

Delek Drilling - Limited Partnership

(the "Partnership")

August 4, 2019

Israel Securities Authority
22 Kanfei Nesharim Street
Jerusalem

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

Dear Sir/Madam,

Re: **Engagement in Loan Agreements**

The Partnership respectfully gives notice that on August 1, 2019 the Partnership signed two loan agreements with a banking consortium headed by HSBC Bank Plc and J.P. Morgan Limited and with the participation of Citibank N.A. Israel Branch and Goldman Sachs Bank USA (the "**Lenders**" and the "**Agreements**", respectively), regarding the provision of two credit facilities in the total amount of U.S. \$300 million, in two loans, one of up to 75 million dollars and the other of up to 225 million dollars (the "**First Loan**" and the "**Second Loan**", and jointly: the "**Loans**", respectively), from which the Partnership may draw-down money until December 31, 2019. The drawdown of the Loans is subject to the fulfilment of the conditions precedent as stipulated by the Agreements, primarily the registration of the liens listed in Section 2(a)-(c) (inclusive) below.

The Loans are intended to serve the Partnership for the financing of its operating activities and any permitted goal, and *inter alia* for the purpose of the distribution of profits.

Below is a description of the main terms and conditions of the Loans.

1. Loan principal and interest

The Loans shall be repaid in one installment in December 2020, and will carry a variable annual interest to be paid every three months and calculated according to LIBOR plus a margin of an effective rate (including fees) of approx. 4%. Furthermore, the Partnership undertook to pay a commitment fee for the unused credit facility at a rate of 35% of the interest margin that will apply to the Loans.

2. Liens

To secure the repayment of the Loans, the Partnership undertook to pledge in favor of the Lenders: (a) its holdings in the shares of Tamar Petroleum Ltd. and the rights thereunder (the "**Tamar Petroleum Shares**"); (b) the right to receive the balance of the consideration from the sale of the Partnership's rights in the Karish and Tanin Leases to Energean Israel Limited ("**Energean**" and "**Energean Debt**", respectively), as specified in Section 7.27.16 of the Partnership's periodic report for 2018, which was published on March 24, 2019 (Ref.: 2019-01-023982) (the "**Periodic Report**"); (c) the Partnership's rights in

the bank account to which the Partnership deposits retained earnings from the revenues of I/12 "Tamar" Lease according to the terms and conditions of the bonds issued to accredited investors as described in Section 7.22.1(d) of the Periodic Report (the "**Tamar Bonds**", "**Tamar Lease**" and "**Tamar Project**", respectively); (d) the Partnership's rights to receive royalties from the I/17 "Karish" and I/16 "Tanin" Leases (the "**Pledge of Royalties**"); and (e) the Partnership's rights in a bank account in which the Partnership will deposit retained earnings from the revenues received from the Leviathan leases according to the financing conditions of the Leviathan project, as described in Section 7.22.1(a) of the Periodic Report (the "**Leviathan Loans**" and "**Leviathan Leases**", respectively);

Furthermore, the Partnership gave a negative pledge on the remaining existing assets of the Partnership as of the date of signing of the Agreements.

If the approval of the Petroleum Commissioner for the registration of the Pledge of Royalties is not received by the end of six months from the date of signing of the Agreements, the interest margin of the Loans will increase by 1%, until the date on which the approval of the Commissioner is received *de facto*. Failure to register the Pledge of the Royalties within nine months from the date of signing of the Agreements, will be deemed as a default event.

3. Restrictions and undertakings with respect to the Loans

According to common practice in such type of financing transactions, the Agreements include restrictions and undertakings of the Partnership, primarily as follows:

- 3.1. The Loans are contingent on compliance with a financial ratio no less than 3.5 to 1 (3.5:1) between the value of the Partnership's assets and the outstanding debt. In this respect, the value of the "Partnership's assets" shall be calculated on the basis of the discounted cash flow figures of the Partnership's resources, subject to the adjustments as specified in the Agreements, and the amount of the "outstanding debt" includes the net balance to be discharged in respect of the Loans and the Series A Bonds of the Partnership.¹
- 3.2. In addition, the Agreements determine several other common restrictions such as: a restriction in respect of changing the field of activity; restrictions on restructuring which may have a material adverse effect; restriction on taking additional loans which are not listed among the permitted types of financing defined in the Agreements and so forth.

¹ As of the date hereof, the said financial ratio is approx. 5, assuming that the Loans were extended to the Partnership and on the basis of the financial statements for March 31, 2019.

4. Provisions regarding full or partial acceleration/prepayment

The Agreements include provisions whereby under certain conditions, primarily as specified below, the Loans may be fully or partially accelerated:

- 4.1. Full mandatory acceleration of both Loans may be required: (1) in the event of change of control²; (2) in the event of the refinancing of the Leviathan Loans; and (3) if a distribution of profits is performed, other than a "permitted distribution", which was defined as distribution of a total amount of up to 300 million dollars ("**Permitted Distribution**"). Furthermore, pledge of the Partnership's rights in the petroleum asset "Aphrodite" may require full acceleration of the Second Loan only.
- 4.2. Partial mandatory acceleration of the balance of the First Loan shall be required: (1) upon the sale of any one of the Partnership's assets existing on the date of signing of the Agreements; (2) if the payments of Energean to the Partnership in respect of the Energean Debt are accelerated/prepaid (3) if insurance benefits are received in respect of the Tamar Project (upon the occurrence, if any, of a prepayment/acceleration event under the terms and conditions of the Tamar Bonds and after the repayment of the Tamar Bonds); and (4) in the event of increase or refinancing of the Tamar Bonds for purposes other than for the repayment thereof. The amount of the partial acceleration in each one of the aforesaid events shall be equal to the net revenues, or a part thereof, as prescribed by the Agreements.
- 4.3. Partial mandatory acceleration of the balance of the Second Loan shall be required in each one of the following events: (1) the sale of each one of the Partnership's assets existing on the date of signing of the Agreements; (2) funds received by the Partnership from the sale of shares or operating assets in one of the companies held by EMED Pipeline B.V. which was established for the purpose of the EMG transaction, if completed, as specified in Section 7.27.7 of the Periodic Report and the Partnership's immediate report of July 1, 2019 (Ref.: 2019-01-056067); and (3) receipt of insurance benefits in respect of the Leviathan Project (upon the occurrence, if any, of a prepayment/acceleration event under the terms and conditions of the Leviathan Loans and after the repayment thereof).

5. Right to prepayment at the Partnership's initiative

The Partnership has the right to prepayment of any one of the Loans, at any time, with no make whole fee.

² In this respect, "**Change of Control**" shall mean the non-holding by Delek Group Ltd. (the "**Delek Group**"), directly or indirectly, of: (1) at least 25% of the Partnership's participation units; or (2) more than 50% of the capital of the General Partner in the Partnership.

6. Defaults which establish cause for the Lenders to accelerate the Loans

The Agreements define default events, the occurrence of which shall confer on the Lenders a right to accelerate the Loans, including, *inter alia*, the following main events: non-payment; failing to comply with the financial covenant specified above; cross default of another financial liability; insolvency events, including of a material subsidiary; and other standard stipulations such as the breach of a representation or undertaking, cessation of business, material deterioration, law suits and attachments, governmental moratorium which affects the Loans and so forth; all subject to the conditions and reservations and/or the remediation periods as determined by the Agreements.

7. Instructions with respect to the split process

The Agreements stipulate, *inter alia*, that if the restructuring and split process, which is mentioned in the Partnership's immediate report of March 18, 2019 (Ref.: 2019-01-022080), is carried out, the First Loan shall remain with the Partnership, and the Second Loan, including any and all collateral therefor, shall be assigned to the new corporation to which the assets will be transferred within the split. The Agreements include various provisions regarding the terms and conditions of the Loans after the split, *inter alia* with respect to the repayment date of the First Loan, the collateral, the financial covenant that would apply after the split in respect of each one of the Loans and more. Full details of such instructions will be provided separately, if and insofar as the split transaction is submitted for the approval of the meeting of the Partnership's participation unit holders.

Sincerely,
Delek Drilling Management (1993) Ltd.,
the General Partner

By:
Yossi Abu, CEO
and Yossi Gvura, Deputy CEO