

Delek Drilling – Limited Partnership
(the “Partnership”)

March 20, 2019

Israel Securities Authority
22 Kanfei Nesharim St.
Jerusalem

Tel Aviv Stock Exchange Ltd.
2 Ahuzat Bayit St.
Tel Aviv

Re: Exercise of Option to Purchase Working Interests in the 399/Roy License

Further to the description in Sections 7.5 and 7.25.14 of the Partnership’s periodic report for 2017, which was released on March 21, 2018 (ref. no.: 2018-01-022209) (the “**Periodic Report**”) regarding an option that was granted to the Partnership to purchase working interests at the rate of 20% in the 399/Roy license (the “**Option**” and the “**Roy License**” or the “**Petroleum Asset**”, respectively), the Partnership respectfully updates that on March 19, 2019, the Partnership notified Ratio Oil Exploration (1992) – Limited Partnership (“**Ratio**”) and Edison International S.P.A (“**Edison**”), which acts as operator of the Roy License, of the exercise of the Option (the “**Exercise Notice**”).

According to the Exercise Notice, and in accordance with certain changes in the terms and conditions of the Option that were agreed upon between Ratio and the Partnership, as specified herein below, the Partnership shall purchase from Ratio interests at the rate of 24.99% in the Roy License (the “**Transaction**”). The closing of the Transaction and the transfer of the interests in the Roy License to the Partnership are subject to the fulfillment of conditions precedent and receipt of the necessary approvals. For further details regarding the main terms and conditions of the Transaction, see Section 1 below. For further details regarding the Roy License, see Section 2 below.

Below is a specification of the holding rates of the partners in the Roy License, as of the date of this report:

Edison	20.00%
Ratio	70.00%
Israel Opportunity ¹	10.00%
Total	100.00%

Below is a specification of the holding rates of the partners in the Roy License, assuming that the Transaction is closed:

The Partnership	24.99%
Edison	20.00%
Ratio	45.01%
Israel Opportunity	10.00%
Total	100.00%

1. **Terms and conditions of the Transaction**

¹ Israel Opportunity – Energy Resources, Limited Partnership.

Set forth below is a concise description of the main principles of the Transaction:

- a. Subject to fulfillment of the conditions precedent specified below, Ratio shall transfer to the Partnership 24.99% of the working interests in the Roy License (the “**Purchased Interests**”).
- b. Against the transfer of the Purchased Interests, the Partnership shall bear the following costs: (1) past costs that were borne by Ratio in connection with the Purchased Interests in the sum total of approx. \$4 million, in accordance with a calculation that Ratio shall deliver to the Partnership (the “**Past Costs**”). The Past Costs shall be paid by the Partnership to Ratio, assuming a commercial discovery, on the date on which final approval of the partners is received (in accordance with the provisions of the Joint Operating Agreement (the JOA) (if received) for a work plan and a budget for development of a reservoir in the area of the Roy License (FID); (2) any and all costs that shall be paid by Ratio in respect of the actions that shall be taken in the context of the Joint Operating Agreement, with respect to the Purchased Interests, from the date of the Exercise Notice until the date of completion of the process of transferring the Purchased Interests (the “**Interim Costs**”). The Interim Costs shall be paid by the Partnership to Ratio on the date of completion of the transfer of the Purchased Interests.
- c. The parties have agreed that they will perform the binding work plan in the Roy License for 2019-2020 (as shall be approved by the partners in the Roy License), in the framework of which an exploration well will be drilled, with the Partnership bearing its proportionate share in the costs of such well.
- d. The Partnership has undertaken to grant Mr. Eitan Aizenberg Ltd.² an overriding royalty at the rate of 2% out of a 14.99% interest (i.e. an overriding royalty at the rate of approx. 0.2998% out of 100%) in petroleum and/or gas that is produced from the area of the Roy License, according to the market value at the wellhead. It is clarified that the remainder of the Purchased Interests (at the rate of 10%) is not subject to the said overriding royalty. It is clarified that the Purchased Interests shall be subject to the Partnership’s commitment to payment of overriding royalties to interested parties of the Partnership and to third parties.
- e. Subject to the provisions of Paragraph d. above, the Purchased Interests shall be transferred to the Partnership without any pledge, lawsuit, liability, right to receive a royalty (with the exception of the State’s right to royalties) or any other third party right.

The closing of the Transaction and the transfer of the Purchased Interests to the Partnership is subject to the fulfillment of conditions precedent and receipt of approvals, including the approval of the Petroleum Commissioner at the Ministry of Energy (the “**Commissioner**”), the approval of the Competition Commissioner (insofar as required) and receipt of the necessary consents from Edison and Israel Opportunity. In addition, the approval of the meeting of the holders of the Partnership’s units is required for amendment of the limited partnership agreement that was signed on July 1, 1993 (as amended from time to time), in order to allow the Partnership to participate in oil and/or gas exploration and production in the Roy License.

² Eitan Aizenberg Ltd. is a private company owned and controlled by Mr. Eitan Aizenberg, who serves as a geologist of Ratio.

If not all of the necessary approvals are received up to seven (7) days before commencement of the first exploration drilling in the area of the Roy License, the Option shall expire and terminate without any liability of either of the parties. The aforesaid notwithstanding, if the Partnership pays the Interim Costs in respect of the Purchased Interests and continues to bear any and all costs of the joint actions in the Roy License in respect of the Purchased Interests (and such payments are without recourse), the deadline for receipt of the necessary approvals shall be extended accordingly.

2. **Details regarding the Roy License**

Set forth below are details regarding the Roy License which are based, *inter alia*, on information received by the Partnership from Ratio, in the context of the due diligence investigations that were carried out by the Partnership, and on public information released by Ratio. If the Transaction is closed, the Roy License shall be classified as a negligible petroleum asset relative to the Partnership's entire activity and assets (so long as the partners do not make a drilling decision), and therefore a brief description is presented below of the said petroleum asset, assuming that the Transaction will be closed.

a. General

<u>General Details about the Petroleum Asset</u>	
Name of the petroleum asset:	Roy
Location³:	The Mediterranean Sea
Area:	Approx. 400,000,000 sqm ⁴
Type of petroleum asset:	License
Original grant date of the petroleum asset:	April 15, 2013
Original expiration date of the petroleum asset:	April 14, 2016
Dates on which an extension of the petroleum asset period was decided:	August 18, 2015, December 3, 2016, April 12, 2018, July 1, 2018, September 2, 2018 and September 23, 2018
Current expiration date of the petroleum asset:	April 14, 2020
State whether there is another option to extend the petroleum asset period; if such an option exists – state the possible extension period:	Subject to the Petroleum Law, it is possible to extend up to seven years from the grant date, with an option, in the case of a discovery, to extend by an additional two years. The current expiration date is seven years from the grant date.

³ The license letter states that the area of the license is included in the EEZ of the State of Israel, the borders of which have not yet been conclusively determined. If, during the term of the license or during the term of any petroleum right that is granted as a result thereof (a license or a lease), an area or areas are removed from the area of the license, the area of the license or the other right will be reduced accordingly, without any compensation for the right holder.

⁴ On May 23, 2017, the Minister of Energy (further to the Petroleum Council's recommendation of January 25, 2017) approved the partners' application of September 2016 for modification of the boundaries of the license. The area of the Roy License within its new boundaries as aforesaid remains 400 sq. km.

General Details about the Petroleum Asset	
The operator's name⁵:	Edison
The names of the direct partners in the petroleum asset, and their direct share in the petroleum asset and, to the best of the Partnership's knowledge, the names of the control holders of the said partners:	<ul style="list-style-type: none"> ▪ The Partnership (24.99%). ▪ Ratio (45.01%). To the best of the Partnership's knowledge, Ratio's general partner, Ratio Oil Exploration Ltd., is a company jointly owned by D.L.I.N. Ltd. ("D.L.I.N.") (34%); Hiram Landau Ltd. ("Hiram") (34%); Eitan Aizenberg Ltd. ("Aizenberg") (8.5%); Eyal Zafirri (4.3%); Ido Porat (1.4%); Asher Porat (1.4%); Daniel Soldin (1.4%) and Adv. Boaz Ben Zur and Adv. Eli Zohar in trust for Mr. Shlomi Shukrun (15%). D.L.I.N. is a private company owned by Yair Rotlevy (1/3) and Ligad Rotlevy (2/3). Hiram is a private company controlled by the estate of the late Yeshayahu Landau. Aizenberg is a private company controlled by Eitan Aizenberg⁶. ▪ Edison (20%). To the best of the Partnership's knowledge, Edison is part of the Edison Group controlled by EDF Group (Electricité de France). ▪ Israel Opportunity (10%). To the best of the Partnership's knowledge, the control holder of Israel Opportunity is Israel Opportunity – Oil & Gas Exploration Ltd. ("Opportunity Ltd."), which serves as Israel Opportunity's general partner. To the best of the Partnership's knowledge, the shares of Opportunity Ltd. are held by Capernaum Finance SA (33.9%), Halman-Aldubi Energy Ltd. (28.9%), Rony Halman (chairman of Opportunity Ltd.) (1.3%), Uri Aldubi (director of Opportunity Ltd.) (1.3%), Halman-Aldubi Holdings Ltd. (2.5%) (Halman-Aldubi Energy Ltd. and Halman-Aldubi Holdings Ltd. are companies that are jointly owned, directly and through companies, in equal shares, by Messrs. Rony Halman and Uri Aldubi) (Halman-Aldubi Energy Ltd., Rony Halman and Uri Aldubi shall be referred to collectively as: the "Halman Aldubi Group") and by several other shareholders. To the best of the Partnership's knowledge, a shareholders' agreement was signed between Capernaum Finance SA and the Halman Aldubi Group, which also relates to companies controlled by the Halman Aldubi Group, which regulates the relations between them as shareholders of Opportunity Ltd.

⁵ On September 23, 2018, the in-principle approval of the Commissioner was received for Ratio's application to recognize it as operator of the Roy License in the event that Edison, the current operator of the license, is not the operator of the license.

⁶ As of the date of release of this report, the holdings of all of the interested parties in Ratio (with the exception of holdings by institutions, mutual funds and provident funds) are lower than 22%.

General details regarding the Partnership's share in the Petroleum Asset	
For a holding in a petroleum asset that is purchased – state the purchase date:	March 19, 2019.
Description of the nature and manner of the Partnership's holding in the petroleum asset:	The Partnership directly holds 24.99% of the interests in the license (subject to receipt of all of the necessary approvals).
State the actual share attributed to the holders of the equity interests of the Partnership in the revenues from the petroleum asset:	Pre Investment-Recovery – 20.44%. Post Investment-Recovery – 19.19%.
The total share of the holders of the Partnership's equity interests in the aggregate investment in the petroleum asset in the five years preceding the last day of the reporting year (whether recognized as an expense or as an asset in the financial statements):	Payment of the Past Costs in the sum of approx. \$4 million, in accordance with the terms and conditions of the Transaction described in Section 1 above.

b. Actual and planned work plan

Below is a concise description of the main actions that have actually been performed in the Roy License from January 1, 2016 until the date of release of this immediate report, as well as a concise description of the planned actions in the Roy License, in accordance with the binding work plan in the license. It is emphasized that the estimated timetable and costs are based on general assessments only, and may change considerably. It is further noted that the work plans may change following discoveries that are made, and which may cause changes in the work plans, and the estimated costs and timetables:

<u>Period</u>	<u>Concise description of actions actually performed for the period or of the planned work plan</u>	<u>Total estimated budget for activity at the petroleum asset level (dollars in thousands)</u>	<u>Amount of actual participation in the budget by the holders of the Partnership's equity interests (dollars in thousands)</u>
2016	<ul style="list-style-type: none"> • A combined analysis was performed of all of the geological and geophysical data in the area of the license in view of the work that was performed, and a report was submitted which includes a current geological and geophysical description of the drilling target in the license. • A summary report was submitted regarding a specific analysis of the pore pressure and the fracture gradient of the rock at the depths of the site designated for drilling with the assistance of the 3D seismic material and other materials. • An updated geological and engineering prospect was submitted for the well in view of the results of all of the work performed. • An environmental document was submitted. 	Approx. 2,195	-
2017	<ul style="list-style-type: none"> • An evaluation of prospective resources report was submitted following modification of the boundaries of the Roy License (which was approved on May 23, 	Approx. 1,596	-

	2017). <ul style="list-style-type: none"> Continued geological work and seismic interpretation. Continued preparation work towards a possible drilling. 		
2018	<ul style="list-style-type: none"> Continued geological work and preparation for drilling. 	Approx. 382	-
2019 forth ⁷	In accordance with the binding work plan in the license, the following actions are required to be taken: <ul style="list-style-type: none"> By June 15, 2019 – signing of a contract with a drilling contractor and delivery thereof to the Commissioner. By September 30, 2019 – commencement of drilling in the area of the Roy License. Three months from completion of the drilling – submission of a summary report of the results of the drilling. 	TBD	TBD

Caution concerning forward-looking information – the information regarding the actions planned in the Roy License, including with respect to the costs, timetables and the actual performance thereof, constitutes forward-looking information, within the meaning thereof in the Securities Law, 5728-1968, which is based, *inter alia*, on information and estimates received by the Partnership from Ratio and on public releases of Ratio, in respect of which the Partnership has not yet carried out a full inspection. Actual performance of the work plan, including the timetables and the costs, may be materially different to the above information, and is contingent, *inter alia*, on market conditions, regulation, many external circumstances, technical needs, technical ability and economic merit. The closing of the Transaction is subject to the fulfillment of the conditions precedent specified above.

Sincerely,

Delek Drilling Management (1993) Ltd.
General Partner of Delek Drilling - Limited Partnership
 By Yossi Abu, CEO
 and Yossi Gvura, Deputy CEO

⁷ In the framework of the Commissioner's approvals for the update of the work plan in the Roy License, the Commissioner stated that in the event that drilling in the license does not begin by September 30, 2019, the guaranty in the sum of \$2.5 million, which was provided by the holders of the interests in the license, will be forfeited, and the validity of the license will not be extended beyond the seventh anniversary on April 14, 2020. After this date, no activity will be carried out in the license unless a discovery is recognized therein.