. In such context it is noted that export permits were received in respect of all the aforementioned export agreements. On January 6, 2019, the government approved the recommendations of the Adiri Committee in Government Resolution 4442.[20] The interim recommendations of the professional team were released in June 2021 and included an increase of the quantity of gas exportable from existing reservoirs as well as cancellation of the export restriction on new reservoirs to be discovered. On October 13, 2021, the Adiri II Committee recommended to keep the natural gas export restrictions for existing reservoirs as in the original resolution, but to cancel the export restriction on new reservoirs to be discovered.

- **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

[20] Website of the Ministry of Energy, Spokesman’s Notice of January 10, 2019 https://www.gov.il/he/departments/news/ng_060119

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.

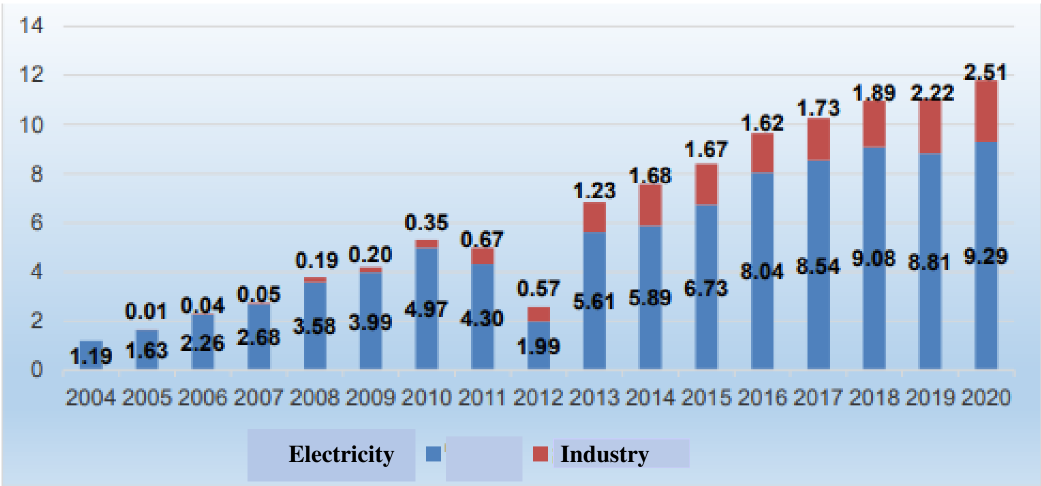
- **Applicable environmental regulation** – The companies that operate in the natural gas sector are subject to a range of laws, regulations and directives on the issue of environmental protection, which relate to various matters such as: leaking of oil, natural gas or of other pollutants into the marine 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.

4.5 Demand

Chart 1 – Natural gas consumption in 2004-2020[21]

Breakdown of the Natural Gas Consumption According to the Electricity and Industry Sector* in 2004-2020 in BCM



*For the cogeneration consumers who consume gas both for industry and for the production of electricity, the data in this graph includes a differentiation of their consumption into the two different categories.

The consumption of natural gas in the Israeli market in 2020 (including export of Israeli gas to neighboring countries) amounted to approx. 16.05 BCM, an increase of approx. 42.7% compared with the consumption in 2019. Approx. 51% of the amount was supplied from the Tamar reservoir, approx. 45% of the amount was supplied from the Leviathan reservoir, and the balance (approx. 4%) from the import of LNG via the offshore LNG buoy. From 2004 until the end of 2020, a total of just over 110 BCM of natural gas was supplied. According to the Natural Gas Authority, the upward trend in natural gas consumption will also continue in the coming years, both as a result of local demand and as a result of demand for export.

According to a report prepared by the professional team at the Ministry of Energy for a second periodic review of the government's policy with respect to the natural gas sector[22], the natural gas consumption in Israel (excluding export to neighboring countries) in 2021 is expected to amount to approx. 11.9 BCM, in 2025 the natural gas consumption will amount to approx. 15.7 BCM and in 2030 to approx. 16.9 BCM. The forecast assumes a normative increase in the demand for electricity in the next decades in accordance with achievement of the proposed target in the energy efficiency field and achievement of the government's targets in the electricity production from renewed energies field (approx. 2.13% per year), an average

[21] Sources: The Ministry of Energy
https://www.gov.il/BlobFolder/reports/ng_2020/he/ng_2020.pdf

[22] Sources: The Ministry of Energy
https://www.gov.il/BlobFolder/rfp/ng_210621/he/ng_report_2_draft.pdf[

increase in industry (approx. 1.5% per year after conversion of industrial plants to natural gas in the coming decade) and transportation demand according to government incentive programs. The scenario also takes into account the establishment of a plant for natural gas-follow-on products, such as ammonia or methanol, as well penetration of 1.5 million electric cars by 2032 as a result of the prohibition on petrol and diesel car sales from 2030.

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

4.5.1 The electricity sector

In recent years, a trend is apparent of a significant reduction of use of petroleum and coal distillates in power production and transition to use of natural gas and renewable energies. This trend is led by the Ministry of Energy and government decisions determining goals for the reduction of use of polluting fuels, *inter alia*, by shutting down IEC power plants and conversion thereof to production with natural gas. Government decisions adopted in such regard are specified below:

- 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 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. On February 20, 2019, the Minister of Finance signed an order postponing the expected rise in excise on coal, and it took effect on January 1, 2021. 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.

- 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 Protection[23] on the Ministers' decision to instruct the IEC to expand the planned shutdown of the polluting coal-fired units 1-4 at the Rabin Lights 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 Energy[24] 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).

- According to the current forecast of the Electricity Authority, as stated in the annual report of the Electricity Authority for 2019,[25] as released at the end of June 2020, the production of electricity from natural gas is expected to increase significantly, amounting to approx. 83% in 2025.

- 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 in July 2020, 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. The implementation of such policy may affect the demand for natural gas in the local market.

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

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

[25] https://www.gov.il/he/departments/general/dochmeshek.

- On February 8, 2021, it was reported that the Minister of Energy had instructed the IEC to reduce the use of coal such that it shall not exceed 22.5% of the total electricity production in 2021, as part of the policy to end the coal era in Israel by 2025.[26]

- On April 18, 2021, the Ministry of Energy released a Road Map[27] until 2050 for the low carbon energy sector, which continues the program to reduce the use of polluting energy which was presented in 2018. In accordance with the program, the following targets for the sectors were determined:

  A. Electricity sector – The production of electricity by using 70% natural gas and 30% renewable energies beginning in 2030, while ending the use of coal for electricity production in Israel by 2025.

  B. The transportation sector – A gradual shift to electric cars and natural gas trucks, so that by 2030 the number of electric cars sold will be 50% of the total cars sold in Israel. Furthermore, Israel will adopt the common regulation worldwide and beginning in 2030 it will impose a total prohibition on the import of cars which run on polluting fuels.

  In addition, it was determined that by 2030 greenhouse gas emissions in the energy sector will be reduced by approx. 23% compared with 2015, and by 2050, 80% of greenhouse gas emissions will be reduced compared with 2015.

- On June 10, 2021, the Electricity Authority (the "**Authority**") announced a call with respect to an update to the demand hour clusters. In this context, the Authority requested public comment on an update to the electricity demand hours which affect, *inter alia*, the weighted production component tariff. Insofar as such an update is decided on, it may have a material effect on the weighted production component forecast which cannot be predicted as of the date of the Paper[28].

4.5.2 Transition to use of natural gas in the industry

- Natural gas is a central component of the industry's energy consumption (approx. 37.5% of the total use of fuels in the Israeli industry in 2019).[29] The enterprises 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 2020, until now, throughout Israel, approx. 554 km of distribution pipelines were laid out (of which, approx. 109 km in 2020) and approx. 800 km of transmission pipelines (of which, approx. 63 km in 2020). 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.

[26] https://www.calcalist.co.il/local/articles/0,7340,L-3892470,00.html
[27] https://www.gov.il/he/departments/publications/reports/energy_18042
[28] https://www.gov.il/BlobFolder/rfp/kol_kore_mashab/he/Files_Kol_Kore_kol_kore_mashab_malle.pdf.
[29] Source: 2019 Israeli Energy Sector Review - the Ministry of Energy https://www.gov.il/BlobFolder/reports/energy_sector_2019/he/energy_sector_review_2019.pdf

- 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.).

- According to the Natural Gas Authority's estimations, in 2030, the total demand for natural gas in the industrial sector is expected to exceed 3 BCM, of which approx. 2.25 BCM are from consumption of natural gas in the industry for consumers that are connected to the transmission system, and approx. 0.84 BCM are 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 Israel Natural Gas Lines Ltd. ("**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.

4.5.3 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 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.

- On February 15, 2021, the partners in the Tamar and Leviathan reservoirs reported the fulfillment of the closing conditions in the transmission agreement that was signed with INGL for the export of gas to Egypt in a manner that will allow flow on a regular basis and increased sale quantities to Egypt according to the supply conditions in the gas sale agreements of the various partnerships.

- On July 19, 2021, the Ministry of Energy announced an invitation for opinions from the public on the interim report of the professional team for the second periodic review of the recommendations of the committee for examination of the government's policy on the natural gas sector in Israel. In the report, the professional team recommends raising the export quota from 40% of the natural gas produced in Israel to approx. 52%. Insofar as such change is decided upon, it may have a material effect on the estimated value of the royalties in a manner which cannot be predicted as of the date of the Paper.

4.5.4 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. After correction of the markets for the crude oil production rate, trade in future crude oil contracts reverted to the price of $82 per barrel (as of November 3, 2021).

- 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**"),[30] the

[30] "The Effects of Covid-19 on Energy Consumption in Israel" – The Ministry of Energy, June 1, 2020 https://www.gov.il/BlobFolder/reports/corona_june_2020/he/corona_june_2020.pdf

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, however, the overall electricity consumption in 2020 was similar in scope to electricity consumption in 2019.

- According to the Partnership's report, 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, relative to previous forecasts which were updated by the Partnership in July 2020. However, in Q3/2020 the pace of sales from the reservoirs was higher than the pace of sales in each one of Q1/2020 and Q2/2020. In the Partnership's estimate, such increase derived, *inter alia*, from weather conditions and from the Israeli market learning to adjust to the Covid-19 crisis. Natural gas sales (100%) in 2020 from the Leviathan project totaled approx. 7.25 BCM (compared with approx. 7 BCM in the forecast of July 2020 and compared with approx. 9.3 BCM in the forecast of January 2019). Accordingly, the sales forecasts of the reservoirs for 2021 were raised. In respect of the Tamar reservoir, the forecasts have been updated to approx. 8.6 BCM (compared with approx. 8.2 BCM in the forecast of July 2020), and in respect of the Leviathan reservoir, the forecasts have been updated to approx. 9.9 BCM (compared with approx. 8.9 BCM in the forecast of July 2020). If the Covid-19 crisis and the slowdown in global economy shall persist, the demand for energy products and the prices thereof are expected to be further impacted thereby.

- In a review of the developments in the natural gas sector in Israel in 2020, the Ministry of Energy examined the impact of Covid-19 on the local market by comparing the data from March 2020 until the end of the year compared with the same period last year. It is found that the Israeli market continued to operate and consume natural gas under the restrictions which existed during the crisis, despite the Covid-19 pandemic which erupted at the end of Q1/2020. From an analysis of the data, it transpires that in this comparison, the total consumption of the local market increased by close to 7%, similar to the increase in the annual consumption. The electricity sector recorded an increase of approx. 8.5% in consumption, and the consumption in the industry sector in the same period increased from 1.85 BCM to 2.07 BCM, an increase of approx. 5.11%. In the export sector, fluctuations were recorded throughout 2020 were likely impacted by Covid-19, however, as aforesaid, compared with the consumption in the same period last year, there was an increase in consumption by export consumers. The fluctuations in the quantities of gas for export over the year were likely a result of changes in demand from the importing countries, mainly in Jordan, which is able to import LNG from other channels. Overall, the total natural gas production for the local market from March until the end of the year recorded a year-over-year increase of approx. 43% in the total supply.[31]

[31] Ministry of Energy:
https://www.gov.il/BlobFolder/reports/ng_2020/he/ng_2020.pdf

According to a forecast of an outside consultant which was prepared for the Partnership, the domestic demand for natural gas in 2021 is expected to amount to approx. 12 BCM and gradually increase to approx. 17.9 BCM in 2025. The increase in the domestic demand between 2020-2025 is expected to derive mainly from the addition of approx. 4.3 BCM as a result of the cessation of use of coal for electricity production, from an addition of approx. 1.4 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 include a decline in domestic demand due to the impact of the Covid-19 crisis and 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 energies to account for 30% of all power consumption in 2030, the outside consultant's forecast assumes partial meeting of this target in practice – at a rate of 25% of the entire power consumption in 2030, with the remaining 75% of power consumption in 2030 being generated using natural gas.

4.6 Market developments

4.6.1 The "Tamar and Leviathan" leases

- 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 on January 1, 2020 and on January 15, 2020, the gas flow from the Leviathan reservoir began to Jordan and to Egypt, respectively.

- On October 2, 2020, Noble, which holds interests in the Tamar and Leviathan reservoirs and is the operator of such reservoirs, reported that the shareholders' meeting had officially approved the acquisition of the company by American company Chevron in consideration for approx. $5 billion. 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 13, 2020, Delek Group reported that Delek Energy, a wholly owned subsidiary of Delek Group, had entered into an agreement with Essence Royalties, Limited Partnership, for the acquisition of all Delek Energy's holdings in Tomer Royalties (approx. 39.93% as of such date) for a total consideration of approx. ILS 46 million.

- On September 23, 2020, Delek Drilling reported that the partners in the Leviathan project had signed a natural gas 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 28, 2020, Delek Group Ltd. (in this section: "**Delek Group**") reported the completion of the issue of bonds secured by a pledge of the rights thereof (25%) and of Delek Energy Systems Ltd. (75%) to overriding royalties from the Leviathan reservoir, in consideration for approx. $180 million, net of a safety cushion for interest payment and issue and underwriting expenses. The bonds bear a fixed annual dollar interest rate of 7.494% and have an international rating of +B (Fitch).

- On January 31, 2021, Delek Drilling reported that the partners in the Tamar project had signed a settlement agreement (the "**Tamar Settlement Agreement**"), which regulates the disputes regarding the agreement for the supply of gas which was signed between the IEC and part of the Tamar partners (Tamar Petroleum Ltd., Isramco Negev 2 – Limited Partnership, Dor Gas Exploration Limited Partnership and Everest Infrastructures Limited

Partnership) on October 4, 2020 (the "**2020 IEC-Tamar Agreement**"). According to the Tamar Settlement Agreement, the 2020 IEC-Tamar Agreement will be terminated, and in its stead will be the settlement agreement, according to which by June 30, 2021, the IEC will be able to purchase a quantity of 1.25 BCM from the Tamar reservoir, at a price lower than the 2012 IEC-Tamar Agreement price, out of which approx. 0.81 BCM, which was already supplied in 2020, and additional gas quantities insofar as they are not supplied by the Leviathan partners according to the IEC-Leviathan Agreement (as specified below).

In addition, Delek Drilling reported that the partners in the Leviathan project have signed a settlement agreement (the "**Leviathan Settlement Agreement**"), which regulates the disputes regarding the gas supply agreement which was signed by the Leviathan partners with the IEC on June 12, 2019 (the "**IEC-Leviathan Agreement**"). According to the Leviathan Settlement Agreement, which amends the IEC-Leviathan Agreement, the IEC undertook to nominate from the Leviathan partners a quantity of approx. 1.2 BCM of natural gas during the first half of 2021. In addition, the Leviathan partners will give the IEC a price discount in respect of nomination of gas quantities that exceed approx. 0.5 BCM that are nominated from January 1, 2021. During 2020, a quantity of approx. 2.4 BCM was supplied to the IEC from the Leviathan reservoir. In the Partnership's estimation, in accordance with the Leviathan Settlement Agreement, during H1/2021, an additional quantity of 1.2 BCM will be supplied to the IEC.

On May 31, 2021, the Partnership reported the taking effect of the Tamar and Leviathan settlement agreements.

- On January 19, 2021, the Partnership and INGL reported that INGL had entered into an agreement with Noble Energy for the provision of transmission services on a firm basis for the purpose of piping natural gas from the Leviathan reservoir and from the Tamar reservoir to EMG's terminal in Ashkelon for export to Egypt. According to the agreement, Noble Energy undertakes to purchase approx. 5.5 BCM of the piping capacity of the transmission system per year, and at least 44 BCM throughout the term of the agreement. Conversely, INGL undertook to transmit no less than the aforesaid gas quantity on a firm basis, while the remaining required quantity will be piped on an interruptible basis. It was further clarified that, in the Partnership's estimation, the transmission system was planned in a manner enabling the piping of the full quantities of gas required under the agreement. In the Partnership's estimation, INGL's expected income under the agreement is expected to total approx. ILS 170 million per year. The transmission agreement will end on the earlier of: (1) the date on which the total quantity piped is 44 BCM; (2) 8 years after the date of commencement of the flow (between July 2022 and April 2023); or (3) upon expiration of the company's transmission license. The report further clarified that the Partnership does not expect any difficulty extending the agreement upon its expiry. On February 15, 2021, INGL reported the fulfillment of the closing conditions determined in the agreement.
- On February 23, 2021, Delek Drilling reported that the partners in the Tamar reservoir had signed an agreement intended to allow each one of them separate marketing of its proportionate share in the natural gas produced from the Tamar reservoir, without derogating from the possibility of joint marketing of the gas produced from the reservoir (the "**Separate Marketing Agreement**"). The agreement determined mechanisms for compensation in money or in gas in cases where one of the partners chooses to increase the daily gas output over and above its proportionate share in the daily output, on account of

its partner which is not using its full proportionate share in the daily output. On May 26, 2021, the Partnership reported that on May 11, 2021, the Separate Marketing Agreement took effect.

- On July 4, 2021, the IEC reported that it was conducting negotiations with the partners in the Tamar reservoir (with the exception of the Partnership) (in this section: the "**Parties**") for reduction of the gas price by which the IEC is bound under the IEC-Tamar agreement of 2012, by a rate higher than the rate of the maximum reduction determined in the reduction mechanisms in this agreement[32]. The Parties are also considering extending the agreement by another 2.5 years, such that it will end on December 31, 2030. Insofar as agreements are reached between the Parties, the IEC will undertake to purchase an additional 16 BCM until such date (in accordance with its operational needs), and if it does not consume the total natural gas quantity to which it committed until such date, the agreement will automatically be extended until consumption of the full natural gas quantity. The IEC also reported that further to the Tamar Settlement Agreement, the Parties are discussing reaching an agreement whereby the base price in the 2020 IEC-Tamar Agreement will be approx. $4 per MMBTU.

- On September 2, 2021, the Partnership reported its signing of an agreement for the sale of all its interests in the Tamar reservoir to MDC Oil & Gas Holding Company LLC, of the group of Mubadala Investment Company PJSC, a company owned by the government of Abu Dhabi, in consideration for approx. $1.025 billion. The consideration will be used, *inter alia*, for repayment of Tamar Bonds bonds, payment of the expected capital gains tax on the sale, and repayment of one half of the outstanding principal of the Partnership's Series A Bonds. The closing of the transaction is subject to receipt of the required approvals, including the approval of the Petroleum Commissioner at the Ministry of Energy.

4.6.2 "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, March 2020 and March 2021 it paid the Partnership the first, second, third and fourth payments in the sum of $10.85 million, $15.34 million, $14.84 million and $14.34 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 platform (FPSO) that is due to be used by the Karish and Tanin reservoirs. The platform is intended to treat the natural gas to be produced at the Karish-Tanin project in

[32] In the IEC-Tamar agreement of 2012, the Parties determined two dates on which each party may request adjustment of the purchase price, July 1, 2021 and December 31, 2024. According to the mechanism determined, the IEC may request a price adjustment of up to 25% on the first date and up to 10% on the second date.

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.

- **Signing of an agreement 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 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.

- **Signing of agreements for the sale of natural gas to the Alon Tavor power plant**– On November 21, 2019, Rapac Energy Ltd. reported that MRC Group, the winner of IEC's tender for the purchase of the Alon Tavor power plant, engaged in an agreement with Energean for the supply of natural gas in an annual amount of approx. 0.5 BCM for a period of 15 yeas (and in total up to 8 BCM). On December 17, 2020, Energean reported that it had engaged with Rapac Energy Ltd. in an additional agreement for supply of natural gas in an average annual amount of approx. 0.4 BCM for a period of 6 to 15 years, in addition to the existing signed agreements between Energean and Rapac Energy.

- **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.

- **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 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 and professional 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.

- **Sale of the overriding royalties of Delek Group and Delek Energy to the Noy Fund** – On May 25, 2020, Delek Group and Delek Energy, a subsidiary of Delek Group, engaged with the Noy Fund in an agreement for the sale of their rights to overriding royalties from the Karish and Tanin leases. In consideration, the Noy Fund paid the sum of ILS 318 million, which was divided between Delek Group and Delek Energy according to their proportionate share in the royalties (25% and 75%, respectively).

- **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.

- **Agreement for the acquisition of all of the holdings in Energean Israel** – On December 30, 2020, Energean reported that it had signed an agreement for the acquisition of the remaining 30% of the issued and paid-up share capital of Energean Israel Ltd. ("**Energean Israel**") from Kerogen Investments No. 38 Ltd. ("**Kerogen Fund**"). In consideration for the holdings of Kerogen Fund in Energean Israel, Energean will pay an amount ranging between $380 million and $405 million. On February 25, 2021, Energean reported the closing of the transaction, and commencing from such date, Energean holds 100% of the issued and paid-up share capital of Energean Israel.

- **Final investment decision (FID) in the "Karish North" reservoir** – On January 14, 2021, Energean reported on the adoption of a final investment decision (FID) in the 'Karish North' reservoir in the sum of approx. $150 million. Energean estimates that the IRR of the project will be approx. 40%, and that natural gas will be produced from this reservoir for the first time in H2/2023.

- **$700 million loan from the banks J.P. Morgan and Morgan Stanley** – On January 14, 2021, Energean reported that it had signed a loan agreement with the banks J.P. Morgan and Morgan Stanley in the sum of $700 million for a period of 18 months. The interest on the loan will be 5.75% and will rise by 0.25% every three months up to a maximum interest rate of 7%. The loan will be used, *inter alia*, for the financing of development of the 'Karish North' reservoir; for financing the transaction for the acquisition of the holdings of Kerogen Fund in Energean Israel; for additional investments in the Karish reservoir; and for the financing of another exploration campaign of the company in early 2022. Concurrently, Energean reached agreements with its existing lenders for the financing of the development of the Karish reservoir regarding postponement of the date of repayment of the loan in the sum of $1.45 billion by 9 months from December 2021 to September 2022.

- **Update of the volume of the resources attributed to the Karish, Karish North and Tanin reservoirs** – On February 11, 2021, Energean released a resources and reserves report as of December 31, 2020, which was prepared by the consulting firm DeGolyer and MacNaughton, whereby the Karish, Karish North and Tanin reservoirs (in this section: the "**Reservoirs**") have 2P reserves of natural gas and hydrocarbon liquids of approx. 98.4 BCM and approx. 99.6 million barrels, respectively.[33] Energean updated that production from the Karish North reservoir is expected from 2023, and for the first time released its

[33] https://www.energean.com/media/4751/energean-israel-2020-cpr.pdf.

forecasts with respect to the rate of production of the natural gas and hydrocarbon liquids from each one of the Reservoirs, as well as forecasts pertaining to the amounts of the capital investments, royalties, taxes and operating costs of the Reservoirs.

- On February 28, 2021, Energean reported that Energean Israel intends to issue four series of preferred secured bonds, for a total sum of approx. $2.5 billion ($625 million each) with a duration of 3, 5, 7 and 10 years (the "**Secured Bonds**"). Energean Israel intends to use such amount for the financing of an existing project, repayment of a loan in the sum of $700 million taken on January 14, 2021 and additional expenses of Energean and its subsidiaries. On March 24, 2021, Energean announced the completion of the issuance of the Secured Bonds at interest rates of 4.500%, 4.875%, 5.375% and 5.875%, respectively. The Secured Bonds were rated BB (international) by the rating agency S&P and will be traded on TASE UP (formerly TACT-Institutional).

- On June 28, 2021, Energean reported that the date of commencement of production of natural gas from the Karish North reservoir has also been postponed to H2/2023 (in lieu of of the beginning of 2023). In addition, Energean reported that Energean Israel signed a drilling agreement with Stena Drilling Limited as part of the plan for drilling and development of its reservoirs in Israel for the years 2022-2023. The planned drilling will be performed in 2022 in the Karish, Karish North and Block 12 reservoirs (drilling may be carried out at two more sites).

- On November 3, 2021, Energean reported completion, as of September 30, 2021, of 100% of the production well construction work, approx. 97.3% of the FPSO construction work; approx. 99.7% of Energean's onshore work; and approx. 83.3% of the subsea work. In view thereof, Energean estimates that approx. 91.8% of the development work of the Karish project has been completed. Energean reports that it is working to accelerate the FPSO construction work in Singapore that is being carried out by TechnipFMC, in view of the delays resulting from the Covid restrictions in Singapore. According to Energean, natural gas production from the Karish reservoir is expected to commence in H2/2022.

- Energean further reported the receipt of a letter on immediate termination of a contract for sale of natural gas in the volume of approx. 0.8 BCM per year that was previously signed between the company and Dalia Energy Companies Ltd. ("**Dalia**"). Dalia and the company are discussing the legality of the termination of the contract, and legal action on the matter is possible. As of the date of the Paper, we are unable to evaluate the results of the discussion, and therefore the event was not taken into account in the valuation.

- On November 4, 2021, Energean reported its intention to issue several series of secured senior bonds in a total sum of approx. $400 million, with maturity in 2027. According to the report, Energean intends to use such sum to repay all of its liabilities related to the reservoirs in Egypt and Greece as well as deferred debt, to pay fees and other expenses related to the issue and for general purposes of the company. As of the date of the Paper, the interest rates at which the company is expected to issue the series and the issue date are unknown.

- On November 4, 2021, Energean released a chart describing the annual natural gas production rate which is expected from the reservoirs in accordance with all the agreements it has as of the release date. Energean reported that the maximum annual production rate was updated to approx. 7.2 BCM per year (in lieu of 7.4 BCM per year in the previous reports), in view of a mutual termination of an agreement in the scope of approx. 0.2 BCM a 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 an FID or the actual performance of the investment (the "**Debt Component**"). On March 27, 2018, as aforesaid, 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.

   In view of the bond offering, during May-June 2021, letters were exchanged between Energean and the Partnership in connection with the Partnership's demand for payment of the balance of the consideration for the Debt Component in a single and immediate payment, in accordance with the terms and conditions of the agreement for the sale of the interests in Karish and Tanin. As of the date of the Paper, the Partnership's position has not yet been accepted by Energean, and we are unable to estimate the likelihood of Energean's granting this demand and/or the outcome of a legal proceeding, insofar as conducted. Consequently, no assessment was made herein of a Debt Component prepayment scenario.

ii. Royalties from revenues (net of existing royalties[34]) 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, 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 completion of the development of the reservoirs and the cash flow.

[34] 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%).

5.2 Working hypotheses

5.2.1 General

The main working hypotheses as specified below are based primarily on a resources and reserves report as of December 31, 2020, that was prepared by the consulting firm DeGolyer and MacNaughton which is an authorized resource assessor ("**D&M CPR**"), and was published by Energean on February 11, 2021, with adjustments as specified below, and on the analysis of market data and releases of public companies in the oil and gas sector. **It is emphasized that the assumptions and information specified below, including with respect to forecasts and 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

According to Energean's reports of May 24, 2021 and of June 28, 2021, the first gas production is expected in the second half of 2022. It was further reported that development of the Karish North reservoir will begin in 2021, and first gas from the reservoir is expected in the second half of 2023. The production from the Tanin lease will begin in 2027.

In the context of the valuation, it was assumed that the production of gas from the Karish, Karish North and Tanin reservoirs would commence in Q3/2022, Q3/2023 and Q1/2027, respectively. It was further assumed that the natural gas reserves in the Karish, Karish North and Tanin reservoirs would be depleted in 2035, 2040 and 2036, respectively.

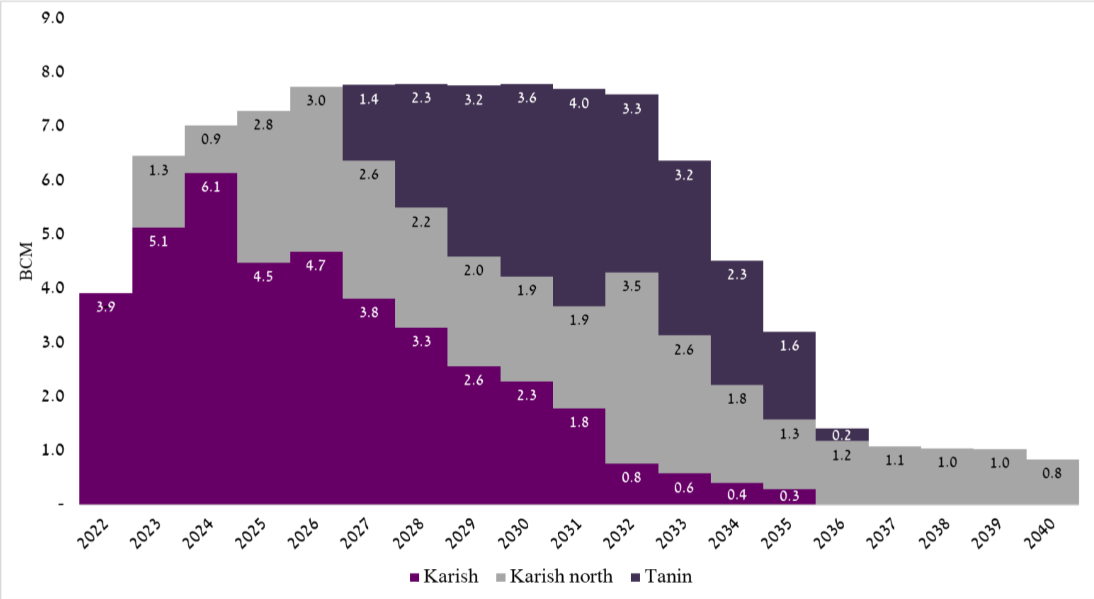
5.2.3 Quantity forecast and annual production rate

Below is a specification of the quantities of natural gas and hydrocarbon liquids (condensate and natural gas liquids) in the Karish and Tanin leases (100%) as published in the D&M CPR report:

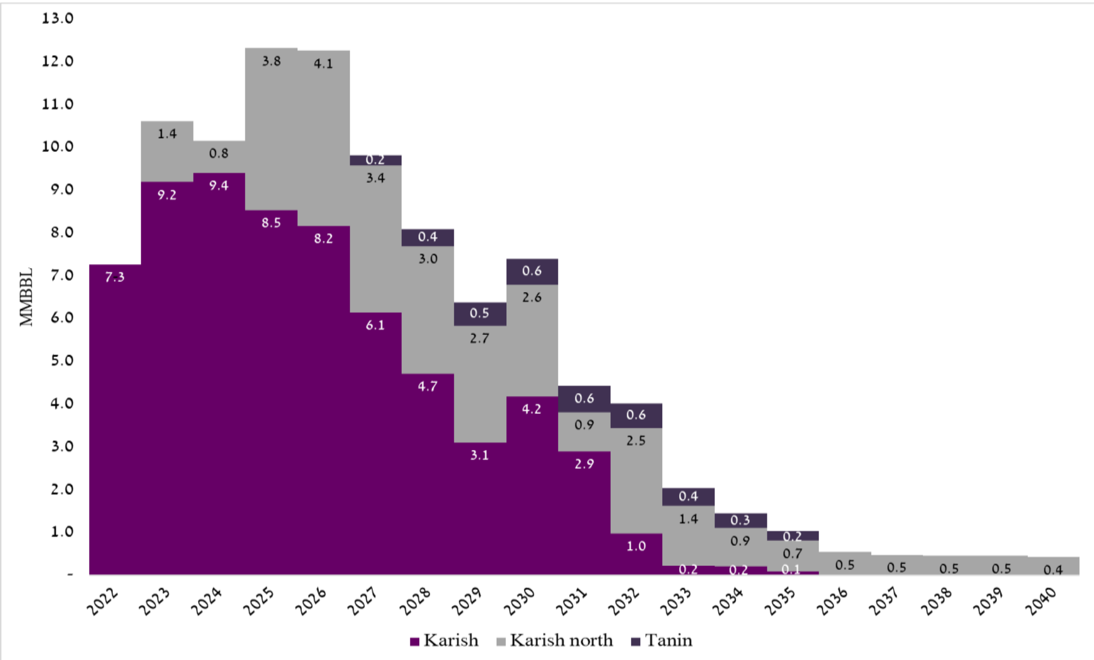
Reservoir	Reserves and Contingent Resources	
	Natural Gas (BCM)	Hydrocarbon Liquids (MMBBL)
	2P	2P
Karish Center	40.2	65.1
Karish North	33.1	30.6
Tanin	25.1	3.9
Total	**98.4**	**99.6**

According to the D&M CPR report, Energean estimates that it is expected to sell up to 7.8 BCM per year throughout the years of the forecast, of which approx. 75% are within the Take-or-Pay mechanisms included in the agreements with its customers.

The chart below describes the production rate of natural gas from the reservoirs according to the D&M CPR report:



The chart below describes the production rate of hydrocarbon liquids (condensate and natural gas liquids) from the reservoirs according to the D&M CPR report:



The forecast of the annual production rate of natural gas and condensate that was used in the valuation was based on the production rate specified in the D&M CPR report multiplied by a factor of 95% (while making adjustments based on Energean's report as of November 4, 2021, and the surplus quantities were spread across the remaining years of the forecast) reflecting, in our estimation, the likely scenario considering the public information available regarding contracts signed, the scope of the demand and the expected competition in the domestic market (for a specification of the forecast of the annual production rate of natural gas and condensate see Annex A).

In addition, according to the D&M CPR report, a conversion factor of 37.2 million MMBTY to 1 BCM was assumed.

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 25.26 Agorot (January 2021). 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/$), conversion of the coal-fired power plants to use of natural gas, the sale of power plants to independent power producers and other production costs. According to our forecasts, the production component tariff is expected to range between approx. 25.12-27.77 Agorot throughout 2022-2037.

     In view of the provisions of Section 4.5.1 above regarding the announcement of a call with respect to an update to the demand hour clusters, as of the date of the Paper, we are unable to predict the effects of the proposed change on the weighted production component tariff, and therefore this update was not taken into account in the valuation.

  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 a gas amount of 1.0 BCM shall be regularly supplied to the Ramat Hovav power plant and that the remaining gas amount which will be sold will be equally distributed between independent power producers (such as the contract with OPC) and industrial producers (such as the contracts with ICL and ORL).

Note that for the base scenario and the low scenario, the D&M CPR report assumed a fixed natural gas price of approx. U.S. $4.04 per MMBTU throughout all the years of the forecast.

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 Bank[35], the EIA[36] and the forward prices of Brent according to Bloomberg data.

Note that for the base scenario, the D&M CPR report assumed a condensate price of approx. U.S. $66 per barrel throughout all of the years of the forecast (fixed), based on the assumption that Energean will be able to sell the condensate in its reservoirs at a 10% premium over price of Brent.

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 wellhead.[37] 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 rate[38]) 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.

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[35] A World Bank Semi-Annual Report: Commodity Markets Outlook, October 2021.

[36] U.S Energy Information Administration: Analysis & Projections, October 2021.

[37] 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

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

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).

- 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, at the end of May 2021, Energean updated the production commencement date to the second half of 2022 (versus Q1/2022 in a previous report). In view of these developments and in view of the continued outbreak of new variants 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 as of September 30, 2021 is estimated at approx. $260.3 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 4.6.2 above).

5.4 Sensitivity analyses

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

Change in Cap Rates (in Base Points)		Change in the Natural Gas Price Vector (U.S. $ per MMBTU)						
		(1.50)	(1.00)	(0.50)	-	0.50	1.00	1.50
	+250 bp	208.1	222.2	229.2	235.1	247.4	259.4	263.0
	+150 bp	216.4	231.0	238.4	244.6	257.5	269.9	273.9
	+50 bp	225.3	240.6	248.4	254.9	268.3	281.3	285.6
	-	230.0	245.6	253.6	**260.3**	274.0	287.3	291.8
	-50 bp	234.9	250.8	259.1	266.0	279.9	293.5	298.2
	-150 bp	245.2	261.9	270.6	278.0	292.5	306.7	311.8
	-250 bp	256.4	273.8	283.1	290.9	306.2	321.0	326.5

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

Change in Cap Rates (in Base Points)		Change in the Annual Production Rate of Natural Gas (BCM)						
		(1.00)	(0.50)	(0.25)	-	0.25	0.50	1.00
	+250 bp	211.7	227.7	234.8	235.1	240.6	243.2	243.3
	+150 bp	221.6	237.6	244.7	244.6	250.0	252.4	252.1
	+50 bp	232.3	248.3	255.3	254.9	260.1	262.2	261.4
	-	238.0	254.0	260.9	**260.3**	265.5	267.4	266.3
	-50 bp	244.0	259.8	266.7	266.0	271.0	272.8	271.4
	-150 bp	256.7	272.4	279.0	278.0	282.7	284.2	282.1
	-250 bp	270.5	286.0	292.4	290.9	295.3	296.4	293.7

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

Change in Cap Rates (in Base Points)		Change in the Condensate Price Vector (U.S. $ per bbl)						
		(30.00)	(20.00)	(10.00)	-	10.00	20.00	30.00
	+250 bp	218.1	225.3	230.4	235.1	245.3	248.7	259.3
	+150 bp	227.1	234.5	239.8	244.6	255.2	258.7	269.7
	+50 bp	236.7	244.4	249.9	254.9	265.8	269.5	280.8
	-	241.8	249.6	255.2	**260.3**	271.4	275.2	286.7
	-50 bp	247.1	255.0	260.8	266.0	277.2	281.1	292.8
	-150 bp	258.3	266.5	272.5	278.0	289.5	293.7	305.7
	-250 bp	270.4	279.0	285.2	290.9	302.8	307.2	319.7

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Annex A – Cash Flow Forecast

Year	Unit	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Production											
*Gas production - Karish**	*bcm/y*	-	*1.86*	*5.80*	*6.67*	*6.93*	*7.20*	*5.78*	*4.72*	*4.00*	*3.51*
Gas production - Tanin	*bcm/y*	-	-	-	-	-	-	*1.32*	*2.18*	*3.00*	*3.39*
*Condensate production - Karish**	*bbl/y m*	-	*3.45*	*10.08*	*9.65*	*11.70*	*11.65*	*9.10*	*7.31*	*5.55*	*6.45*
Condensate production - Tanin	*bbl/y m*	-	-	-	-	-	-	*0.23*	*0.37*	*0.51*	*0.58*
Prices											
Natural gas price	*US$*	-	*3.97*	*3.97*	*3.97*	*3.97*	*3.97*	*3.97*	*3.97*	*3.97*	*3.97*
Condensate Price	*US$*	-	*36.53*	*68.09*	*66.38*	*65.16*	*68.70*	*69.13*	*69.56*	*69.99*	*70.42*
Revenues											
Karish - Revenues											
Natural Gas Revenues	*US$ MM*	-	*274.6*	*856.3*	*985.0*	*1,023.2*	*1,063.2*	*852.9*	*697.4*	*590.4*	*518.6*
Condensate Revenues	*US$ MM*	-	*252.3*	*686.5*	*640.6*	*762.7*	*800.3*	*629.3*	*508.3*	*388.3*	*454.3*
Total Gross Revenues	*US$ MM*	-	*527.0*	*1,542.8*	*1,625.6*	*1,785.9*	*1,863.5*	*1,482.1*	*1,205.7*	*978.7*	*972.9*
Tanin - Revenues											
Natural Gas Revenues	*US$ MM*	-	-	-	-	-	-	*195.6*	*321.5*	*443.3*	*500.2*
Condensate Revenues	*US$ MM*	-	-	-	-	-	-	*15.6*	*25.8*	*35.8*	*40.7*
Total Gross Revenues	*US$ MM*	-	-	-	-	-	-	*211.2*	*347.4*	*479.1*	*540.9*
K&T - Total Gross Revenues	*US$ MM*	-	*527.0*	*1,542.8*	*1,625.6*	*1,785.9*	*1,863.5*	*1,693.3*	*1,553.0*	*1,457.8*	*1,513.9*
Delek Drilling - Transaction Revenues											
*Transaction ORRI, Net***	*US$ MM*	-	*24.8*	*72.6*	*56.7*	*34.5*	*33.9*	*33.3*	*35.4*	*38.0*	*34.2*
Total Discounted Transaction Revenues	*US$ MM*	**-**	***22.2***	***59.6***	***42.0***	***22.6***	***19.9***	***17.4***	***16.5***	***15.8***	***12.8***

*Including Karish North

**Net of Existing ORRI net of Petroleum Tax

Year	Unit	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Production												
*Gas production - Karish**	*bcm/y*	*3.08*	*4.09*	*4.09*	*4.09*	*2.98*	*2.11*	*2.11*	*1.50*	*1.50*	*1.22*	-
Gas production - Tanin	*bcm/y*	*3.82*	*3.13*	*3.07*	*2.18*	*1.55*	*1.48*	-	-	-	-	-
*Condensate production - Karish**	*bbl/y m*	*3.62*	*3.28*	*3.28*	*3.28*	*1.54*	*1.54*	*1.54*	*1.05*	*1.05*	*0.58*	-
Condensate production - Tanin	*bbl/y m*	*0.59*	*0.59*	*0.54*	*0.40*	*0.14*	-	-	-	-	-	-
Prices												
Natural gas price	*US$*	*3.97*	*3.97*	*3.97*	*3.97*	*3.90*	*3.90*	*3.92*	*3.93*	*3.89*	*3.89*	-
Condensate Price	*US$*	*70.86*	*71.30*	*71.74*	*72.18*	*72.63*	*73.08*	*73.53*	*73.99*	*74.44*	*74.91*	-
Revenues												
Karish - Revenues												
Natural Gas Revenues	*US$ MM*	*454.7*	*603.4*	*603.4*	*603.3*	*432.0*	*306.9*	*307.9*	*219.3*	*217.0*	*177.0*	-
Condensate Revenues	*US$ MM*	*256.7*	*233.6*	*235.0*	*236.5*	*112.0*	*112.7*	*113.4*	*77.7*	*78.2*	*43.1*	-
Total Gross Revenues	*US$ MM*	*711.3*	*837.0*	*838.4*	*839.8*	*544.0*	*419.6*	*421.2*	*297.0*	*295.2*	*220.1*	-
Tanin - Revenues												
Natural Gas Revenues	*US$ MM*	*564.2*	*462.0*	*453.1*	*321.6*	*224.3*	*215.4*	-	-	-	-	-
Condensate Revenues	*US$ MM*	*41.5*	*41.8*	*38.6*	*28.9*	*10.4*	-	-	-	-	-	-
Total Gross Revenues	*US$ MM*	*605.7*	*503.8*	*491.7*	*350.5*	*234.7*	*215.4*	-	-	-	-	-
K&T - Total Gross Revenues	*US$ MM*	*1,317.1*	*1,340.7*	*1,330.1*	*1,190.3*	*778.7*	*635.0*	*421.2*	*297.0*	*295.2*	*220.1*	-
Delek Drilling - Transaction Revenues												
*Transaction ORRI, Net***	*US$ MM*	*22.4*	*22.8*	*22.2*	*18.9*	*12.3*	*10.0*	*6.6*	*4.7*	*4.7*	*3.5*	-
Total Discounted Transaction Revenues	*US$ MM*	***7.4***	***6.7***	***5.9***	***4.5***	***2.6***	***1.9***	***1.1***	***0.7***	***0.6***	***0.4***	**-**

*Including Karish North

**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
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