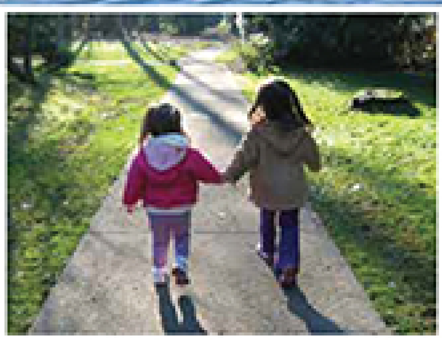

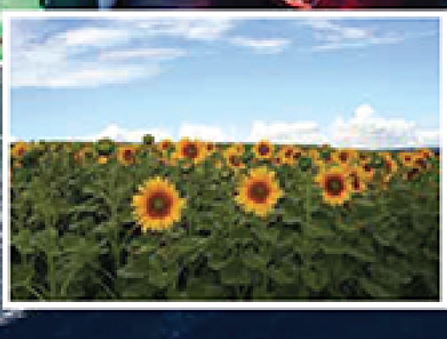

Delek Drilling

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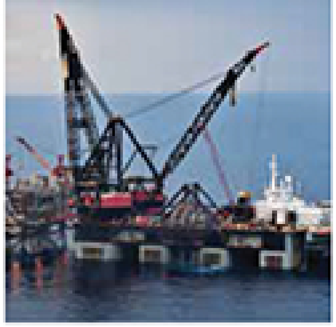

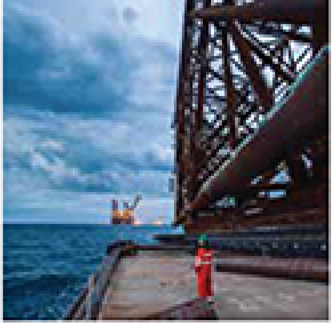


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Description of the Partnership Business

This report is a translation of Delek Drilling - Limited Partnership's Hebrew-language Update to Chapter A (Description of the Partnership's Business) of the Periodic Report for 2017 of Delek Drilling. 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.

Update to the Description of the Partnership's Business in the Periodic Report for 2017 of Delek Drilling – Limited Partnership (the "Partnership")[1]

1. **Section 1.1 of the Periodic Report – The Partnership's operations and a description of the development of its business**

    a. With respect to the notice of the Partnership and Delek Group Ltd. ("**Delek Group**") of October 9, 2018, according to which a full exchange tender offer that Delek Group sought to perform for the shares of Delek Energy Systems Ltd. ("**Delek Energy**") was accepted, see the Partnership's shelf offering report of September 16, 2018 (ref. no.: 2018-01-084490) and immediate report of October 9, 2018 (ref. no.: 2018-01-090619), the details appearing in which are incorporated herein by reference. As of the date of this Report, Delek Group (directly) holds participation units of the Partnership at a rate of 4.99% (in lieu of 7.83% prior to the said tender offer).

    b. With respect to a presentation that was made at an investor conference of Delek Group, see the Partnership's immediate report of November 11, 2018 (ref. no.: 2018-01-101887).

2. **Section 1.1.8(g) of the Periodic Report – The structure of the main holdings of the Partnership**

    In October 2018, Noble Energy Mediterranean Ltd. ("**Noble**") sold all of its holdings in Tamar Petroleum Ltd. ("**Tamar Petroleum**"), as a result of which, as of the date of this Report, the Partnership holds 13.42% of the voting rights in Tamar Petroleum. It is clarified that no change has occurred in the rate of the Partnership's holding in the equity interests in Tamar Petroleum, which, as of now, is 22.6%.

3. **Section 4 of the Periodic Report – Tax certificates**

    a. With respect to 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 (the "**Avner Partnership**"), for the tax year 2014, and with respect to a temporary tax certificate for an entitled holder due to the holding of a participation unit of the Partnership for the tax year 2017, see the Partnership's immediate reports of October 4, 2018 and October 8, 2018 (ref. no.: 2018-01-

[1] The update includes material news or changes that occurred in the Partnership's business during Q3/2018 and until shortly before the date 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, 2018 (ref. no.: 2018-01-048577) and in the Q2 report as of June 30, 2018 (ref. no.: 2018-01-077380) (the "**Q2/2018 Report**"). The update refers to the section numbers in Chapter A (Description of the Partnership's Business) of the Periodic Report for 2017, which was released on March 21, 2018 (ref. no.: 2018-01-022209) (the "**Periodic Report**"), unless stated otherwise.

088264 and 2018-01-101494), the information appearing in which is incorporated herein by reference.

b. Further to Section 4.4 of the Periodic Report, it is noted that although as of the date of this Report, the Tax Authority's audit of the tax statements of the Partnership and of the Avner Partnership for the tax year 2015 has ended, and tax assessment agreements have been signed with the Tax Authority, final tax certificates for the tax year 2015 have not yet been issued, since the Income Tax Regulations (Rules for Calculation of the Tax for Holding and Selling Participation Units in an Oil Exploration Partnership), 5749-1988 (in this section: the "**Regulations**") are valid until June 30, 2015, and have not yet been extended to a later date. Final tax certificates, in accordance with such tax assessment agreements, will be issued and released accordingly only after the Regulations are extended. In accordance with the aforesaid tax assessment agreements, the taxable income of the Partnership and of the Avner Partnership in 2015 is approx. ILS 317.4 million and approx. ILS 293.3 million, respectively, and in respect thereof the Partnership and the Avner Partnership paid tax on account of the holders of participation units in the Partnership and in the Avner Partnership, in the sum of approx. ILS 92 million and approx. ILS 88 million, respectively.

4. **<u>Sections 4.3.5 and 4.3.6 of the Periodic Report – Petition to the court for instructions regarding the interpretation and manner of implementation of Section 19 of the Taxation of Profits from Natural Resources Law, 5771-2011 (the "Petition")</u>**

On September 6, 2018, a hearing was held at the Tel Aviv District Court on the General Partner's motion to order dismissal of a petition for instructions that was filed by the supervisor on May 8, 2018 with the Tel Aviv District Court, in which the court was moved to order the General Partner to bear the supervisor's expenses in the framework of the Petition and in the framework of the appeal that was filed with the Supreme Court on December 31, 2017 from the District Court's judgment of November 1, 2017 on the Petition (the "**Appeal**"). In accordance with the court's position, as was expressed at the said hearing, and following its recommendation, the supervisor and the General Partner signed a settlement agreement, whereby at the general meeting of the holders of the participation units in the Partnership, the supervisor's legal fees in the Petition and in the Appeal would be presented for approval, such that the payment will be made out of the Partnership's funds. Such agreement was sanctioned as a judgment on October 31, 2018.

5. **<u>Section 6 of the Periodic Report – General environment and the impact of external factors</u>**

On October 9, 2018, the Energy Minister released the "Plan to save Israel from polluting energy", which mainly concerns reduction of the use of polluting fuel products by 2030. The plan set goals for 2030, specifying concrete steps and determining timetables in three main sectors, as follows:

a. In the electricity sector, the gradual reduction of electricity production in coal. From 2028, use of coal in the production of electricity at all of the coal-fired power plants will be completely stopped, and electricity production will be based on natural gas and renewable energies only, with permanent shutdown of the coal-fired plants in Hadera and Ashkelon.

b. In the transportation sector, cessation of consumption of polluting fuel products in land transportation, and transition to use of electric vehicles and compressed natural gas-powered vehicles. Accordingly, from 2030, the entry into Israel of vehicles powered by gasoline or diesel oil will be prohibited, and 100% of the new vehicles in Israel will be powered with the assistance of electricity and compressed natural gas.

c. In the industry sector, cessation of the use of fuel oil, LPG and diesel oil and replacement thereof with more efficient and cleaner energy sources from 2030.

The plan was released for the public's comments, and will later be presented for the government's approval.

In the Partnership's estimation, approval and implementation of the plan may lead to an increase in the demand for natural gas in the Israeli economy.

6. **Section 7.3.4(d) of the Periodic Report – Development of the Tamar South-West reservoir (the "SW Reservoir")**

Further to Section 7.3.4(d) of the Periodic Report, in October 2018, Noble, per the Ministry of Energy's request, submitted an updated development plan for the Tamar SW reservoir. The updated development plan is essentially similar to the original plan, and includes details relating to actions that occurred and new information that was received since the date of submission of the original development plan (April 2014).

7. **Section 7.4.5(c) of the Periodic Report – Plan for development of the Leviathan reservoir**

As of the date of this Report, the Ensco DS-7 rig has performed the completion of the Leviathan-4, Leviathan-3 and Leviathan-5 wells, and begun the completion of the Leviathan-7 well, which is expected to be finished by the end of 2018.

8. **Section 7.5 of the Periodic Report – The 399/Roy license (the "Roy License")**

On September 25, 2018, Ratio Oil Exploration (1992) - Limited Partnership ("**Ratio**") announced that the Petroleum Commissioner at the Ministry of Energy (the "**Commissioner**") had announced that he was extending the Roy License to April 14, 2020, subject to modification of the work plan in the Roy License, as follows:

Period	Concise Description of the Planned Work Plan
2018 forth	In accordance with the binding work plan for the Roy License, the following actions are required to be performed: • By December 15, 2018 – 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. • Up to three months from completion of the drilling – submission of a summary report of the results of the drilling.

It is clarified that in view of the fact that the Partnership has an option only in the Roy License, and has no access to information of the joint venture, the description of the planned work plan and the timetables of the said actions are based on public reports of Ratio only.

Caution concerning forward-looking information – the above description regarding the planned actions in the Roy License, including timetables for the performance thereof, is forward-looking information, within the meaning thereof in the Securities Law, 5728-1968 (the "**Securities Law**"), and is based solely on public reports of Ratio. Actual performance of the work plan, including the timetables, may be materially different than as specified above and is contingent, *inter alia*, on applicable regulation, technical ability and economic merit.

9. **<u>Section 7.6.3(d) of the Periodic Report – The 'Aphrodite' reservoir in Cyprus</u>**

As of the date of this Report, the updated development plan submitted by the partners in the Aphrodite reservoir has not yet been approved by the Cypriot government. Although, ostensibly, according to the Production Sharing Contract of October 24, 2008 (the "**Production Sharing Contract**"), the Cypriot government has the option, in the absence of an approved development plan, to claim for termination of the Production Sharing Contract, the partners in the Aphrodite reservoir are continuing to act, in cooperation with the Cypriot government, for the update and approval of the development plan and the update of the Production Sharing Contract. In this context, the Cypriot government decided to invite the partners to a series of discussions on the issue of the update of the Production Sharing Contract, including updating the mechanism of the fiscal conditions. As of the date of this Report, and following such invitation, the parties are holding continuous discussions on the said issue.

10. **<u>Section 7.11.5(a)1 of the Periodic Report – Agreement for the supply of natural gas from the Tamar reservoir to Arab Potash Company and Jordan Bromine Company (the "Buyers")</u>**

Further to Section 7.11.5(a)1 of the Periodic Report, in October 2018, another agreement was signed for the supply of natural gas between the Tamar partners and NBL Eastern Mediterranean Marketing Limited ("**NBL**") for the export of natural gas to consumers in Jordan (the "**Second NBL-Tamar Agreement**"). Concurrently with the signing of the Second NBL-Tamar agreement, NBL signed another agreement with the Buyers, according to which the Buyers will buy from NBL an additional quantity of natural gas which will be used thereby as aforesaid at their plants which are located on the eastern bank of the Dead Sea in Jordan (the "**Second Supply Agreement**"), on an interruptible basis, at a total scope of up to approx. 1 BCM, while NBL is entitled, in accordance with the dates determined in the agreement, to notify the Buyers that the supply under the Second NBL-Tamar Agreement shall be carried out on a firm basis. The supply according to the Second NBL-Tamar Agreement is expected to commence during Q1/2019 and is expected to continue until the date of completion of the supply under the first supply agreement. It is noted that the Second NBL-Tamar Agreement and the Second Supply Agreement are subject to receipt of the regulatory approvals in Jordan and in Israel, and contingent upon the signing of a transmission agreement with INGL for the flow of the additional gas quantities stated above. The other terms and conditions of the Second NBL-Tamar

Agreement and the Second Supply Agreement are similar to the terms and conditions of the first NBL-Tamar agreement and supply agreement.

Caution concerning forward-looking information – the above estimates regarding the natural gas quantities that shall be purchased by the buyers in the framework of the Second Supply Agreement, and commencement of the supply date under the Second Supply Agreement, constitute forward-looking information, within the meaning thereof in the Securities Law, which there is no certainty will materialize, in whole or in part, and may materialize in a materially different manner, due to various factors including due to non-fulfillment of the conditions precedent in the Second Supply Agreement, non-receipt of regulatory approvals, changes in the scope, pace and timing of the natural gas consumption by each one of the said buyers.

11. **Sections 7.11.5(a)2 and 7.11.5(b)2 of the Periodic Report – Agreements for the supply of natural gas from the Leviathan and Tamar projects to Dolphinus Holdings Limited (the "Tamar-Dolphinus Agreement", the "Leviathan-Dolphinus Agreement" and "Dolphinus", respectively)**

Further to Sections 7.11.5(a)2 and 7.11.5(b)2 of the Periodic Report, it is noted that on September 26, 2018, the Partnership and Noble signed a non-binding MOU with the Tamar partners and a non-binding MOU with the Leviathan partners in connection with the allocation of capacity and other arrangements for the flow of natural gas in transmission infrastructures from Israel to Egypt, including EMG's existing gas transmission pipeline and the Arab Gas Pipeline via Aqaba. In addition to the aforesaid, the Partnership and Noble endorsed the Tamar-Dolphinus Agreement to all of the partners in the Tamar project and the Leviathan-Dolphinus Agreement to all of the partners in the Leviathan project, in accordance with the rate of the partners' rights in each one of the said petroleum assets. For further details, see the Partnership's immediate report of September 27, 2018 (ref. no.: 2018-01-086332), the information appearing in which is incorporated herein by reference.

12. **Section 7.12.2(b)2.b. of the Periodic Report – Description of the main potential target markets for the export of natural gas in the pipeline from the Tamar project and the Leviathan project – Egypt**

With respect to the engagement of EMED Pipeline B.V., a subsidiary of the Partnership (25%) (through a wholly-owned subsidiary of the Partnership registered in Cyprus), Noble Energy International Ltd. (25%) and an Egyptian partner (50%), in agreements for the purchase of 39% of the share capital of EMG, see the Partnership's immediate reports of September 27, 2018 (ref. no.: 2018-01-086332) and of October 2, 2018 (amending) (ref. no.: 2018-01-086851), the details appearing in which are incorporated herein by reference.

In this context it is noted that the Partnership and Noble have begun negotiations with Eilat Ashkelon Pipeline Ltd. (EAPC) and Israel Natural Gas Lines Ltd. (INGL) in relation to the possibility of transmission of natural gas to Egypt through the transmission system, after the parties performed preliminary reviews of the technical aspects of this possibility. It is emphasized that at this preliminary stage, there is no certainty that the said negotiations will culminate in binding agreements or what the terms and conditions of such agreements will be (if signed).

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

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

With respect to updated bond rating reports which were issued to classified investors in Israel, the U.S. and other countries by Tamar Bond, released by Moody's, see the Partnership's immediate report of November 15, 2018 (ref. no.: 2018-01-103804), the details appearing in which are incorporated herein by reference.

b. Further to Section 7.20.2(a) of the Periodic Report, it is noted that the Partnership has complied with the financial covenants undertaken thereby in the context of the public offering of the Partnership's Series A bonds, as set forth in Section 7.20.1(e) of the Periodic Report, as specified below:

Financial Covenant	The Examined Ratio as of September 30, 2018 and as of the Report Date
Economic capital of the Partnership	Approx. $4,153 million
Economic capital to debt ratio	Approx. 10
Distribution	-

c. Further to Section 7.20.2(b) of the Periodic Report, it is noted that the Partnership has complied with the financial covenants undertaken thereby in the context of the financing agreement, as set forth in Section 7.20.1(a) of the Periodic Report, as specified below:

Financial Covenant	The Examined Ratio as of September 30, 2018	The Examined Ratio as of October 22, 2018 – Date of Withdrawal of the Money[2]	The Examined Ratio as of the Report Release Date
Required debt coverage ratio	3.6	3.4	3.4

14. **Section 7.25.12(b)1 of the Periodic Report – Payment of royalties to interested parties in the Partnership**

a. With respect to the approval by the Audit Committee and the board of the Partnership's General Partner of September 4, 2018 of the calculation of the date of recovery of the investment in the Tamar project, according to which the date of commencement of payment of royalties to the Delek Group, Delek Energy and Delek Royalties (2012) Ltd. (the "**Royalty Owners**") at the rate of 6.5% (instead of a rate of 1.5%) is in January 2018, see the Partnership's immediate report of September 5, 2018 (ref. no.: 2018-01-082531), the details appearing in which are

[2] According to the provisions of Section 7.20.4(a) of the Periodic Report, compliance with the required debt coverage ratio will be measured, *inter alia*, at the time of each withdrawal. Since August 21, 2018 (the date of release of the Q2/2018 Report), and until the date of release of this Report, the Partnership has made 3 withdrawals, with the last withdrawal being made on October 22, 2018. For each one of the said 3 withdrawals, the Partnership met the required ratio.

incorporated herein by reference. It is noted that further to the Partnership's demand of the Royalty Owners for restitution of approx. $2 million which was overpaid to them, on September 20, 2018, the Royalty Owners repaid the said amount to the Partnership.

b. On September 6, 2018, a general meeting of the participation unit holders was held, which was summoned by the Partnership's supervisor, at which, *inter alia*, it was decided to approve a budget for the supervisor's work on the process of examination of the investment recovery date. For further details, see the (amending) immediate reports of September 2, 2018 and September 12, 2018 (ref. no.: 2018-01-081628 and 2018-01-083794, respectively), the information appearing in which is incorporated herein by reference.

15. **Section 7.26 of the Periodic Report – Legal proceedings**

a. Further to Section 7.26.1 of the Periodic Report and Section 20(a) of Chapter A (Description of the Partnership's Business) of the Q2 report regarding the class certification motion filed by a consumer of the IEC against the Tamar partners on June 18, 2014 with the Tel Aviv District Court (in this Section: the "**Motion for Certification**"), it is noted that on November 14, 2018, an (agreed) motion was filed on behalf of the petitioner in the Motion for Certification to postpone the date of the filing of the summations on behalf of the petitioner to December 31, 2018 (in lieu of November 18, 2018). On November 18, 2018, an extension was granted as requested. The date for filing of summations on behalf of the Tamar partners is March 31, 2019.

b. Further to Section 7.26.4 of the Periodic Report regarding a motion for class certification (in this Section: the "**Motion for Certification**") with respect to the merger transaction between the Partnership and the Avner Partnership, it is noted that on October 15, 2018, a pretrial was held in the Motion for Certification in which the parties agreed to try to reach a stipulation regarding the petitioners' motion for a discovery and inspection order, and deliver a notice to the court on the matter within 60 days.

c. Further to Section 7.26.6(a) of the Periodic Report regarding the mediation proceeding in connection with the 353/Eran license, it is noted that in accordance with the court's decision of August 20, 2018, the parties are required to provide an update on the outcome of the mediation proceeding by November 27, 2018.

16. **Section 7.27.1(b)(5) of the Periodic Report – Targets and business strategy in the Tamar project**

Further to Section 7.27.1(b)(5) of the Periodic Report, as of the date of this Report, the Partnership is promoting certain options for the sale of its remaining direct holdings in the Tamar and Dalit leases (22% out of 100%), in accordance with the provisions of the Gas Framework, including by way of establishing an SPV which would conduct offerings of equity and debt securities, which would be listed on a foreign stock exchange and/or on the Tel Aviv Stock Exchange Ltd., and/or a sale to a third party.

17. **Regulations 21 and 22 of Chapter D of the Periodic Report – the compensation policy and D&O liability insurance policy in the Partnership and the General Partner**

On November 20, 2018, the Partnership called a general meeting of the participation unit holders for December 27, 2018, whose agenda includes: (1) Update of the compensation policy for officers in the Partnership and in the General Partner on insurance and indemnification of the directors and officers; (2) Approval of framework terms and conditions for a period of three years for future engagements of the General Partner and/or the Partnership in a D&O liability insurance policy in the Partnership and in the General Partner, as part of a group insurance policy that is taken out by the Delek Group. For further details see the immediate report of November 20, 2018 (ref. no.: 2018-01-105829, respectively), the information appearing in which is incorporated herein by reference.

18. **Section 26 of Chapter D of the Periodic Report – The General Partner's directors**

With respect to the decision of the meeting of the holders of the participation units in the Partnership of October 10, 2018 to approve the appointment of Messrs. Jacob Zack and Amos Yaron as outside directors on the board of the Partnership's General Partner, for a term of office of three (3) years, commencing on the date of conclusion of their present term of office, i.e. October 22, 2018, see the Partnership's immediate reports of September 20, 2018 (amending) and October 10, 2018 (ref. no.: 2018-01-076228 and 2018-01-091300), the details appearing in which are incorporated herein by reference. It is noted that the term of office of Mr. Eytan Rozenman as an outside director on the board of the Partnership's General Partner ended on October 22, 2018.

19. **The following table includes natural gas and condensate production data in Q1/2018, Q2/2018 and Q3/2018 in the Tamar project:**[3,4]

	Q1		Q2[5]		Q3	
	Natural Gas	Cond-ensate	Natural Gas	Cond-ensate	Natural Gas	Cond-ensate
Total output (attributed to the Partnership's capital right holders) in the period (in MMCF for natural gas and in thousands of barrels for condensate)	21,925	32.4	23,408	30.6	25,349	34.2

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

[4] The production data include, in addition to the Partnership's direct holding in the Tamar project, also the Partnership's share in the production data of Tamar Petroleum, as follows: From January 1, 2018 until March 13, 2018 (the closing date of the transaction between Tamar Petroleum and Noble for the purchase of 7.5% of the Tamar and Dalit leases), a direct and indirect holding in the Tamar project at a rate of 25.7%, and from March 14, 2018, a direct and indirect holding in the Tamar project at a rate of 25.7855%.

[5] Royalties paid to interested parties are after the report on the calculation of the investment recovery date (for further details see Note 4O to the Partnership's condensed interim financial statements as of September 30, 2018, attached below).

		Q1		Q2[5]		Q3	
		Natural Gas	**Cond-ensate**	**Natural Gas**	**Cond-ensate**	**Natural Gas**	**Cond-ensate**
Average price per output unit (attributed to the Partnership's capital right holders) (Dollar per MCF and per barrel)		5.5	50.4	5.5	67.6	5.5	70
Average royalties (any payment derived from the output of the producing asset including from gross income from the petroleum asset) paid per output unit (attributed to the Partnership's capital right holders) (Dollar per MCF and per Barrel)	The State	0.6	5.6	0.6	7.6	0.6	7.9
	Third Parties	0.1	0.9	0.1	1.1	0.1	0.9
	Interested Parties	0.4	3.5	0.3	4	0.4	4.7
Average production costs per output unit (attributed to the Partnership's capital right holders) (Dollar per MCF and per barrel)[6]		0.4	1.9	0.4	2	0.3	1.7
Average net proceeds per output unit (attributed to the Partnership's capital right holders) (Dollar per MCF and per barrel)		4.0	38.5	4.1	52.9	4.1	54.8

Date: November 20, 2018

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

[6] It is emphasized that the average production costs per output unit include current production costs only and do not include the reservoir's exploration and development costs.

Delek Drilling

2018

Report of the Board of Directors

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 20, 2018

Delek Drilling Limited Partnership

Report of the Board of Directors of the General Partner for the Period Ended September 30, 2018

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, 2018 (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

Delek Drilling – Limited Partnership (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 updates to Chapter A (the Description of the Partnership's Business) of the Periodic Report for 2017, to the condensed interim financial statements as of March 31, 2018, to the condensed interim financial statements as of June 30, 2018, and to the Condensed Interim Financial Statements as of September 30, 2018 (which are attached below).

2. Results of operations

A. General

As of the date of approval of the Financial Statements, the Partnership's primary business is the exploration, development and production of natural gas, condensate and petroleum, including the production and sale of natural gas and condensate from the Tamar reservoir in the area of the Tamar lease (the "**Tamar Project**"), promotion of the expansion of the production system of the Tamar Project, development of Phase 1A of the development plan of the Leviathan reservoir and promotion of the commercialization of the natural gas and condensate therefrom, promotion and planning of Phase 1B of the development plan of the Leviathan reservoir for additional target markets, promotion and planning of the commercialization of the natural gas and the development of the Aphrodite reservoir, examination of various infrastructure alternatives for the transmission of natural gas to additional target markets, exploration activity in the petroleum assets held by the Partnership, including to oil targets, along with the examination of entry into additional petroleum assets in Israel and in the Mediterranean Basin. The Partnership is also engaged in the promotion of various natural gas-based projects, aiming to increase the sales volume of natural gas from the petroleum assets held by the Partnership, and in the examination and promotion of various alternatives for the sale of the Partnership's holdings in the Tamar Project, in accordance with the provisions of the Gas Framework. In this context, the Partnership is promoting several alternatives for the sale of its remaining holdings in the Tamar and Dalit reservoirs (22% out of 100%), in accordance with the provisions of the Gas Framework, including by way of establishing an SPV which would conduct offerings of equity and debt securities, which would be listed on a foreign stock exchange and/or on the Tel Aviv Stock Exchange Ltd., and/or a sale to a third party.

In July 2017, the Partnership closed a transaction for the sale of 9.25% (out of 31.25% which were held thereby) of the Tamar and Dalit leases (the "**Leases**") to Tamar Petroleum Ltd., and from this date the Partnership directly holds 22% of the Leases. Upon the closing of the transaction, the Partnership recorded a profit of approx. $567 million, which was recorded in the income statement in the "other income" item.

The "investment recovery date", as defined in the rights transfer agreement of 1993, fell in January 2018, and from this date, the Partnership pays an overriding royalty to Delek Group, Delek Energy at the rate of 6.5% in lieu of 1.5%. It is further noted that during June 2018, the rights to receipt of royalties in respect of the Tamar Project were transferred from Delek Energy to Delek Royalties (2012) Ltd. For further details, see Note 4O to the Financial Statements attached below.

The Partnership's net profit in the Report Period amounted to approx. $225.9 million, compared with a net profit of approx. $754.5 million in the same period last year. The decrease in profit derives mainly from profit of approx. $567 million from the sale of the Leases, which was recorded in the same period last year, as specified above.

The net profit in Q3/2018 amounted to approx. $74.1 million, compared with approx. $616.6 million in the same period last year. The decrease in profit derives mainly from profit of approx. $567 million from the sale of the Leases, which was recorded in the same quarter last year, as specified above.

Analysis of Statements of Comprehensive Income

Below are main figures with regards to the Partnership's Statements of Comprehensive Income (Dollars in thousands):

	1-3/2018	4-6/2018	7-9/2018	1-9/2018	1-9/2017	7-9/2017	2017
Revenues:							
From natural gas and condensate sales	106,606	113,463	124,579	344,648	401,243	109,559	501,926
Net of royalties	21,278	20,789	25,087	67,154	63,399	17,909	80,256
	85,328	**92,674**	**99,492**	**277,494**	**337,844**	**91,650**	**421,670**
Expenses and costs:							
Cost of gas and condensate production	8,502	7,406	6,745	22,653	27,331	7,149	35,188
Depreciation, depletion and amortization expenses	10,309	11,262	12,955	34,526	81,508	25,321	94,898
Oil and gas exploration expenses, and other direct expenses	1,375	2,210	2,684	6,269	5,350	1,992	7,840
G&A expenses	2,299	2,984	2,348	7,631	8,419	3,502	10,629
Total expenses and costs	**22,485**	**23,862**	**24,732**	**71,079**	**122,608**	**37,964**	**148,555**
Other revenues (expenses)	(988)	474	-	(514)	566,934	566,934	566,542
Partnership's share of earnings (losses) of company accounted for at equity, net	(5,360)	4,388	6,352	5,380	5,493	5,493	10,042
Operating profit	**56,495**	**73,674**	**81,112**	**211,281**	**787,663**	**626,113**	**849,699**
Financial expenses	(15,804)	(15,296)	(13,905)	(45,005)	(55,455)	(17,908)	(75,044)
Financial income	48,360	6,302	7,577	62,239	25,598	7,733	46,872
Financial expenses, net	32,556	(8,994)	(6,328)	17,234	(29,857)	(10,175)	(28,172)
Profit before levy	**89,051**	**64,680**	**74,784**	**228,515**	**757,806**	**615,938**	**821,527**
Petroleum and gas profit levy	(757)	(1,224)	(641)	(2,622)	(3,306)	693	(4,305)
Net profit	**88,294**	**63,456**	**74,143**	**225,893**	**754,500**	**616,631**	**817,222**
Other comprehensive income (loss) in respect of items which may subsequently be reclassified to profit or loss:							
Profit (loss) in respect of cash flow hedging transactions	-	-	-	-	(3,957)	(2,203)	(3,957)
Profit in respect of financial assets available for sale	-	-	-	-	137	-	2,237
Carried to profit or loss in respect of cash flow hedging transactions	(621)	(567)	(678)	(1,866)	(216)	(216)	(904)
Carried to profit or loss in respect of the disposition of financial assets available for sale	-	-	-	-	(963)	-	(695)
Other comprehensive loss	(621)	(567)	(678)	(1,866)	(4,999)	(2,419)	(3,319)
Total comprehensive income	**87,673**	**62,889**	**73,465**	**224,027**	**749,501**	**614,212**	**813,903**
Gas sales in BCM[1]	**2.4**	**2.6**	**2.8**	**7.8**	**7.5**	**2.6**	**9.9**
Condensate sales in thousands of barrels[2]	**109**	**118**	**133**	**360**	**345**	**119**	**455**

[1] Figures refer to natural gas sales (100%) in the Tamar Project and in the Yam Tethys project, rounded off to one tenth of a BCM.
[2] Figures refer to condensate sales (100%) in the Tamar Project, rounded off to thousands of barrels.

Revenues net of royalties in the Report Period amounted to approx. $277.5 million compared with approx. $337.8 million in the same period last year, a decrease of approx. 18%. The decrease in revenues derives primarily from the disposition of the Partnership's interests in the Tamar reservoir and from an increase in the rate of the overriding royalty, as aforesaid, which was partially offset against an increase in the quantity of gas sold from the Tamar reservoir.

The revenues net of royalties for Q3/2018 amounted to approx. $99.5 million compared with approx. $91.7 million in the same period last year, an increase of approx. 8%, which derives primarily from the increase in the quantity of gas sold from the Tamar reservoir which was, conversely, partially offset against the increase in the rate of overriding royalties as aforesaid.

The cost of production of gas and condensate mainly includes management and operating expenses of the Tamar Project which include, *inter alia*, expenses of haulage and transport, salaries, consulting, maintenance and insurance. The cost of production of gas and condensate in the Report Period amounted to approx. $22.6 million, compared with approx. $27.3 million in the same period last year. The decrease in the production cost mainly derives from the disposition of some of the Partnership's interests in the Tamar reservoir.

The cost of production of gas for Q3/2018 amounted to approx. $6.7 million, compared with approx. $7.1 million in the same period last year.

Depreciation, depletion and amortization expenses in the Report Period amounted to approx. $34.5 million compared with approx. $81.5 million in the same period last year. The depreciation expenses during the period include depletion depreciation in the Tamar and Yam Tethys projects. The main decrease in expenses compared with the same period last year derives, *inter alia*, from depreciation of the cost of the Dolphin well in the Hanna License and from an update of petroleum and gas asset retirement obligations in the sum total of approx. $40 million, and in the Report Period from the decrease from the disposition of some of the Partnership's interests in the Tamar reservoir.

Depreciation, depletion and amortization expenses in Q3/2018 amounted to approx. $13 million compared with approx. $25 million in the same period last year. The decrease in the said expenses derives primarily from an update of petroleum and gas asset retirement obligations which was recorded in the same period last year.

Oil and gas exploration expenses in the Report Period amounted to approx. $6.3 million, compared with approx. $5.4 million in the same period last year. These include, *inter alia*, fee expenses of geologists, engineers, consulting and G&A expenses of the operator of the Leviathan project. The increase derives primarily from an increase in the scope of the operations in the Leviathan project.

G&A expenses in the Report Period amounted to approx. $7.6 million, compared with approx. $8.4 million in the same period last year, and include, *inter alia,* expenses for professional services, payroll expenses and the General Partner’s management fees. Furthermore, G&A expenses include expenses in the amount of approx. $1.5 million (in the same period last year: approx. $2.1 million), which were recorded against a capital reserve for transactions between a corporation and a controlling interest holder thereof and which mainly derive from costs that are financed by the General Partner (including the cost of compensation for the CEO of the General Partner), which according to the Partnership Agreement, are not borne by the Partnership.

G&A expenses in Q3/2018 amounted to approx. $2.3 million compared with approx. $3.5 million in the same period last year. The decrease primarily derives from a decrease in the expenses recorded against a capital reserve for transactions between a corporation and its control holder as aforesaid.

Other income (expenses) in the sum of approx. $0.5 million (expense) derives primarily from the update of other long-term assets. In the same period last year, other income was recorded in the sum of approx. $567 million which derived from the sale of 9.25% of the Partnership’s interests in the Tamar and Dalit leases.

Partnership's share of earnings of company accounted for at equity, net amounted to a profit of approx. $5.4 million which derived from the Partnership’s share in the results of Tamar Petroleum Ltd. in the Report Period and the effect of the decrease in the holding rate, as provided in Note 4D to the financial statements attached below.

Partnership’s share of earnings of company accounted for at equity, net for Q3/2018 amounted to approx. $6.4 million, compared with approx. $5.5 million in the same period last year. The increase in profit derives primarily from the increase in revenues from the sale of natural gas and condensate in the Tamar lease.

Financial expenses in the Report Period amounted to approx. $45 million, compared with approx. $55.5 million in the same period last year. Most of the financial expenses derived from interest in respect of bonds issued by the Partnership, out of which the Partnership capitalized financial expenses in the amount of approx. $21 million, which were attributed to the development of the Leviathan project. In addition, in the Report Period, the Partnership capitalized direct credit costs in the sum of approx. $52 million in respect of the Leviathan project, which derived from a designated loan for financing the share of the Partnership in the development of the Leviathan project.
The decrease in financial expenses in the Report Period compared with the same period last year derives primarily from the repayment of 20% of the bonds of Tamar Bond in July 2017 in the context of the exercise of the Partnership’s rights in the Tamar and Dalit leases.

Financial expenses in Q3/2018 amounted to approx. $13.9 million, compared with approx. $17.9 million in the same period last year. The decrease derives primarily from the reason specified above.

Financial income in the Report Period amounted to approx. $62.3 million, compared with approx. $25.6 million in the same period last year. The increase in the financial income mainly derives from an update of future-production-based royalties from the Karish and Tanin leases and annual payments receivable that derived from the sale of all of the Partnership's interests in the Karish and Tanin leases, in the sum of approx. $53.8 million. Such update mainly derives from a change in the cap rates, bringing forward of the date of the investment decision on the development of the leases, updating of contingent resources and hydrocarbon liquids (condensate and natural gas liquids) and a production rate forecast. For details see Note 4E to the attached financial statements, Annexes B and C to the board of directors' report and the attached Royalties and Debt Component valuations.

Financial income in Q3/2018 amounted to approx. $7.6 million similarly to the same period last year.

Petroleum and gas profit levy in the Report Period amounted to an expense of approx. $2.6, compared with the sum of $3.3 million in the same period last year. The amount of the levy in the Report Period is comprised of a levy for the Partnership's revenues from the Yam Tethys project.

3. Financial position, liquidity and financing sources

A. Financial position

Below is a specification of the main changes in the condensed interim statement of financial position as of September 30, 2018, compared with the statement of financial position as of December 31, 2017:

Total condensed statement of financial position as of September 30, 2018 amounts to approx. $3,538 million compared with approx. $3,056 million as of December 31, 2017.

Current assets of the Partnership as of September 30, 2018 amounts to approx. $488 million compared with approx. $511 million as of December 31, 2017, as specified below:

1) **Cash and cash equivalents** as of September 30, 2018 total approx. $120 million, compared with approx. $155 million as of December 31, 2017. The decrease derives primarily from the distribution of profits to the participation unit holders, payment of tax advances which were paid for the holders of participation units, net conversely, surplus monies were received which the Partnership withdrew from the accounts of Tamar Bond, from monies the Partnership received in connection with the sale of the Karish and Tanin leases as well as a dividend from a company accounted for at equity.

2) **Short-term investments** as of September 30, 2018 total approx. $216 million, compared with approx. $279 million as of December 31, 2017, and include, *inter alia*, corporate bonds, short-term deposits, deposits serving as a safety cushion for bonds, and ETFs. The decrease in short-

term investments derived primarily from repayment of a safety cushion for the bonds of the Tamar Bond which were prepaid, as stated in Section C below.

3) **Trade receivables** as of September 30, 2018 total approx. $57 million, compared with approx. $47 million as of December 31, 2017. The increase in trade receivables derives primarily from an increase in the sales of September 2018 compared to the sales of December 2017.

4) **Other receivables** as of September 30, 2018 total approx. $95 million, compared with approx. $31 million as of December 31, 2017. The increase derives primarily from the increase in the balances of the operator of the joint ventures, in respect of receivables in relation to the sale of Karish and Tanin leases in the sum of approx. $15 million and a dividend due from a company accounted for at equity in the sum of approx. $9 million.

Non-current assets of the Partnership as of September 30, 2018 amount to approx. $3,050 million compared with approx. $2,544 million on December 31, 2017, as specified below:

1) **Investments in petroleum and gas assets** as of September 30, 2018 total approx. $2,618 million compared with approx. $2,024 million as of December 31, 2017. The increase mainly derives from investments for the development of the Leviathan project in the sum of approx. $626 million. On the other hand, the Partnership recorded depreciation depletion and amortization expenses in respect of the Tamar and Yam Tethys projects in the sum of approx. $35 million.

2) **Investment in a company accounted for at equity** as of September 30, 2018 includes an investment in shares of Tamar Petroleum Ltd. in the sum of approx. $119 million compared with an investment of approx. $130 million as of December 31, 2017. The movement in the investment in the Report Period derived from the Partnership's share in the earnings of the company accounted for at equity in the sum of approx. $14 million, net of a dividend that was received and declared dividend in the sum total of approx. $16 million and net of a loss of approx. $9 million which derived from dilution of the Partnership's holdings in the company accounted for at equity as stated in Note 4D to the financial statements attached below.

3) **Other long-term assets** as of September 30, 2018 totaled approx. $313 million, compared with approx. $289 million as of December 31, 2017. The assets mainly include amounts receivable in respect of the sale of the Karish and Tanin leases in the sum of approx. $195 million, other receivables in respect of the construction of infrastructures for the export of gas in the sum of approx. $48 million, and advance payments on account of royalties paid to the State, to related parties and to third parties in the sum of approx. $36 million (see Note 15 to the annual financial statements).

4) **Long-term deposits in banks** as of December 31, 2017 in the sum of approx. $101 million and which served as a safety cushion for the bonds of Tamar Bond, were repaid in the Report Period in full in the framework of the prepayment of the second bond series of Tamar Bond, as specified in Part Four below.

Current liabilities as of September 30, 2018 amount to approx. $165 million compared with approx. $502 million as of December 31, 2017. The balance as of December 31, 2017 included earnings which were declared and distributed in the Report Period in the sum of approx. $60 million as well as current maturity of the bonds of Tamar Bond Series 2018 which was prepaid on August 31, 2018.

Trade and other payables as of September 30, 2018 amounted to approx. $165 million compared with approx. $122 million as of December 31, 2017. The increase mainly derives from a rise in the other payables item in the framework of the joint venture at the Leviathan project as well as from interest payable with respect to bonds and a loan from banks.

Non-current liabilities as of September 30, 2018 amount to approx. $2,529 million compared with approx. $1,935 million as of December 31, 2017, as specified below:

1) **Bonds** – As of September 30, 2018 in the sum of approx. $1,347 million consist of Series A Bonds in the sum of approx. $395 million (net of issue expenses) (see Paragraph B below) and bonds of Tamar Bond in the sum of approx. $952 million (net of issue expenses) (see Part Four below).

2) **Long-term liabilities to banks** as of September 30, 2018 include a loan in the sum of approx. $1,062 million (net of raising fees), taken by the Partnership in relation to the financing of the Leviathan project (as stated in Note 10C to the annual financial statements).

3) **Other long-term liabilities** as of September 30, 2018 total approx. $120 million, compared with approx. $122 million, as of December 31, 2017, and include mainly gas and petroleum asset retirement obligations in the Yam Tethys, Tamar and Leviathan projects in the sum of approx. $96 million and liabilities of taxes in the sum of approx. $24 million payable on account of the holders of the Partnership's participation units in relation to the sale of 9.25% of the Partnership's interests in the Tamar and Dalit leases.

The capital of the limited partnership as of September 30, 2018 totals approx. $844 million compared with approx. $619 million as of December 31, 2017. The increase in capital mainly derives from the profit for the period in the sum of approx. $226 million. See Note 2C to the financial statements attached below with respect to the classification of opening balances as retained earnings following the entry into effect of accounting standard IFRS9.

B. Cash flow

Cash flows generated by the Partnership from operating activities amounted in the Report Period to approx. $188 million, compared with approx. $279 million in the same period last year. The decrease chiefly resulted from the decrease in the operating profit due to the exercise of some of the Partnership's rights in the Tamar reservoir and from the decrease in trade and other payables.

Cash flows used for investment activities amounted in the Report Period to approx. $438 million, compared with cash flows generated from investment activities in the sum of approx. $395 million in the same period last year. The cash flows generated in the same period last year included proceeds of the sale of petroleum and gas assets in the sum of approx. $830 million. In the Report Period, the Partnership invested approx. $570 million compared with approx. $303 million in the same period last year, mainly in the Leviathan project.

Cash flows generated from financing activities in the Report Period total approx. $215 million, compared with approx. $1,022 million used for financing activities in the same period last year. The cash flows used for financing activities in the same period last year mainly included a distribution of profits in the sum of approx. $781 million as well as repayment of the bonds of Tamar Bond for the sale of its holdings in the Tamar and Dalit leases as specified above. Cash flows for the financing activities in the Report Period mainly derived from the receipt of a loan from banks for the financing of the development of the Leviathan project in the sum of approx. $600 million, and conversely, the Partnership distributed profits declared in December 2017 in the sum of approx. $61 million, and also prepaid the bonds of Tamar Bond 2018 in the sum of approx. $320 million.

C. Financing

On August 31, 2018, Delek & Avner (Tamar Bond) Ltd. prepaid the second bond series of Tamar Bond, in lieu of the original maturity date of December 30, 2018. The amount of the prepayment included the bonds' principal in the sum of $320 million, interest accrued as of the prepayment date in the sum of approx. $2.1 million and prepayment fees of approx. $1.3 million.

D. Profit distributions

On January 18, 2018, the Partnership distributed approx. ILS 209.3 million (ILS 0.1783416 per participation unit), in accordance with the approval by the board of directors of the General Partner and the trustee on December 21, 2017.

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 2017, except as stated below:

1. Report on linkage bases in Dollars in thousands, as of September 30, 2018

	Financial Balances			
	In Dollars or Dollar-Linked	In Non-Linked ILS	Non-Financial Balances	Total
Assets				
Cash and cash equivalents	98,910	21,201	-	120,111
Short-term investments	215,985	188	-	216,173
Trade receivables	56,596	-	-	56,596
Other receivables	89,482	-	5,653	95,135
Investments in gas and petroleum assets	-	-	2,618,188	2,618,188
Investment in company accounted for at equity	-	-	119,089	119,089
Other long-term assets	207,452	-	105,368	312,820
Total assets	**668,425**	**21,389**	**2,848,298**	**3,538,112**
Liabilities				
Trade and other payables	149,846	72	15,151	165,069
Bonds	1,346,761	-	-	1,346,761
Long-term liabilities to banks	1,062,479	-	-	1,062,479
Other long-term liabilities	-	-	119,975	119,975
Total liabilities	**2,559,086**	**72**	**135,126**	**2,694,284**
Total net balance sheet balance	**(1,890,661)**	**21,317**	**2,713,172**	**843,828**

2. Report on linkage bases in Dollars in thousands, as of December 31, 2017

	Financial Balances			
	In Dollars or Dollar-Linked	In Non-Linked ILS	Non-Financial Balances	Total
Assets				
Cash and cash equivalents	140,842	13,993	-	154,835
Short-term investments and deposits	278,632	194	-	278,826
Trade receivables	46,506	-	-	46,506
Other receivables	29,462	-	1,416	30,878
Investments in gas and petroleum assets	-	-	2,023,671	2,023,671
Long-term deposits	101,482	-	-	101,482
Investment in a company accounted for at equity	-	-	129,833	129,833
Other long-term assets	179,885	-	109,587	289,472
Total assets	**776,809**	**14,187**	**2,264,507**	**3,055,503**
Liabilities				
Trade and other payables	96,344	62	25,823	122,355
Declared profits for distribution	-	-	60,381	60,381
Bonds	1,663,740	-	-	1,663,740
Long-term liabilities to banks	468,967	-	-	468,967
Other long-term liabilities	-	-	121,582	121,582
Total liabilities	**2,229,177**	**62**	**207,786**	**2,437,025**
Net asset balance	**(1,452,368)**	**14,125**	**2,056,721**	**618,478**

3. Sensitivity tests

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

Sensitivity analysis of the value of contingent proceeds in connection with royalties and receivables in connection with the debt component from the sale of the Karish and Tanin leases to changes in the cap rate ($ in thousands):

Sensitive instrument	Profit/(Loss) from Changes		Fair Value	Profit/(Loss) from Changes	
	2%	1%		-1%	-2%
Receivables in connection with a final investment decision for the development of the Karish and Tanin leases	(5,954)	(3,065)	89,900	3,255	6,714
Contingent proceeds in connection with royalties based on future production	(16,161)	(8,492)	120,100	9,428	19,928
Total	**(21,115)**	**(11,557)**	**210,000**	**12,683**	**26,642**

Sensitivity analysis of the value of contingent proceeds in connection with royalties from the sale of the Karish and Tanin leases to changes in the natural gas price ($ in thousands):

Sensitive instrument	Profit/(Loss) from Changes		Fair Value	Profit/(Loss) from Changes	
	10%	5%		-5%	-10%
Contingent proceeds in connection with royalties based on future production	5,126	1,330	120,100	(3,141)	(4,707)

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

Sensitive instrument	Profit/(Loss) from Changes		Fair Value	Profit/(Loss) from Changes	
	10%	5%		-5%	-10%
	3.990	**3.808**	**3.627**	**3.446**	**3.264**
Cash and cash equivalents	(2,120)	(1,060)	21,201	1,060	2,120
Bank deposits	(18)	(9)	188	9	18
Trade and other Payables	8	4	(72)	(4)	(8)
Total	**(2,130)**	**(1,065)**	**21,317**	**1,065**	**2,130**

Tests of sensitivity to changes in the LIBOR curve ($ in thousands):

Dollar Interest	Profit/(Loss) from Changes		Fair Value	Profit/(Loss) from Changes	
	10%	5%		-5%	-10%
Foreign bonds	(463)	(231)	79,608	231	463
Liabilities to banks	(7,801)	(3,895)	(1,156,930)	3,883	7,755
Total	**(8,264)**	**(4,126)**	**(1,077,322)**	**4,114**	**8,218**

Tests of sensitivity to changes in the commodity prices and marketable securities ($ in thousands):

Sensitive instrument	Profit/(loss) from the changes		Fair value	Profit/(loss) from the changes	
	10%	5%		-5%	-10%
ETFs	2,449	1,225	24,494	(1,225)	(2,449)
Structured deposits	1,170	357	24,794	(2)	(4)
Total	**3,619**	**1,582**	**49,228**	**(1,227)**	**(2,453)**

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

1. Subsequent events

For material events after the date of the condensed statement of financial position, see Note 6 to the financial statements as of September 30, 2018, which are attached below.

2. Critical accounting estimates

No material change occurred in the Report Period compared with the reports for 2017, except as stated in Note 2 to the financial statements in relation to the first-time application of new accounting standards.

Part Four – Details of bonds issued by Delek & Avner (Tamar Bond) Ltd.[3] (in Dollars in thousands) and the issue of bonds by the Partnership (in ILS in thousands)

Bond Series[4] [5]	**2020**	**2023**	**2025**
Par value on issue date	400,000	400,000	400,000
Issue date	May 19, 2014	May 19, 2014	May 19, 2014
Par value as of September 30, 2018	320,000	320,000	320,000
Linked par value as of September 30, 2018	320,000	320,000	320,000
Value in the Partnership's books as of September 30, 2018	318,696	316,955	315,793
Market cap as of September 30, 2018[6]	322,267	322,352	322,710
Fixed annual interest rate	4.435%	5.082%	5.412%
Principal payment date	December 30, 2020	December 30, 2023	December 30, 2025
Interest payment dates	Semiannual interest payable on every June 30th and every December 30th as of the date of the issue in 2014-2020	Semiannual interest payable on every June 30th and every December 30th as of the date of the issue in 2014-2023	Semiannual interest payable on every June 30th and every December 30th as of the date of the issue in 2014-2025
Linkage base: base index[7]	None		
Conversion right	None		
Right to prepayment or mandatory conversion[8]	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 responsible person at the trust company	Susie Mox		

[3] A company wholly owned by the Partnership (the "**Bond Company**").
[4] $80 million were repaid in each one of the series as part of the sale of 9.25% (out of 100%) of the Partnership's interests in the Tamar lease.
[5] On August 31, 2018, the Partnership prepaid the Series 2018 Bonds.
[6] The bonds are traded in Israel on "TACT-Institutional" on TASE.
[7] The principal and interest of the bonds are in dollars.
[8] The Partnership is entitled to prepay the loan, in whole or in part, at any time, subject to a prepayment fee. Prepayment following certain events set forth in the bonds may be effected without a prepayment fee.

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 issuance date[9]	Moody's: Baa3 S&P: BBB- Midroog Ltd: Aa2 Standard & Poor's Maalot: ilAA
Rating as of the report date[10]	Moody's: Baa3 S&P: BBB Midroog Ltd: Aa2 Standard & Poor's Maalot: ilAA
Has the company fulfilled, until September 30, 2018 and in the three months ending on such date, all of the conditions and obligations under the indenture	Yes
Have any conditions establishing cause for acceleration of the bonds been met	No
Pledges to secure the bonds	See Note 10B to the annual financial statements.

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

[10] See the Partnership's immediate reports of November 10, 2016 (Ref. No.: 2016-01-075579, 2016-01-075573 and 2016-01075867), January 12, 2017 (Ref. No. 2017-01-004888), June 7, 2017 (Ref. No.: 2017-01-048025), July 12, 2017 (Ref. No.: 2017-01-059785), July 17, 2017 (Ref. No.: 2017-01-061405), July 26, 2017 (Ref. No.: 2017-01-064804 and 2017-01-064525), October 19, 2017 (Ref. No.: 2017-01-100425, 2017-01-100419), January 10, 2018 (Ref. No.: 2018-01-003618), July 19, 2018 (Ref. No.: 2018-01-069049 and 2018-01-069037) and November 15, 2018 (Ref. No.: 2018-01-103804), the information in which is incorporated herein by reference.

Bonds	Series A
Par value on issue date in ILS in thousands	1,528,533
Issue date	December 26, 2016
Par value as of September 30, 2018 in ILS in thousands	1,528,533
Linked par value as of September 30, 2018 in ILS in thousands	1,451,686
Value in the Partnership's books as of September 30, 2018 in ILS in thousands	1,458,003
Market cap as September 30, 2018 in ILS in thousands	1,454,246
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 date of the issue 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[11]	Right to prepayment
Guarantee for payment of the liability	See Note 10D to the annual financial statements.
Name of the trustee	Reznik Paz Nevo Trusts Ltd.
Name of person in charge at the trust company	Adv. Michal Avtalion-Rishony
Trustee's address and e-mail	14 Yad Harutzim St., Tel Aviv, michal@rpn.co.il
Rating as of the issue date	A1 stable
Rating as of the report date[12]	A1 stable
Has the company fulfilled, by September 30, 2018 and in the three months ending on such date, all of the conditions and obligations under the indenture	Yes
Have any conditions establishing cause for acceleration of the bonds been fulfilled	No
Pledges to secure the bonds	See Note 10D to the annual financial statements.
The Partnership's financial equity as of September 30, 2018, as defined in the indenture[13]	$4,153 thousand
The financial equity to debt ratio as of September 30, 2018, as defined in the indenture[13]	Approx. 10

[11] The Partnership has the right to prepay the bonds at any time, in whole or in part, all in accordance with the terms and conditions of the indenture.

[12] See the Partnership's immediate reports of December 22, 2016 (Ref. No.: 2016-01-090873), May 18, 2017 (Ref. No.: 2017-01-042106) and December 25, 2017 (Ref. No.: 2017-01-119985), the information in which is incorporated herein by reference.

[13] In accordance with the Partnership's undertaking on the date of the issue of the bonds – for further details, see Note 10D to the Periodic Report.

Additional information

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

Sincerely,

Gabi Last	**Yossi Abu**
Director	CEO
(In lieu of Chairman of the Board of Directors)	

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

Annex A to the Board of Directors' Report

Figures regarding Delek Avner (Tamar Bond) Ltd.

Further to Note 10B to the financial statements for 2017 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)

	30.9.2018	30.9.2017	31.12.2017
	Unaudited	**Unaudited**	**Audited**
Assets:			
Current Assets:			
Short term Bank deposits	32,824	125,677	94,127
Interest receivable	11,943	15,014	-
Related parties	67,176	-	-
Loans to Shareholders	-	-	320,000
	111,943	140,691	414,127
Noncurrent Assets:			
Loans to shareholders	958,807	1,280,000	960,000
Long term bank deposits	-	100,661	101,482
	958,807	1,380,661	1,061,482
	1,070,750	1,521,352	1,475,609
Liabilities and Equity:			
Current Liabilities:			
payable Interest	11,943	15,014	-
Bonds	-	-	320,000
Related parties	-	126,338	95,609
	11,943	141,352	415,609
Noncurrent Liabilities:			
Bonds	960,000	1,280,000	960,000
Loans from shareholders	100,000	100,000	100,000
	1,060,000	1,380,000	1,060,000
Equity	(1,193)**	*	*
	1,070,750	1,521,352	1,475,609

* Less than $1,000.

** The deficit stems from the initial implementation of IFRS 9, approx. 403 thousand USD$ (Income) for the current period and approx. 1,596 USD$ (Expense) for past periods.

Statements of Comprehensive Income (Expressed in US$ Thousands)

	For the Nine Month Ended 30.09.2018	For the Nine Month Ended 30.09.2017	For the Three Month Ended 30.09.2018	For the Three Month Ended 30.09.2017	For the Year Ended 31.12.2017
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Audited**
Financial expenses	48,167	54,629	17,490	16,621	(70,584)
Financial income	(48,570)	(54,629)	(17,682)	(16,621)	70,584
	(403)	-	(192)	-	-

SPONSOR FINANCIAL DATA REPORT[14]
Cash flow for the period from July 1, 2018 – September 30, 2018

	Item	Quantity/Actual Amount (In thousands)
A.	Total Offtake (BCM) (100%)[15]	2.8
B.	Tamar Revenues (100%)[15]	551,385
C.	Loss Proceeds, if any, paid to Revenue Accounts	-
D.	Sponsor Deposits, if any, into Revenue Accounts	-
E.	Gross Revenues (before Royalties)	118,226
F.	Overriding Royalties	
	(a) Statutory Royalties	(14,266)
	(b) Third Party Royalties	(11,605)
G.	Net Revenues	92,355
H.	Costs and Expenses:	
	(a) Fees Under the Financing Documents – Interest Income	489
	(b) Taxes	-
	(c) Operation and Maintenance Expenses	(6,505)
	(d) Capital Expenditures	(1,743)
	(e) Payments under the Tamar FUA	-
	(f) Insurance	(3,813)
I.	Total Costs and Expenses (sum of Items H(a), (b), (c), (d), (e) and (f))	(11,572)
J.	Total Cash Flows Available for Debt Service (Item G minus Item H)	80,783
K.	Total Debt Service[16]	323,420

[14] 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.
[15] Sections A and B are based on 100% of Tamar partners.
[16] Includes early prepayment of the 2018 bonds.

Annex B to the Board of Directors' Report

Summary of Data on 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 4E to the condensed interim financial statements and the valuation attached below):

Identification of the object of the valuation:	Royalties in respect of the sale of all of the interests in the Karish and Tanin leases.
Timing of the valuation:	September 30, 2018.
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. $120.1 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 Eitan Cohen, partner and Head of the Economic Department at Giza Singer Even, who has more than ten years of experience in economic and business consulting, company valuations and financial instruments. Eitan is an accountant holding a B.A. in Economics and Business Administration from the Ben Gurion University and an M.A. in Financial Mathematics from the Bar Ilan University. 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.
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 reservoir: January 1, 2022 to September 30, 2033; 2. Annual production rate from the Karish reservoir: approx. 3.8 BCM of natural gas; condensate production rated from the Karish reservoir according to a ratio of approx. 18.0 condensate barrels per 1 mmcf of natural gas produced from the reservoir; 3. Dates of production of gas from the Tanin reservoir: July 1, 2033 to March 31, 2039; 4. Annual production rate from the Tanin reservoir: approx. 3.8 BCM of natural gas; condensate production rated from the Tanin reservoir according to a ratio of approx. 5.3 condensate barrels per 1 mmcf of natural gas produced from the reservoir; 5. Royalty component discount rate: 11%; 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; 8. Condensate price: The condensate price forecast was estimated based on the long-term oil price forecast average of the World Bank[17] and the EIA[18] and based on the assumption that the condensate price will derive from the Brent price with adjustments to oil quality differences; 9. Petroleum profit levy: According to the Petroleum Profit Taxation Law, 5771-2011; 10. Corporate tax rate: 23%, according to the statutory tax rate throughout the years of the forecast.

[17] A world Bank Quarterly Report: Commodity Markets Outlook, April 2018.
[18] U.S Energy Information Administration: Annual Energy Outlook 2018.

Annex C to the Board of Directors' Report

Summary of Data on the Valuation of the Debt Component in relation to a Final Investment Decision in the Tanin and Karish Leases

Following are details of a highly material valuation with respect to the revaluation of the debt component in relation to a final investment decision in the Karish and Tanin leases (for further details, see Note 4E to the condensed interim financial statements and Annex B of the valuation attached below):

Identification of the object of the valuation:	The debt component in respect of the sale of all of the interests in the Karish and Tanin leases.
Timing of the valuation:	September 30, 2018.
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. $89.9 million, which is included under current assets and 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 Eitan Cohen, partner and Head of the Economic Department at Giza Singer Even, who has more than ten years of experience in economic and business consulting, company valuations and financial instruments. Eitan is an accountant holding a B.A. in Economics and Business Administration from the Ben Gurion University and an M.A. in Financial Mathematics from the Bar Ilan University.

	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.
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 assumption underlying the valuation are as follows: Debt component discount rate: 7.5%.

Financial Statements
30.9.2018

November 20, 2018

To

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

<u>19 Abba Eban, Herzliya</u>

Dear Sir/Madam,

Re: <u>Consent given simultaneously with the release of a periodic report in connection with the shelf prospectus of the Partnership (the "Offering Document")</u>

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

Review report of November 20, 2018 on condensed financial information of the Partnership as of September 30, 2018, and for the nine- and three-month periods ended on the same date.

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

Delek Drilling – Limited Partnership

Condensed Interim Financial Statements as of September 30, 2018

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, 2018. 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.

Delek Drilling – Limited Partnership

Condensed Interim Financial Statements as of September 30, 2018

in U.S. Dollars in Thousands

Unaudited

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

Introduction

We have reviewed the accompanying financial information of Delek Drilling – Limited Partnership (the "**Partnership**"), which includes the Condensed Statement of Financial Position as of September 30, 2018 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 these interim periods in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of financial information for these interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the financial information for these interim periods, based on our review.

Scope of Review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Performed by the 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 is not prepared, in all material respects, in accordance with IAS 34.

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

Tel Aviv, November 20, 2018

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

Delek Drilling – Limited Partnership

Condensed Interim Statements of Financial Position (Dollars in thousands)

	30.9.2018	30.9.2017	31.12.2017
	Unaudited	**Unaudited**	**Audited**
Assets:			
Current assets:			
Cash and cash equivalents	120,111	132,890	154,835
Short-term investments	216,173	235,651	278,826
Trade receivables	56,596	42,194	46,506
Trade and other receivables	95,135	215,119	30,878
	488,015	625,854	511,045
Non-current assets:			
Investments in petroleum and gas assets	2,618,188	1,887,649	2,023,671
Investment in a company accounted for at equity	119,089	125,285	129,833
Long-term deposits in banks	-	150,778	101,482
Other long-term assets	312,820	267,037	289,472
	3,050,097	2,430,749	2,544,458
	3,538,112	3,056,603	3,055,503
Liabilities and equity:			
Current liabilities:			
Bonds	-	-	319,421
Declared profits for distribution	-	-	60,381
Trade and other payables	165,069	130,776	122,355
	165,069	130,776	502,157
Non-current liabilities:			
Bonds	1,346,761	1,662,631	1,344,319
Long-term liabilities to banks	1,062,479	313,590	468,967
Other long-term liabilities	119,975	89,914	121,582
	2,529,215	2,066,135	1,934,868
Equity:			
Partnership's equity	154,791	154,791	154,791
Capital reserves	21,575	22,015	23,995
Retained earnings	667,462	682,886	439,692
	843,828	859,692	618,478
	3,538,112	3,056,603	3,055,503

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

November 20, 2018			
Date of approval of the financial statements	Gabi Last Director (in lieu of the 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
	30.9.2018	30.9.2017	30.9.2018	30.9.2017	31.12.2017
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Revenues:					
From natural gas and condensate sales	344,648	401,243	124,579	109,559	501,926
Net of royalties	67,154	63,399	25,087	17,909	80,256
	277,494	337,844	99,492	91,650	421,670
Expenses and costs:					
Cost of production of natural gas and condensate	22,653	27,331	6,745	7,149	35,188
Depreciation, depletion and amortization expenses	34,526	81,508	12,955	25,321	94,898
Petroleum and gas exploration expenses and other direct expenses	6,269	5,350	2,684	1,992	7,840
G&A	7,631	8,419	2,348	3,502	10,629
Total expenses and costs	71,079	122,608	24,732	37,964	148,555
Other income (expenses)	(514)	566,934	-	566,934	566,542
Partnership's share of earnings of company accounted for at equity, net	5,380	5,493	6,352	5,493	10,042
Operating profit	211,281	787,663	81,112	626,113	849,699
Financial expenses	(45,005)	(55,455)	(13,905)	(17,908)	(75,044)
Financial income	62,239	25,598	7,577	7,733	46,872
Financial (expenses) income, net	17,234	(29,857)	(6,328)	(10,175)	(28,172)
Profit before levy	228,515	757,806	74,784	615,938	821,527
Petroleum and gas profit levy	(2,622)	(3,306)	(641)	693	(4,305)
Net profit	225,893	754,500	74,143	616,631	817,222
Other comprehensive income (loss) for items which may subsequently be reclassified to profit or loss:					
Loss in respect of cash flow hedging transactions	-	(3,957)	-	(2,203)	(3,957)
Profit in respect of financial assets available for sale	-	137	-	-	2,237
Carried to profit or loss for cash flow hedging transactions	(1,866)	(216)	(678)	(216)	(904)
Carried to profit or loss for financial assets available for sale	-	(963)	-	-	(695)
Total other comprehensive loss	(1,866)	(4,999)	(678)	(2,419)	(3,319)
Total comprehensive income	224,027	749,501	73,465	614,212	813,903
Basic and diluted profit per participation unit (in dollars)	0.192	0.643	0.063	0.525	0.696
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.

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 financial assets available for sale and cash flow hedging transactions	Retained earnings	Total
	Unaudited					
For the nine-month period ended September 30, 2018:						
Balance as of January 1, 2018 (audited)	154,791	1,631	13,166	9,198	439,692	618,478
Effect of first-time application of IFRS 9 (see Note 2C)	-	-	-	(2,100)	2,114	14
Balance as of January 1, 2018 subsequently to application of the aforesaid changes	154,791	1,631	13,166	7,098	441,806	618,492
Net profit	-	-	-	-	225,893	225,893
Other comprehensive loss	-	-	-	(1,866)	-	(1,866)
Total comprehensive (loss) income	-	-	-	(1,866)	225,893	224,027
Profits distributed	-	-	-	-	(6)	(6)
Tax advances on account of the tax for which the holders of the participation units are liable	-	-	-	-	(231)	(231)
Capital reserve for benefits from a control holder	-	-	1,546	-	-	1,546
Balance as of September 30, 2018	154,791	1,631	14,712	5,232	667,462	843,828

	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 financial assets available for sale and cash flow hedging transactions	Retained earnings	Total
	Unaudited					
For the nine-month period ended September 30, 2017:						
Balance as of January 1, 2017 (audited)	154,791	1,631	10,748	12,517	609,228	788,915
Net profit	-	-	-	-	754,500	754,500
Other comprehensive loss	-	-	-	(4,999)	-	(4,999)
Total comprehensive income (loss)	-	-	-	(4,999)	754,500	749,501
Profits distributed	-	-	-	-	(680,441)	(680,441)
Tax advances on account of the tax for which the holders of the participation units are liable	-	-	-	-	(401)	(401)
Capital reserve for benefits from a control holder	-	-	2,118	-	-	2,118
Balance as of September 30, 2017	154,791	1,631	12,866	7,518	682,886	859,692

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 cash flow hedging transactions	Retained earnings	Total
	Unaudited					
For the three-month period ended September 30, 2018:						
Balance as of July 1, 2018	154,791	1,631	14,475	5,910	593,319	770,126
Net profit	-	-	-	-	74,143	74,143
Other comprehensive loss	-	-	-	(678)	-	(678)
Total comprehensive income (loss)	-	-	-	(678)	74,143	73,465
Capital reserve for benefits from a control holder	-	-	237	-	-	237
Balance as of September 30, 2018	154,791	1,631	14,712	5,232	667,462	843,828

	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 financial assets available for sale and cash flow hedging transactions	Retained earnings	Total
	Unaudited					
For the three-month period ended September 30, 2017:						
Balance as of July 1, 2017	154,791	1,631	11,674	9,937	366,619	544,652
Net profit	-	-	-	-	616,631	616,631
Other comprehensive loss	-	-	-	(2,419)	-	(2,419)
Total comprehensive income (loss)	-	-	-	(2,419)	616,631	614,212
Profits distributed	-	-	-	-	(300,033)	(300,033)
Tax advances on account of the tax for which the holders of the participation units are liable	-	-	-	-	(331)	(331)
Capital reserve for benefits from a control holder	-	-	1,192	-	-	1,192
Balance as of September 30, 2017	154,791	1,631	12,866	7,518	682,886	859,692

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 financial assets available for sale and cash flow hedging transactions	Retained earnings	Total
	Audited					
For the year ended December 31, 2017:						
Balance as of January 1, 2017	154,791	1,631	10,748	12,517	609,228	788,915
Net profit	-	-	-	-	817,222	817,222
Other comprehensive loss	-	-	-	(3,319)	-	(3,319)
Total comprehensive income (loss)	-	-	-	(3,319)	817,222	813,903
Profits distributed	-	-	-	-	(680,710)	(680,710)
Declared profits for distribution	-	-	-	-	(60,000)	(60,000)
Tax advances on account of the tax owed by the participation unit holders	-	-	-	-	(246,048)	(246,048)
Capital reserve for benefits from a control holder	-	-	2,418	-	-	2,418
Balance as of December 31, 2017	154,791	1,631	13,166	9,198	439,692	618,478

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
	30.9.2018	30.9.2017	30.9.2018	30.9.2017	31.12.2017
	Unaudited				Audited
Cash flows – operating activity:					
Profit for the period	225,893	754,500	74,143	616,631	817,222
Adjustments for:					
Depreciation, depletion and amortization	36,512	85,864	13,541	28,003	100,179
Change in fair value of financial derivatives, net	-	505	-	223	558
Update of asset retirement obligations	2,061	1,586	691	496	3,704
Revaluation of short-term and long-term investments and deposits	2,623	192	2,108	279	(826)
Expenses (income) due to revaluation of share-based payment	113	178	237	(75)	52
Benefit from a control holder included in expenses against a capital reserve	1,546	2,118	237	1,192	2,418
Profit from the sale of petroleum and gas assets	-	(572,100)	-	(572,100)	(572,454)
Revaluation of other long-term assets	(54,086)	(13,668)	(4,916)	(2,839)	(25,724)
Partnership's share in earnings of company accounted for at equity, net	(5,380)	(5,493)	(6,352)	(5,493)	(10,042)
Changes in assets and liabilities items:					
Decrease (increase) in trade receivables	(10,090)	15,260	(5,357)	24,837	11,667
Decrease (increase) in trade and other receivables	587	(2,021)	(1,557)	1,072	(182)
Decrease (increase) in other long-term assets	(1,366)	3,001	(547)	5,190	4,711
Increase (decrease) in trade and other payables	(10,064)	9,105	17,870	12,752	(1,901)
Increase (decrease) in other long-term liabilities	(1)	5	2	5	(110)
	(37,545)	(475,468)	15,957	(506,458)	(487,950)
Net cash deriving from current operations	188,348	279,032	90,100	110,173	329,272
Cash flows - investment activity:					
Investment in petroleum and gas assets	(570,371)	(302,817)	(205,849)	(126,924)	(443,329)
Investment in other long-term assets	(10,868)	(17,432)	(2,803)	(9,684)	(31,412)
Proceeds from the sale of petroleum and gas assets	10,850	829,545	-	829,545	829,898
Loan given to a company accounted for at equity	-	(34,000)	-	(34,000)	(34,000)
Repayment of a loan given to a company accounted for at equity	-	29,500	-	29,500	34,000
Decrease (increase) in short-term investments, net	61,399	(106,650)	135,613	(31,294)	(150,819)
Dividend received from company accounted for at equity	7,237	-	-	-	-
Deposit in long-term deposits in banks	-	(17,676)	-	-	(17,676)
Maturity of long-term deposits in banks	100,000	-	100,000	-	51,307
Sale of financial assets available for sale	-	4,251	-	-	4,251
Change in respect of the operator of the joint ventures	(36,655)	10,152	(18,466)	(13,269)	(6,001)
Net cash deriving from (used for) investment activity	(438,408)	394,873	8,495	643,874	236,219
Cash flows - financing activity:					
Receipt of long-term loans from banks (net of raising expenses)	600,126	264,141	220,040	151,245	420,534
Profits distributed	(61,091)	(780,846)	-	(300,434)	(781,116)
Tax advances paid for holders of participation units, net	(3,699)	(185,186)	12,532	(185,116)	(206,993)
Repurchase of Tamar bonds	(10,103)	-	-	-	-
Repayment of Tamar bonds	(309,897)	(320,000)	(309,897)	(320,000)	(320,000)
Payments from the exercise of hedging transactions	-	-	-	-	(3,957)
Net cash deriving from (used for) financing activity	215,336	(1,021,891)	(77,325)	(654,305)	(891,532)
Increase (decrease) in cash and cash equivalents	(34,724)	(347,986)	21,270	99,742	(326,041)
Cash and cash equivalents balance at the beginning of the period	154,835	480,876	98,841	33,148	480,876
Cash and cash equivalents balance at the end of the period	120,111	132,890	120,111	132,890	154,835

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
	30.9.2018	30.9.2017	30.9.2018	30.9.2017	[3]31.12.2017
	Unaudited				Audited
Annex A – Financing and investment activity not involving cash flow:					
Investments in petroleum and gas assets against liabilities	111,296	72,797	111,296	72,797	94,166
Proceeds from the disposition of petroleum and gas assets against long-term receivables	-	119,790	-	119,790	119,790
Dividend declared by company accounted for at equity	8,887	-	8,887	-	-
Declared profits for distribution and tax advances payable which constitute distribution	-	-	-	-	98,653
Annex B – Further information on cash flow:					
Interest paid (including capitalized interest)	76,864	57,493	18,161	3,888	109,015
Interest received	7,973	5,574	3,427	1,959	7,832
Dividend received	-	80	-	-	80

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**") 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 supervisors, CPA Micha Blumenthal, together with Fahn Kanne & Co., CPAs, and Gissin & Keidar (jointly: the "**Supervisors**"). The Supervisors were granted certain supervision powers in the partnership agreement and in the Partnerships Ordinance.

The parent company of the General Partner in the Partnership is Delek Energy Systems Ltd. (the "**Parent Company**", "**Delek Energy**") and the Partnership's ultimate parent company is Delek Group Ltd. ("**Delek Group**").

The participation units of the Partnership are listed on the Tel Aviv Stock Exchange (TASE) and traded thereon since 1993.

The address of the Partnership's registered office is 19 Abba Eban Boulevard, Herzliya.

B. As of the date of the approval of the Condensed Interim Financial Statements, the main engagement of the Partnership is in the exploration, development and production of natural gas, condensate and petroleum, including in the production and sale of natural gas and condensate from the Tamar reservoir in the area of the Tamar Lease (the "**Tamar Project**"), the promotion of the expansion of the production system of the Tamar Project, the development of Phase 1A of the development plan of the Leviathan reservoir and the promotion of commercialization of the natural gas and condensate therefrom, the promotion and planning of Stage 1B of the development plan of the Leviathan reservoir for additional target markets, the promotion and planning of natural gas commercialization and the development of the Aphrodite reservoir, in the examination of various infrastructure alternatives for the piping of natural gas to other target markets, exploration activity in the petroleum assets held by the Partnership, including for petroleum purposes, alongside the examination of entrance into other petroleum assets, in Israel and in the Mediterranean basin. The Partnership also engages in the promotion of various natural gas-based projects, aiming to increase the scope of sales of natural gas from the petroleum assets held by the Partnership, and also in the examination and promotion of various alternatives for the sale of the Partnership's holdings in the Tamar project in accordance with the provisions of the Gas Framework (for further details on the Gas Framework see Note 1G and Note 12J1 to the Partnership's Annual Financial Statements). In this framework, the Partnership is promoting several alternatives for the sale of its remaining holdings in the Tamar and Dalit reservoirs (22% out of 100%), in accordance with the Gas Framework, including the establishment of an SPV which will offer debt and equity, to be listed on a foreign stock exchange and/or on the TASE, and/or sale to a third party.

Note 1 – General (Cont.):

C. The Partnership's Condensed Interim Financial Statements should be read together with the Partnership's Financial Statements as of December 31, 2017 (the "**Annual Financial Statements**"). Therefore, notes regarding relatively insignificant updates to information that was already reported in the notes to the Annual Financial Statements were not presented in these Condensed Interim Financial Statements.

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

E. 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. International Financial Reporting Standard No. 15 ("**IFRS 15**"):

Further to Note 2L1 to the Annual Financial Statements regarding the first-time application of IFRS 15 – Revenue from Contracts with Customers, the Partnership chose to apply the provisions of IFRS 15 retroactively with relief and without restatement of comparison figures.

With regard to the accounting policy that was applied until December 31, 2017 with respect to recognition of revenues – see Note 2P to the Annual Financial Statements.

The accounting policy which is applied from January 1, 2018 with respect to recognition of revenues is as follows:

In accordance with IFRS 15, revenue from contracts with customers is recognized in profit or loss when control of the asset or service is passed to the customer. Revenue is measured and recognized according to fair value of the consideration expected to be received pursuant to the terms and conditions of the contract, net of the amounts that were collected for the benefit of third parties (such as taxes). Revenue is recognized in profit or loss to the extent the project's partners expect to gain the economic benefits, and the revenues and costs, if applicable, may be reliably measured.

The new IFRS 15 introduces a five step model that applies to revenues which derive from contracts with customers:

Note 2 – Significant Accounting Policies (Cont.):

A. International Financial Reporting Standard No. 15 ("**IFRS 15**") **(Cont.):**

Step 1 - Identification of the contract with the customer, including reference to assembly of contracts and accounting for contract modifications.

Step 2 - Identification of several distinct performance obligations in the contract.

Step 3 - Determination of the transaction price, including reference to variable consideration, significant financing component, non-cash consideration and consideration that shall be paid to the customer.

Step 4 - Allocation of the transaction price to each distinct performance obligation based on the distinct relative selling price while using expected prices, if available or estimates and evaluations.

Step 5 - Recognition of revenues when or as a performance obligation is satisfied, while distinguishing between fulfillment of an obligation at a point in time and fulfillment of an obligation over time.

The application of IFRS 15 had no effect on the Partnership's Condensed Interim Financial Statements.

B. Financial instruments:

Further to Note 2L2 to the Annual Financial Statements regarding the first-time application of International Financial Reporting Standard No. 9 – Financial Instruments (in this section: "**IFRS 9**"), the Partnership chose to apply the provisions of IFRS 9 without restatement of comparison figures. With regard to the accounting policy that was applied until December 31, 2017 with respect to financial instruments, see Sections J, K, L and Q of Note 2 to the Annual Financial Statements. The accounting policy which is applied from January 1, 2018 with respect to financial instruments is as follows:

1) Financial instruments:

Financial instruments that are subject to IFRS 9 are measured on the date of first-time recognition at fair value plus transaction costs that can be directly attributed to the purchase of the financial asset, except in the case of a financial asset that is measured at fair value through profit or loss, with respect to which, transaction costs are carried to profit or loss.

The Partnership classifies and measures the debt instruments in its financial statements based on the following criteria:

(a) The Partnership's business model for management of the financial assets, and

(b) The characteristics of the contractual cash flow of the financial asset.

Note 2 – Significant Accounting Policies (Cont.):

B. Financial instruments (Cont.):

1) Financial instruments (Cont.):

The Partnership measures debt instruments at amortized cost, when:

The Partnership's business model is holding the financial assets in order to collect contractual cash flows; and the contractual terms and conditions of the financial asset provide entitlement on set dates to cash flows that are only interest and principal payments for the outstanding principal amount.

Subsequently to the initial recognition, instruments in this group will be presented according to their terms according to cost plus direct transaction costs, using the amortized cost method.

In addition, on the date of first-time recognition an entity may designate, irrevocably, a debt instrument as measured at fair value through profit or loss if such designation significantly reduces or cancels inconsistent measurement or recognition, for example in the event that the relevant financial liabilities are also measured at fair value through profit or loss.

The Partnership measures debt instruments at fair value through other comprehensive income, when:

The Partnership's business model is both holding the financial assets in order to collect contractual cash flows and sale of the financial assets; and the contractual terms and conditions of the financial asset provide entitlement on set dates to cash flows that are only interest and principal payments for the outstanding principal amount. Subsequently to the initial recognition, instruments in this group are measured according to fair value. Profit or loss as a result of fair value adjustments, other than interest, rate differentials and impairment, are recognized in other comprehensive income.

Equity instruments:

Financial instruments that constitute investments in equity instruments do not meet the aforesaid criteria and are therefore measured at fair value through profit or loss.

In relation to equity instruments that are not held for trade, on the date of first-time recognition, the Partnership may make an irrevocable choice, to present in other comprehensive income subsequent changes to the fair value that would have otherwise been recognized through profit or loss. Such fair value changes will not be carried to profit or loss in the future even upon write-off of the investment.

2) Impairment of financial assets:

On each report date the Partnership examines the provision for loss due to financial debt instruments that are not measured at fair value through profit or loss.

Note 2 – Significant Accounting Policies (Cont.):

B. Financial instruments (Cont.):

2) Impairment of financial assets (Cont.):

The Partnership distinguishes between two situations of recognition of a provision for loss;

a) Debt instruments whose credit quality did not significantly deteriorate since the date of first-time recognition or cases in which the credit risk is low – the provision to loss that will be recognized with respect to such debt instrument will take into account anticipated credit loss in the 12 month period after the report date, or;

b) Debt instruments whose credit quality did significantly deteriorate since the date of first-time recognition and with respect to which the credit risk is not low, the provision to loss that will be recognized will take into account anticipated credit loss – for the remainder of the instrument's life. The Partnership applies the relief set forth in IFRS 9 according to which it assumes that the credit risk of a debt instrument did not significantly increase since the date of first-time recognition if it was determined on the report date that the instrument has low credit risk, for example when the instrument has an external "investment grade" rating.

The decrease in value with respect to debt instruments measured according to a depreciated cost shall be carried to profit or loss against a provision while the decrease in value with respect to debt instruments measured at fair value through other comprehensive income will be attributed against a capital reserve and will not reduce the book value of the financial asset in the statement of financial position.

3) Write-off of financial assets:

The Partnership writes-off a financial asset when, and only when:

(a) The contractual rights to the cash flows from the financial asset expired, or

(b) The Partnership materially transfers all of the risks and benefits that derive from the contractual rights to receive the cash flows from the financial asset or when part of the risks and benefits upon transfer of the financial asset remain in the hands of the entity but it can be said that it transferred control over the asset, or

(c) The Partnership retains the contractual rights to receive the cash flows that derive from the financial asset, but assumes a contractual obligation to pay such cash flows in full to a third party, without substantial delay.

4) Financial liabilities:

On the date of first-time recognition, the Partnership measures the financial liabilities that are subject to IFRS 9 at fair value, less transaction costs that can be directly attributed to the issuance of the financial liability.

Subsequently to the date of first-time recognition, the Partnership measures all of the financial liabilities according to the amortized cost method.

Note 2 – Significant Accounting Policies (Cont.):

B. Financial instruments (Cont.):

5) **Write-off of financial liabilities**:

The Partnership writes-off a financial liability when, and only when it is retired – i.e., when the liability that was defined in the contract is paid or cancelled or expires.

A financial liability is retired when the debtor pays the liability by payment in cash, with other financial assets or is legally released from the liability.

In the event of a change of conditions with respect to an existing financial liability, the Partnership examines whether the terms and conditions of the liability are materially different than the existing conditions.

When a material change is made in the conditions of an existing financial liability, the change is treated as a write-off of the original liability and a recognition of a new liability. The difference between the balance of the two aforesaid liabilities in the financial statements is carried to profit or loss.

If the change is immaterial, the Partnership is required to update the liability amount, i.e., capitalize the new cash flows at the original effective interest rate, with the differences carried to profit or loss.

Upon examining whether the change to the conditions of an existing liability is material, the Partnership takes qualitative and quantitative considerations into account.

6) **Setoff of financial instruments:**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position if there is a legally enforceable right to offset the amounts recognized, and there is an intention to retire the asset and the liability on a net basis or to dispose of the asset and settle the liability simultaneously. The setoff right must be legally enforceable, not only in the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. For the setoff right to be available immediately, it cannot be contingent on a future event or, occasionally inapplicable or, expire pursuant to certain events.

7) **Embedded derivatives:**

Pursuant to the provisions of IFRS 9, derivatives embedded in financial assets shall not be separated from a host contract. Such hybrid contracts shall be measured in their entirety at a depreciated cost or at fair value, according to the criteria of the business model and contractual cash flows.

When a host contract does not fulfill the definition of a financial asset, an embedded derivative is separated from the host contract and treated as a derivative when the economic risks and characteristics of the embedded derivative are not tightly connected to the economic risks and characteristics of the host contract, the embedded derivative fulfills the definition of a derivative and the hybrid instrument is not measured at fair value when the differences are carried to profit or loss.

Note 2 – Significant Accounting Policies (Cont.):

B. Financial instruments (Cont.):

7) Embedded derivatives (Cont.):

The need to separate an embedded derivative is reassessed only when there is a change in the engagement which significantly affects the cash flows from the engagement.

8) Derivative financial instruments for hedging (protection) purposes:

The Partnership occasionally performs engagements in derivative financial instruments such as foreign currency forward contracts and interest rate swap (IRS) transactions in order to protect itself against the risks entailed by interest rate and foreign currency exchange rate fluctuations.

Profits or losses deriving from changes in the fair value of derivatives that are not used for hedging purposes are immediately carried to profit or loss.

Hedging transactions qualify for hedging accounting, *inter alia*, when on the hedging creation date there is formal documentation and designation of the hedging relations and of the purpose of the risk management and the Partnership's strategy to perform hedging. The hedging is examined on an ongoing basis and it is determined in practice to be highly effective in the financial reporting period for which the hedging is designated. Hedging (protection) transactions are treated as follows:

Cash flow hedging:

The effective part of the changes in the fair value of the hedging instrument is recognized in other comprehensive profit (loss) while the ineffective part is immediately carried to profit or loss.

Other comprehensive profit (loss) is carried to profit or loss when the hedging transaction results are carried to profit or loss. For example, in periods when interest revenues or expenses are recognized or when an anticipated sale occurs.

When the hedged item is a non-financial asset or liability, their cost also includes the amount of profit (loss) from the hedging instrument.

The Partnership is stopping to apply hedge accounting henceforth only when all or part of the hedge ratios cease to fulfill the entitling criteria (after taking into account a rebalance of the hedge ratios, if applicable), including cases where the hedging instrument expires, is sold, cancelled or settled. When the Partnership discontinues the application of hedge accounting, the amount that accrued in the hedge fund remains in the hedge fund until the cash flow materializes or is carried to profit or loss if the hedged future cash flows are no longer expected to materialize.

Notes to the Condensed Interim Financial Statements as of September 30, 2018 (Dollars in thousands)

Note 2 – Significant Accounting Policies (Cont.):

C. First-time application of IFRS 9 – Financial Instruments:

The Partnership chose to apply the provisions of New IFRS 9 retroactively without restatement of comparison figures.

The Partnership recognizes any difference between the book value prior to application of the standard and the book value on the date of first-time application in the surplus opening balance. Below is the effect of the first-time application of IFRS 9:

	As reported in the past	The change	In accordance with IFRS 9
As of January 1, 2018			
Retained earnings	439,692	2,114	441,806
Capital reserve for financial assets available for sale and cash flow hedging transactions	9,198	[1](2,100)	7,098
Short term investments	278,826	(112)	278,714
Trade and other payables	(122,355)	126	(122,229)
Total equity	618,478	14	618,492

D. New standards and amendments to existing standards that are not yet in effect and for which the Partnership did not elect early application:

In Note 2DD(3) to the Partnership's financial statements for Y2017, information was provided regarding the expected application of International Financial Reporting Standard 16 "Leases" ("**IFRS 16**") starting from Q1/2019. As stated in such note, IFRS 16, upon its first-time application, will replace the current instructions in International Accounting Standard 17 "Leases" ("**IAS 17**") and the interpretation thereof. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosures of leases, and is expected to have significant influence mainly on the accounting treatment applied by the lessee in a lease transaction.

The Partnership proceeded to examine the implications of IFRS 16 on its financial statements at this stage, according to the information in its possession. It estimates that its application is not expected to have a material effect on its financial statements and it is proceeding to examine the implications of the standard.

[1] In the New IFRS 9, the right to receive royalties in connection with the sale of the Karish and Tanin leases (see Note 4E below) is now presented according to fair value through profit or loss.

Notes to the Condensed Interim Financial Statements as of September 30, 2018 (Dollars in thousands)

Note 3 – Investments in Petroleum and Gas Assets:

A. Composition:

	30.9.2018	30.9.2017	31.12.2017
	Unaudited	Unaudited	Audited
Appraisal and exploration assets	114,747	114,765	114,186
Petroleum and gas assets	2,503,441	1,772,884	1,909,485
Total	2,618,188	1,887,649	2,023,671

B. Developments in Investments in Petroleum and Gas Assets:

1. **Michal-Matan Joint Venture (Tamar and Dalit Leases)**:

a) Appraisal of the natural gas and condensate reserves in the Tamar gas field:

According to a report prepared in February 2018 by Netherland Sewell & Associates Inc. ("**NSAI**"), which is a certified, expert and independent reserve evaluator), according to the SPE-PRMS rules, the natural gas reserves in the Tamar project (consisting of the Tamar and Tamar SW reservoirs), which are classified as reserves under production, as of December 31, 2017, and which are classified as proved reserves, are approx. 221.9 BCM and the quantity of reserves classified as proved + probable reserves is approx. 313.2 BCM.

According to the said report, the condensate reserves in the Tamar and Tamar SW reservoirs classified as reserves under production as of December 31, 2017, which are classified as proved reserves, are approx. 10.2 million barrels and the quantity of reserves classified as proved + probable reserves is approx. 14.4 million barrels. Such reserves do not include the reserves that overflow into the Eran license. See Section 5 below regarding uncertainty in the evaluation of reserves.

b) Appraisal of contingent resources in the Dalit lease:

According to a report prepared in March 2018 by NSAI, according to PRE-PRMS rules, the amount of the contingent resources in the Dalit lease, classified at the Development Pending justification stage, as of December 31, 2017, ranges between approx. 6.1 BCM (low estimate) and approx. 9.5 BCM (high estimate). In the resource report, it is indicated that the contingent resources are contingent upon the approval of a project which includes an approved development plan and a reasonable projection for sales of natural gas. See Section 5 below regarding uncertainty in the appraisal of the contingent resources.

c) Further to the provisions of Note 7C1e to the Annual Financial Statements, in October 2018, Noble Mediterranean Ltd. (the "**Venture Operator**" or "**Noble**"), per the Ministry of Energy's request, submitted an updated development plan for the Tamar SW reservoir. The updated development plan is essentially similar to the original plan, and includes details relating to actions that occurred and new information that was received since the date of submission of the original development plan (in April 2014).

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

B. Developments in Investments in Petroleum and Gas Assets (Cont.):

2. Ratio-Yam Joint Venture:

a) Appraisal of reserves and contingent resources in the Leviathan leases:

According to a report that was prepared in March 2018 by NSAI, according to SPE-PRMS rules, according to a reserves and contingent and prospective resources in the leases report, updated as of February 28, 2018, the overall quantity of resources is estimated at approx. 605 BCM and is divided into categories of resources classified as reserves and resources classified as contingent. The quantity of reserves Approved for Development, classified as Proved Undeveloped is approx. 266.5 BCM and the quantity of reserves classified as Proved + Probable Reserves is approx. 358.3 BCM.

Additionally, there are approx. 16.9 million barrels of condensate reserves in the leases, in the sub-class of Approved for Development, in the sub-category of Proved Undeveloped, and there are approx. 22.7 million barrels of reserves classified as Proved + Probable Reserves.

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

Phase 1- First Stage - contingent resources which are classified at the Development Pending stage, these resources are contingent on the decisions to perform additional drillings and on the execution of additional agreements for the sale of natural gas. Future Development – resources contingent on the adoption of another investment decision, in accordance with Phase 1 - Second Stage in the development plan and with an additional stage (insofar as the development plan is updated) and on the execution of additional agreements for the sale of natural gas range between approx. 339.2 BCM (the high estimate) and approx. 207.3 BCM (the low estimate) and condensate contingent resources range between approx. 21.5 million barrels (the high estimate) and approx. 13.1 million barrels (the low estimate). See Section 5 below regarding uncertainty in the appraisal of reserves.

b) Development drillings in the context of the development plan:

Further to Note 7C2 to the Annual Financial Statements, as of the date of approval of the Condensed Interim Financial Statements, the Ensco DS-7 rig has finished the completion of the Leviathan 3, Leviathan 4 and Leviathan 5 wells, and begun the completion of the Leviathan 7 well, which is expected to be finished by the end of 2018.

Note 3 – Investments in Petroleum and Gas Assets (Cont.):
B. Developments in Investments in Petroleum and Gas Assets (Cont.):

3. **Block 12 Cyprus:**

Further to Note 7C3 to the Annual Financial Statements, as of the date of approval of the Condensed Interim Financial Statements, the updated development plan submitted by the partners in the Aphrodite reservoir has not yet been approved by the Cypriot government. Although, ostensibly, according to the Production Sharing Contract of October 24, 2008 (the "**Production Sharing Contract**"), the Cypriot government has the option, in the absence of an approved development plan, to claim for termination of the Production Sharing Contract, the partners in the Aphrodite reservoir are continuing to act, in cooperation with the Cypriot government, for the update and approval of the development plan and the update of the Production Sharing Contract. In this context, the Cypriot government decided to invite the partners to a series of discussions on the issue of the update of the Production Sharing Contract, including updating the mechanism of the fiscal conditions. As of the date of approval of the Condensed Interim Financial Statements, and following such invitation, the parties are holding continuous discussions on the said issue.

4. **Additional details regarding the Partnership's licenses:**

a) Further to Note 7C8 to the Annual Financial Statements, to date, the mediation proceeding in relation to the Eran/353 license has not yet been exhausted, and the court granted the parties' motion to provide an update on the outcome of the mediation proceeding by November 27, 2018.
b) On January 16, 2018, the Venture Operator forwarded to the Petroleum Commissioner at the Ministry of Energy (the "**Commissioner**") an updated work plan for the Alon D license.
c) Further to Note 7C7 to the Annual Financial Statements, on September 25, 2018, Ratio Oil Exploration (1992), Limited Partnership ("**Ratio**") notified that the Commissioner notified that he is extending the Roi license until April 14, 2020, subject to the change of the work plan in the license.

5. **Appraisals of reserves of natural gas, condensate and contingent resources:**

The above estimates regarding the reserves of natural gas, condensate and contingent resources in the Partnership's rights in the leases and in the licenses for oil and gas exploration are based, *inter alia*, on geological, geophysical, engineering and other information which has been received from the wells and from the Venture Operator of the said rights. The aforesaid estimates constitute professional conjectures and estimates by NSAI, with respect to which there is no certainty. The actual quantities of natural gas and/or condensate to be produced may differ from the aforesaid conjectures and assessments, as a result, *inter alia*, of operational and technical conditions and/or regulatory changes and/or conditions of supply and demand in the natural gas and/or condensate market and/or commercial conditions and/or as a result of the actual performance of the reservoirs. The aforesaid conjectures and assessments may be updated insofar as additional information accumulates and/or as a result of a gamut of factors related to oil and natural gas exploration and production projects.

Note 4 – Additional Information:

A. Engagements for the supply of natural gas from the Tamar project:

1. In February 2018, an agreement for the export of natural gas from Tamar Project to Egypt was signed between the Partnership and Noble (jointly below in this Section, the "**Sellers**") and Dolphinus Holdings Limited[2] ("**Dolphinus**") (below in this section, the "**Export from Tamar Agreement**"), the scope of which is significantly larger than the agreement for supply of natural gas that was signed between the Tamar partners and Dolphinus on March 17, 2015 and which was executed with the intention of replacing it. On September 26, 2018, the Sellers endorsed the Export from Tamar Agreement to the partners in the Tamar project.

   The Export from Tamar Agreement provides that the gas supply to Dolphinus would initially be on an interruptible basis. The Export from Tamar Agreement grants the Sellers an option to notify Dolphinus that the gas supply (in whole or in part) will be converted to firm basis (hereinafter in this Section: the "**Option**"). The Option may be exercised by the Sellers, in whole or in part, during the period commencing in July 2020 and ending at the end of December 2021, or during another period, as shall be agreed between the Sellers and Dolphinus. From the Option Exercise date, as aforesaid, the Sellers will be obligated to supply Dolphinus with an annual quantity of up to approx. 3.5 BCM (according to the quantities for which the Option will be exercised) and Dolphinus will be obligated to take or pay for a minimal annual quantity of natural gas according to a mechanism determined in the Export from Tamar Agreement. The total contractual gas quantity stated in the Export from Tamar Agreement is approx. 32 BCM.

   The price of the gas to be supplied to Dolphinus under the Export from Tamar Agreement, will be determined according to a formula based on the price of a Brent oil barrel.

   The supply according to the Export from Tamar Agreement is expected to begin upon the regulation of the use of the infrastructures necessary for the transmission of natural gas to Egypt. The supply will continue up to the supply of the total contractual quantity set forth in the Export from Tamar Agreement or up to December 2030, whichever is earlier.

   The Export from Tamar Agreement includes several conditions precedent, mainly regarding the receipt of regulatory approvals in Israel and Egypt (including the receipt of approvals for the gas export and import as aforesaid), entering agreements which will allow use of the transmission infrastructure, including execution of transmission agreements between the Sellers and Israel Natural Gas Line ("**INGL**") (if necessary), receipt of guarantees in favor of the Sellers as required in the Export from Tamar Agreement, as well as receipt of approvals from the tax authorities in Israel regarding transactions contemplated in the Export from Tamar Agreement. It is clarified that there is no certainty that the sale of gas to Dolphinus under the Export from Tamar Agreement will materialize, due to the non-fulfillment of the conditions precedent in the Export from Tamar Agreement, in whole or in part, etc.

[2] To the Partnership's best knowledge, the buyer is a company which engages in natural gas trade and intends to supply gas to large industrial and commercial consumers in Egypt.

Note 4 – Additional Information (Cont.):

A. Engagements for the supply of natural gas from the Tamar project (Cont.):

2. On February 21, 2018 an agreement on an interruptible basis was signed between the Tamar partners and Israel Chemicals Ltd. ("**ICL**") for the supply of natural gas (the "**ICL from Tamar Agreement**"). The supply period under the ICL from Tamar Agreement shall begin on February 1, 2018 and expire on September 1, 2020. Pursuant to the ICL from Tamar Agreement, in the event of a delay in the date of commencement of commercial production from the Tanin and Karish reservoirs, the period of the ICL from Tamar Agreement shall be automatically extended by additional periods of six months each, until the date of commencement of commercial production from the Tanin and Karish reservoirs or until December 31, 2025, whichever is earlier. It was further determined that ICL shall be entitled to notify the Tamar partners of the termination of the supply agreement upon the expiration of each of the aforesaid extension periods. If the agreement for the supply of gas to ICL from the Tanin and Karish reservoirs will be terminated, the period of the ICL from Tamar Agreement shall be automatically extended until December 31, 2025.

3. Further to Note 12C1c1 to the Annual Financial Statements, in October 2018 (after the date of the Statement of Financial Position), another agreement (the "**Additional Agreement**") for the supply of natural gas was signed between the Tamar partners and NBL Eastern Mediterranean Marketing Limited ("**NBL**") for the export of natural gas to consumers in Jordan (the "**Second NBL-Tamar Agreement**"). Concurrently with the signing of the Second NBL-Tamar Agreement, NBL signed another agreement with Arab Potash Company and Jordan Bromine Company (the "**Buyers**"), according to which the Buyers will buy from NBL an additional quantity of natural gas which will be used thereby as aforesaid at their plants which are located on the eastern bank of the Dead Sea in Jordan (the "**Second Supply Agreement**"). The Second Supply Agreement is on an interruptible basis, and in the framework thereof, natural gas will be supplied to the Buyers at a total scope of up to approx. 1 BCM. While NBL is entitled, for a specific period determined in the agreement, to convert the supply under the Second NBL-Tamar Agreement into supply on a firm basis.

   The supply according to the Second Supply Agreement is expected to commence during Q1/2019 and is expected to continue until December 2032. It is noted that the Second NBL-Tamar Agreement and the Second Supply Agreement are subject to receipt of the regulatory approvals in Jordan and in Israel, and to the signing of a transmission agreement with INGL for the flow of the additional gas quantities in the export agreement. The other terms and conditions of the Second NBL-Tamar Agreement and the Second Supply Agreement are similar to the terms and conditions of the first NBL-Tamar agreement and supply agreement.

B. Engagements for the supply of natural gas from the Leviathan project:

1. a. As stated in Note 12C2B to the Annual Financial Statements pertaining to an agreement for the export of natural gas from the Leviathan project to Jordanian National Electric Power Company (the "**Export Agreement**"), on March 7, 2018 the Partnership notified that all of the conditions precedent that were set forth in the aforesaid Export Agreement have been met.

Note 4 – Additional Information (Cont.):

B. Engagements for the supply of natural gas from the Leviathan project (Cont.):

1. (Cont.):

   b. Further to Note 12C2A to the Annual Financial Statements pertaining to agreements for the sale of natural gas from the Leviathan project, on May 9, 2018, the Partnership notified that all of the conditions precedent in the agreement for the supply of natural gas from the Leviathan project to I.P.M. Beer Tuvia Ltd. have been met.

2. **Agreement for natural gas export from the Leviathan project to Dolphinus:**

   In February 2018, an agreement was signed between the Partnership and Noble (jointly below in this section, the "**Sellers**") and Dolphinus (below in this section, the "**Purchaser**") for the export of natural gas from the Leviathan Project to Egypt (below in this section, the "**Export from Leviathan Agreement**"), which was signed pursuant to the non-binding LOI that was signed in November 2015. On September 26, 2018, the Sellers endorsed the export agreement to the other partner in the Leviathan project.

   In the Export from Leviathan Agreement it was determined that the supply of gas to the Purchaser will be on a firm basis. The Sellers undertook to supply the Purchaser with an annual quantity of approx. 3.5 BCM and the Purchaser undertook to take or pay for a minimal quantity according to the mechanism set forth in the agreement. The total contractual gas quantity stated in the Export from Leviathan Agreement is approx. 32 BCM.

   The price of gas to be supplied to the Purchaser pursuant to the Export from Leviathan Agreement will be determined according to a formula based on the price of a Brent oil barrel. The supply pursuant to the Export from Leviathan Agreement is expected to begin with the commencement of production from the Leviathan reservoir. The supply will last until the supply of the total contractual quantity set forth in the Export from Leviathan Agreement or until December 2030, whichever is earlier.

   The Export from Leviathan Agreement includes several conditions precedent, mainly the receipt of regulatory approvals in Israel and Egypt (including receipt of approvals for the export and import of the gas as stated), entering agreements that will enable the use in transmission infrastructure, including the signing of transmission agreements between the Sellers and INGL (if required), the receipt of guarantees in favor of the Sellers as required pursuant to the Export from Leviathan Agreement, and receipt of approvals from the Israeli Tax Authorities in respect of the transactions that are the subject of the Export from Leviathan Agreement.

   It is clarified that there is no certainty that the sale of the gas to the Purchaser under the Export from Leviathan Agreement will be realized, due to the non-fulfillment of the conditions precedent in the Export from Leviathan Agreement, in whole or in part, etc.

3. On February 21, 2018 an agreement was signed between the Leviathan project partners and ICL for the supply of natural gas (the "**ICL from Leviathan Agreement**"). The period of the supply agreement shall begin on the date of piping of the gas in commercial quantities from the Leviathan project and expire on September 1, 2020.

Note 4 – Additional Information (Cont.):

B. Engagements for the supply of natural gas from the Leviathan project (Cont.):

3. (Cont.):

As the Leviathan partners were informed by ICL, ICL engaged in an agreement for the purchase of natural gas from the Tanin and Karish leases (the "**Tanin Karish Agreement**" and "**Tanin and Karish Reservoirs**", respectively). Therefore, pursuant to the provisions of the Gas Framework and the orders of the Antitrust Authority, the Leviathan partners and ICL agreed that in the event of a delay in the date of the commencement of commercial production from the Tanin and Karish Reservoirs, the term of the agreement shall be automatically extended by additional periods of six months each, until the date of the commencement of commercial production from the Tanin and Karish Reservoirs or until December 31, 2025, whichever is earlier. It was further determined that ICL shall be entitled to notify the Leviathan partners of the termination of the supply agreement upon the expiration of each of the aforesaid extension periods. The supply agreement further determined that if the Tanin Karish Agreement will be terminated, the period of the supply agreement shall be automatically extended until December 31, 2025.

The Leviathan partners undertook to supply ICL with an annual quantity of natural gas in the scope of approx. 0.38 BCM, pursuant to the terms and conditions set forth in the supply agreement. ICL undertook to take or pay. The supply agreement further determined a mechanism for increasing the gas quantity that will be supplied to the buyer, up to an annual amount in the scope of approx. 0.76 BCM.

The supply agreement set forth that the gas price shall be linked in part to the Brent oil barrel price and in part to the electricity production tariff, as the same will be determined from time to time by the PUA-E, including a "floor price".

C. Engagement in agreements for the purchase of EMG shares and for the purchase of rights in the EMG pipeline:

On September 27, 2018, the Partnership announced that, with the aim of realizing the Dolphinus agreements (as stated in Note 4A1 and 4B2 above), on September 26, 2018, EMED Pipeline B.V. ("**EMED**")[3] signed agreements for the purchase of 39% of the share capital of Eastern Mediterranean Gas Company S.A.E ("**EMG**") for the flow of natural gas from Israel to Egypt through the EMG pipeline (the "**EMG Transaction**" or the "**Transaction**" or the "**EMG Pipeline**"). The closing of the Transaction is contingent, *inter alia*, on the signing of a Capacity, Lease & Operatorship Agreement – CLOA, between EMED and EMG, in which EMG shall grant EMED the exclusive right to lease and operate the EMG Pipeline for the flow of natural gas from Israel to Egypt (the "**CLOA**"), all as specified below:

[3] EMED is an SPV which was established for the purpose of the transaction and is registered in Holland, whose shares are held as follows: a wholly-owned subsidiary of the Partnership that is registered in Cyprus – 25%, Noble Cyprus – 25% and Sphinx EG BV, a wholly-owned subsidiary of East Gas Company, which holds, *inter alia*, a gas pipeline and infrastructures in Egypt (the "**Egyptian Partner**") – 50%.

Note 4 – Additional Information (Cont.):

C. Engagement in agreements for the purchase of EMG shares and for the purchase of rights in the EMG pipeline (Cont.):

EMG is a private company registered in Egypt which owns a submarine pipeline of a diameter of 26 inches and approx. 90 km long, which connects between the Israeli transmission system in the Ashkelon area and the Egyptian transmission system in the el Arīsh area, and related facilities. The EMG Pipeline was planned for a capacity of approx. 7 BCM per year, with an option to increase the capacity to approx. 9 BCM per year through the installation of additional systems. The flow of gas in the EMG Pipeline from Egypt to Israel was stopped several years ago, and to the best of the Partnership's knowledge, EMG has no commercial activity, and it remained exposed to lawsuits and debts on the part of authorities, finance providers, suppliers and customers in significant amounts. It is noted that in the framework of the Transaction, the Partnership is not required to provide collateral or guaranties in relation to the existing debts of EMG.

Prior to the date of the signing of agreements for the purchase of EMG shares, the shareholders are:

(1) EGI-EMG LP – 12%;
(2) Merhav MNF Ltd. – 8.2%;
(3) Merhav Ampal Energy Holdings, Limited Partnership – 8.6%;
(4) Merhav Ampal Group Ltd. – 8.2% (the "**Merhav Ampal Group**");
(5) PTT Energy Resources Company Limited ("**PTT**")[4] – 25%;
(6) Mediterranean Gas Pipeline Ltd. ("**MGPC**)[5] – 28%;
(7) Egyptian General Petroleum Corporation ("**EGPC**")[6] – 10%;
(Shareholders (1)-(4) above shall be referred to hereinafter collectively as: the "**Sellers**").

It is noted that some of the Sellers, the shareholders of the Sellers and companies affiliated with the Sellers are conducting several arbitration proceedings at international arbitration institutes against the Egyptian government and companies owned thereby in connection with the cessation of the flow of the gas from Egypt to Israel (collectively: the "**Arbitration Proceedings**"). In addition, EMG is a party to arbitration proceedings against companies owned by the Egyptian government.

1. **Agreements for the purchase of 39% of EMG's share capital**

   On September 26, 2018, EMED signed four separate, mainly similar, agreements with the Sellers for the purchase of EMG shares held by the Sellers, at a total rate of 37% of the share capital of EMG (collectively: the "**Share Purchase Agreements**"), as well as another agreement for the purchase of shares at a rate of 2% from MGPC (the "**MGPC Agreement**").

[4] A public energy company partially owned by the Thai government.

[5] A private company which, to the best of the Partnership's knowledge, is controlled by the Evsen Group, a company headed by Dr. Ali Evsen.

[6] An Egyptian government-owned corporation.

Note 4 – Additional Information (Cont.):

C. Engagement in agreements for the purchase of EMG shares and for the purchase of rights in the EMG pipeline (Cont.):

1. **Agreements for the purchase of 39% of EMG's share capital (Cont.)**

a) **The main principles of the Share Purchase Agreements**

1) Subject to fulfillment of the conditions precedent, the main ones of which are mentioned in Paragraph 4 below, and the conditions to the closing of the transaction, the Sellers shall sell and transfer to EMED the EMG shares held thereby, at a total rate of 37% of EMG's share capital (the "**Purchased Shares**"), including all of the rights attached to the Purchased Shares.

2) The Sellers, the shareholders of the Sellers and the companies affiliated with the Sellers shall waive any claim, lawsuit, award, decision, order or remedy that are available to them against the Egyptian government and companies owned thereby in the framework of the Arbitration Proceedings.

3) In consideration for the Purchased Shares, for waiver of their rights in the framework of the Arbitration Proceedings, and other rights in accordance with the Share Purchase Agreements, as aforesaid, EMED shall pay the Sellers, on the date of the closing of the transaction, the sum total of U.S. $518 million (the "**Consideration**"), out of which each one of the Partnership and Noble shall pay a sum of approx. U.S. $185 million, and the balance will be paid by the Egyptian Partner.

4) Performance of the transaction contemplated in the Share Purchase Agreements is contingent on fulfillment of standard conditions precedent, including: receipt of all of the approvals and the consents required for the transfer of the Purchased Shares from the Sellers and registration thereof in EMED's name; receipt of the approvals and the consents required pursuant to any law in Egypt and Israel for fulfillment of the transactions contemplated in the Share Purchase Agreements and for the flow of the gas in the EMG Pipeline from Israel to Egypt; signing of the CLOA and lifting of any material impediment to performance thereof; completion of the engineering due diligence process in relation to the EMG Pipeline, including the performance of continuous gas flow tests from Israel to Egypt via the EMG Pipeline, in accordance with the quantities and the period determined; modification of the existing debt structure of EMG in favor of an Egyptian bank and rescheduling thereof to EMED's satisfaction; receipt of all of the formal approvals required by the Sellers, including in relation to the controlling shareholder of the Merhav Ampal Group, which is in dissolution proceedings, court approvals, and the closing of all of the Share Purchase Agreements.

Note 4 – Additional Information (Cont.):

C. Engagement in agreements for the purchase of EMG shares and for the purchase of rights in the EMG pipeline (Cont.):

1. **Agreements for the purchase of 39% of EMG's share capital (Cont.)**

5) The deadline for fulfillment of the conditions precedent and for the closing of the transaction is June 30, 2019, although the parties intend to act for the closing of the transaction as early as possible, such that the flow of natural gas from Israel to Egypt via the EMG Pipeline will begin during the first six months of 2019.

b) **The main principles of the MGPC Agreement**

Concurrently with the signing of the Share Purchase Agreements, an agreement was signed between EMED and MGPC whereby MGPC shall transfer to EMED, without consideration, subject to and concurrently with the closing of the Share Purchase Agreements, 2% of EMG's shares which are held thereby, against the conclusion of disputes between some of the Sellers and MGPC.

Subject to and after the closing of the EMG Transaction, EMG's shareholders will be:

(1) EMED – 39%;
(2) PTT – 25%;
(3) MGPC – 17
(4) The Egyptian Partner – 9%[7];
(5) EGPC – 10%.

2. **The Capacity Lease & Operatorship Agreement**

As aforesaid, the closing of the EMG Transaction is contingent, *inter alia*, on the signing of the CLOA between EMED and EMG, in which EMG shall grant EMED the exclusive right to lease and operate the EMG Pipeline for the entire term of the Dolphinus agreements, with an option to extend the agreement. According to this agreement, the costs required for refurbishment of the EMG Pipeline, up to the sum of $30 million (which reflects an initial estimate of these costs), and the current operation costs of the pipeline, shall be borne by EMED (collectively: the "**Operation Costs**"), while EMG will be entitled to receive the current transmission fees which Dolphinus shall pay for use of the pipeline (the "**Transmission Fees**"), net of the Operation Costs.

3. **EMED's shareholders' agreement**

In proximity to the date of the signing of the Share Purchase Agreements, EMED's shareholders signed a shareholders' agreement which regulates the relationship between them as shareholders of EMED, including provisions regarding material resolutions that shall be adopted unanimously. In addition, arrangements were put in place for a right of first refusal for transfers of shares of EMED.

[7] To the best of the Partnership's knowledge, MGPC is expected to transfer the said shares to the Egyptian Partner.

Note 4 – Additional Information (Cont.):

C. Engagement in agreements for the purchase of EMG shares and for the purchase of rights in the EMG pipeline (Cont.):

4. **Term sheet for use of additional infrastructures**

   Concurrently with the signing of the Share Purchase Agreements, as described above, a term sheet was signed between the Partnership and Noble and the Egyptian Partner (which owns a section of the pipeline between Aqaba and el Arīsh: the "Arab **Gas Pipeline**"), and an affiliate of Dolphinus, whereby the parties agreed that the Partnership and Noble would receive access to additional capacity in the Egyptian transmission system through the Arab Gas Pipeline, at the entry point to the Egyptian transmission system in the Aqaba area, allowing the flow of gas in additional quantities over and above the gas quantities that would flow via the EMG Pipeline (the "**Additional Infrastructure**"), for the purpose of implementation of the Dolphinus agreement and other agreements for the sale of natural gas to Egypt. In addition, the parties agreed to look into other projects for the transmission of natural gas from Israel to potential customers and facilities in Egypt.

5. **MOUs with the Tamar partners and the Leviathan partners**

   In proximity to the date of the signing of the EMG Transaction, Noble and the Partnership signed a non-binding MOU with the Tamar partners and a non-binding MOU with the Leviathan partners in connection with the allocation of the capacity and other arrangements in connection with the flow of natural gas in the EMG Pipeline and in the Additional Infrastructure (as defined above).

   The MOU with the Leviathan partners determined that subject, *inter alia*, to the signing of a binding agreement by June 30, 2019 and to the closing of the EMG Transaction, the partners in the Leviathan project would pay, on the date of the closing of the EMG Transaction, the sum of $250 million in consideration for EMED's undertaking to allow the flow of natural gas from the Leviathan reservoir for the purpose of realization of the Leviathan-Dolphinus agreement and securing a capacity of 350,000 MMbtu per day in the EMG Pipeline and in the Additional Infrastructure, such that further to Section 1A3 above, on the date of the closing of the Transaction, out of the sum of the consideration that shall be paid by the Partnership and Noble, the sum of approx. $250 million will be paid by the Leviathan partners, such that the sum of the consideration that shall be paid by the Partnership on the date of the closing of the Transaction will be approx. $170 million, in accordance with all of the conditions of the approval of the unit holders meeting.

Note 4 – Additional Information (Cont.):

C. Engagement in agreements for the purchase of EMG shares and for the purchase of rights in the EMG pipeline (Cont.):

5. MOUs with the Tamar partners and the Leviathan partners (Cont.)

Concurrently, Noble and the Partnership signed a non-binding MOU with partners in the Tamar project, whereby subject, *inter alia*, to the signing of a binding agreement by June 30, 2019 and the closing of the EMG Transaction, the Tamar partners would pay the Leviathan partners, by June 30, 2020, the sum of $125 million (which constitutes a reimbursement of 50% of the amount due to be paid by the Leviathan partners on the date of the closing of the EMG Transaction), in consideration for EMED's undertaking to allow the transfer of gas from the Tamar reservoir for the purpose of realization of the Tamar-Dolphinus agreement, including sale on an interruptible basis already in early 2019, or a proportionately reduced amount, if the amount of the capacity of the EMG Pipeline and the Additional Infrastructure, as is approved by a competent technical entity, is lower than a capacity of 700,000 MMbtu per day. In addition, the MOUs determined mechanisms that allow the Leviathan partners to use the capacity available above 350,000 MMbtu per day, insofar as the Tamar partners do not use the capacity in full. It is emphasized that the binding agreements with the Tamar partners and the Leviathan partners, if and insofar as signed, are expected to include specific arrangements with respect to regulation of the use of the EMG Pipeline and the Additional Infrastructure, including arrangements with respect to distribution of the capacity in different cases, investments in the Additional Infrastructure and other arrangements. The binding agreements, if and insofar as signed, will be subject to receipt of the relevant regulatory approvals, including the approval of the Antitrust Authority and the approval of the Ministry of Energy, insofar as required.

In addition to the aforesaid, in proximity to the date of the signing of the Share Purchase Agreements, Delek and Noble endorsed the Tamar-Dolphinus agreement to all of the partners in the Tamar project, and the Leviathan-Dolphinus agreement to all of the partners in the Leviathan project, in accordance with the rate of the partners' rights in each one of the said petroleum assets. In this context it is noted that the Partnership and Noble have begun negotiations with Eilat Ashkelon Pipeline Co. Ltd. (EAPC) and Israel Natural Gas Lines ("**INGL**") in relation to the possibility of transmission of natural gas to Egypt through the transmission system, after the parties performed preliminary reviews of the technical aspects of this possibility. It is emphasized that at this preliminary stage, there is no certainty that the said negotiations will culminate in binding agreements or what the terms and conditions of such agreements will be (if signed).

It is clarified that the information presented above, including with respect to the possibility of the flow of gas in the EMG Pipeline in the framework of the engineering due diligence, the terms and conditions of the CLOA, if and insofar as signed, the possibilities for financing the Transaction, the costs of refurbishing the EMG Pipeline, the possibility of fulfillment of the transaction closing conditions and the possible date for fulfillment thereof, and the possibility of the signing of binding agreements with the Leviathan and/or Tamar partners, may not materialize, in whole or in part, or may materialize in a materially different manner, due to various factors over which the Partnership has no control.

Note 4 – Additional Information (Cont.):

D. Investment in Tamar Petroleum Ltd. (a "Company Accounted for at Equity" or "Tamar Petroleum"):

1. Further to Note 6 to the Annual Financial Statements, in March 2018 Tamar Petroleum purchased from Noble 7.5% (out of 100%) of the rights in the Tamar and Dalit leases, *inter alia*, in consideration for a private allotment of 43.5% of the Tamar Petroleum shares (post allotment). Pursuant to the aforesaid, the Partnership's rate of holding in Tamar Petroleum dropped to approx. 22.6% of the equity rights[8]. The Partnership's share in the results of Tamar Petroleum in the report period, and the effect of the decrease in the holding rate were included in the Partnership's share of earnings of company accounted for at equity, net item.
2. On March 20, 2018 and August 30, 2018, the board of directors of Tamar Petroleum decided on dividend distributions in the amount of approx. $32 million (approx. $0.36 per share) and in the sum of approx. $39.3 million (approx. $0.44 per share), respectively, of which the Partnership's share is approx. $7.2 million and approx. $8.9 million, respectively. The aforesaid dividends were received in April 2018 and October 2018.

E. Further to Note 8B to the Annual Financial Statements regarding an agreement for the sale of rights in I/17 Karish and I/16 Tanin leases (jointly below, the "**Leases**"), on March 27, 2018 the Partnership received a notice from Energean according to which, on March 22, 2018 Energean adopted a final investment decision in relation to the development of the Leases. Pursuant to the terms of the agreement, the Partnership is entitled to receive, starting from the date of adoption of the investment decision as aforesaid, the amount of $108.5 million, in ten equal annual installments plus interest, according to the mechanism and rate set forth in the agreement (the "**Annual Installments**"), and royalties in relation to natural gas and condensate that will be produced from the Leases (the "**Royalty from the Leases**"). It is noted that in March 2018, the Partnership received the first installment.

The financial income item in the report period for the nine months period includes a sum of approx. $53.8 million (for the three months period includes a sum of approx. $4.7 million) deriving from an update of the value of the Royalty from the Leases and the Annual Installments. Such update derives mainly from changes in the cap rates, bringing forward of the date of the investment decision on the development of the Leases, updating of the contingent resources and hydrocarbon liquids (condensate and natural gas liquids) and a production rate forecast.

Below are main parameters out of the valuations that were used to measure the Royalties and the Receivables: cap rate for the Receivables is estimated at 7.5%; the cap rate estimated for the Royalties component is estimated at 11%; the sum total of the contingent resources of natural gas and hydrocarbon liquids that were used for the valuation to measure the Royalties were estimated at approx. 67 BCM and approx. 33 MMBBL, respectively.

F. In September 2018, the Partnership released a shelf offering report, under which Delek Group offered, *inter alia*, participation units of the Partnership, within a full exchange tender offer that Delek Group wished to carry out with the shares of Delek Energy. In October 2018 (after the date of the Statement of Financial Position), Delek Group and the Partnership announced that the said tender offer had been accepted in full.

[8] It is clarified that after the date of the Condensed Interim Statement of Financial Position, Noble sold all of its holdings in the company accounted for at equity, as a result of which, the Partnership's voting rights in the company accounted for at equity decreased from approx. 16.67% to approx. 13.42%.

Note 4 – Additional Information (Cont.):
F. (Cont.)

In addition, it is noted that the period to offer securities under the Partnership's shelf prospectus was extended from May 25, 2018 to May 25, 2019.

G. In April 2018, the Israeli partners in the Leviathan project provided an additional guaranty in favor of the Israel Tax Authority (Customs) in relation to equipment which is imported by the Venture Operator for the purpose of development of the Leviathan project. The Partnership's share in the aforesaid guaranty is in the amount of approx. ILS 188 million. As of the date of approval of the Condensed Interim Financial Statements, the Partnership's share in the guaranties that were provided for the benefit of Customs in relation to the Tamar and Leviathan projects amounts to approx. ILS 375 million (as updated from time to time). In July 2018, the partners in the Leviathan Project provided another guarantee in favor of the Israel Land authority in connection with the construction of development infrastructure for the Leviathan project. The Partnership's share in the said guarantee is in the sum of approx. ILS 2.3 million.

H. Further to Note 21C1 to the Annual Financial Statements, On February 19, 2018 the Partnership announced that the CEO of the General Partner, Mr. Yossi Abu notified the Partnership that the board of directors of Delek Energy approved his appointment as the CEO of Delek Energy, subject to the receipt of all of the approvals required pursuant to law, in addition to his position as the CEO of the General Partner, and such that his main engagement will continue to be the CEO of the General Partner.

Following the aforesaid, Mr. Abu reached an agreement with the General Partner and Delek Energy, under which he will continue to serve in his current office as the CEO of the General Partner in an approx. 80% position (instead of 100%), and he will also concurrently serve as the CEO of Delek Energy in a 20% position, subject to the receipt of all of the approvals required therefor in the Partnership and in Delek Energy.

Mr. Abu will update the audit committee and the board of directors on any matter where a concern shall arise for the creation of a conflict of interests between his office as the CEO of the General Partner and his office as the CEO of Delek Energy, and he will act pursuant to their instructions on such matter. The parties agreed that the General Partner will continue to bear the entire compensation of Mr. Abu (100% position) and a settlement of accounts will be held between the General Partner and Delek Energy for bearing the share of Delek Energy (20%) of the total cost of Mr. Abu's compensation, including all of the compensation components to which he is entitled under the current employment terms pursuant to the Second Employment Agreement. Furthermore, for his service as a director in companies held by the Partnership or Delek Energy, Mr. Abu will be entitled to customary compensation.

On May 17, 2018 the general meeting of the holders of the participation units in the Partnership approved the changes in the terms of office and employment of Mr. Abu. In addition, on July 3, 2018, the board of Delek Energy decided on the appointment of Mr. Abu as CEO of Delek Energy taking effect as of July 3, 2018. As of such date, all of the changes in the terms of office and employment of Mr. Abu took effect.

Note 4 – Additional Information (Cont.):

I. On May 17, 2018, the special annual general meeting of the holders of the participation units of the Partnership approved, *inter alia*, to authorize the General Partner to perform an issue of participation units and/or securities convertible into participation units during the period from the date of the meeting's approval until May 6, 2021, in such scope and under such terms and conditions as will be determined pursuant to the General Partner's decision and subject to the entire proceeds of the issue (or issues) in the aforesaid period shall not exceed an amount in ILS to an amount equal to U.S. $300 million.

J. Further to Note 12I1 to the Annual Financial Statements pertaining to a claim to return royalties, on February 1, 2018 the plaintiffs submitted the testimonies on their behalf, and on July 8, 2018 and July 10, 2018 the defendant submitted affidavits *in lieu* of direct testimony on its behalf. At this stage, additional preliminary proceedings are being held in the claim, which are not yet finalized.

K. Further to Note 20C6 to the Annual Financial Statements pertaining to the provisions of Section 19 of the Taxation of Profits and Natural Resources Law, on April 17, 2018 the Supreme Court ruled that the appeal that was filed by the General Partner in the Partnership with the Supreme Court from the judgment of the District Court in the motion and the appeal that was filed with the Supreme Court in the matter of Isramco Negev 2 Limited Partnership, shall be scheduled to be heard on the same date and before the same panel. On May 2, 2018 the court scheduled a trial date for the purpose of completing the hearing to March 18, 2019.

L. Further to Note 12I2 to the Annual Financial Statements pertaining to the motion for class certification by an IEC consumer, in April 2018 counsel for the late petitioner filed an agreed motion to replace him with his widow, subject to the filing of a supplemental affidavit on her behalf, and on the same day the motion was granted by the court. The examinations of the affiants on behalf of the State and the examinations of the affiants on behalf of the Tamar project were conducted throughout May 2018 and June 2018. It is noted that on November 18, 2018 (after the date of the Statement of Financial Position) a motion on behalf of the petitioner to postpone the date for filing of the closing statements on behalf of the petitioner to December 31, 2018, was granted. The date for filing of the closing statements on behalf of Tamar Partners is March 31, 2019. The Partnership estimates, based on the opinion of the legal counsel, that the chances of the class certification motion being granted are less than 50%.

M. On August 31, 2018, the Partnership fully prepaid the second bond series of Tamar Bond in the total sum of $320 million (the "**Principal Amount**"), originally maturing on December 30, 2018. The prepayment amount includes the Principal Amount plus accrued interest in the sum total of approx. $2.1 million, plus a prepayment fee of approx. $1.3 million (the "**Prepayment Fee**"). It is noted that the amount of the Prepayment Fee is lower than the interest balance which would have been paid by the bond issuer, Delek and Avner (Tamar Bond) Ltd., had the second bond series of Tamar Bond been paid at its original maturity.

N. Further to Note 12C1a9 to the Annual Financial Statements regarding the electricity production tariff dispute, during the report period a settlement was signed between the Tamar partners and Oil Refineries Ltd. ("**ORL**") in which ROL paid the Tamar partners $2.3 million (the Partnership's share is the sum of $0.7 million).

Note 4 – Additional Information (Cont.):

O. Further to Note 15D to the Annual Financial Statements, during June 2018 a report was received, which was prepared at the request of the supervisor in the Partnership by an external economic advisor (the “**Advisor**” and the “**Advisor’s Report**”, respectively), which summarizes examinations made by the Advisor regarding the calculation of the investment recovery date included in a draft calculation report prepared by the Partnership, for the purpose of determining the date for the commencement of payment of royalties to the Delek Group, Delek Energy (the "**Royalty Owners**"), at the rate of 6.5% instead of a rate of 1.5% (the “**Draft Calculation**”). It is further noted that during June 2018, the rights to receive royalties in respect of the Tamar project were transferred from Delek Energy to Delek Royalties (2012) Ltd.

The main issue mentioned in the Advisor’s Report is the handling of the petroleum and gas profits levy under the Taxation of Profits from Natural Resources Law, 5771-2011, with respect to which the Advisor stated, *inter alia*, that his conclusions do not necessarily represent deficiencies in the Draft Calculation and are subject to legal and economic interpretation of the royalties agreement.

In view of the fact that the Royalty Owners include the Partnership’s control holders, the board of directors of the General Manager decided to authorize the audit committee (which comprises external and independent directors only) to handle this issue, including examining issues arising from the Advisor’s Report, clarifying the various issues vis-à-vis the royalty owners and taking any other step as the committee deems fit, at its discretion, and all in the best interests of the Partnership. According to the board’s resolution, the audit committee shall be authorized to retain the services of external, independent professional advisors at its discretion and at the Partnership’s expense, to provide legal and economic support to the process, and to determine the terms of compensation of such advisors. The audit committee has been asked to form its recommendations on the matter and present the same to the board. On September 4, 2018, the Audit Committee and subsequently the board (without directors who hold office in the control holder) approved a calculation of the investment recovery date, whereby the investment recovery date falls in January 2018 (in lieu of December 2017 according to the Draft Calculation). Modification of the investment recovery date as aforesaid mainly derives from the correction of a calculation error that was included in the Draft Calculation in respect of the financial expenses. As a result, the Partnership approached the Royalty Owners demanding restitution of approx. $2 million that had been overpaid to them, and which was repaid to the Partnership during September 2018. It is noted that the calculation was approved by the Audit Committee and the board after receiving a special report of the auditors upon completion of their special audit, at a scope determined and based on independent legal advice given to the Audit Committee. As of the date of approval of the Condensed Interim Financial Statements, the investment recovery date is still being examined by the supervisor of the Partnership and the Royalty Owners.

In addition, at the general meeting of the holders of the participation units of September 12, 2018, a budget was approved for the Partnership’s supervisor working on the examination of the investment recovery date.

Note 4 – Additional Information (Cont.):

P. On July 1 2018, the general meeting of the participation unit holders in the Partnership approved the non-distribution of profits, in order to invest the same in the purchase of rights in EMG only, in order to enable an engagement with EMG in connection with the use of the existing gas pipeline between Israel and Egypt and the facilities owned thereby, for the piping of natural gas only (see Note 4C above).

Q. On July 24, 2018, the general meeting of the participation unit holders in the Partnership approved an engagement with Delek Group in an agreement regulating the division of worker employment costs. The terms of the engagement provide, *inter alia*, that the engagement is for a period of three years commencement on the date of approval by the general meeting. The arrangement will apply to employees and officers in pre-determined areas, the scope of employment of the workers by Delek Group companies shall not exceed a 5% position on an annual average, [and?] the total cost of employment to be borne by the Delek Group includes, *inter alia*, salary, options, related benefits, a proportionate share of office costs and other office overhead.

R. Further to Note 20A4 to the Annual Financial Statements, on October 4, 2018 (after the date of the Statement of Financial Position), the Partnership released final tax certificates for an entitled holder due to the holding of a participation unit for the tax year 2014 in the Partnership and in Avner Oil Exploration, Limited Partnership, which was merged with and into the Partnership in 2017 ("**Avner**", and jointly with the Partnership: the "**Partnerships**"). It is noted that the income tax audit to the tax reports of the Partnerships for 2015 has come to an end and a tax assessment agreement was signed, but no final tax certificate has yet been released because the Income Tax Regulations (Rules for Calculation of the Tax for Holding and Selling Participation Units in an Oil Exploration Partnership), 5749-1988 are valid until June 30, 2015, and as of the date of approval of the Condensed Interim Financial Statements, the validity thereof has not yet been extended. In accordance with the aforesaid agreement, the taxable income of the Partnership and of the Avner Partnership in 2015 is approx. ILS 317.4 million and approx. ILS 293.3 million, respectively, and in respect thereof the Partnership and the Avner Partnership paid tax on account of the holders of participation units in the Partnership and in the Avner Partnership, in the sum of approx. ILS 92 million and approx. ILS 88 million, respectively.

On November 8, 2018 (after the date of the Statement of Financial Position), the Partnership released a temporary tax certificate for an entitled holder due to the holding of a participation unit for the tax year 2017. The final tax certificate for the tax year 2017 will be issued only upon completion of the Tax Authority's audit. The final certificate may be materially different to the temporary tax certificate.

S. On November 20, 2018 (after the date of the Statement of Financial Position), the board of directors of the General Partner approved a distribution to the limited partner in the sum of ILS 1 million (approx. $270 thousand), which will be used for payment of the supervisor's fee and the trustee's fee and their expenses, in accordance with the provisions of the trust agreement.

Note 4 – Additional Information (Cont.):

T. On November 20, 2018 (after the date of the Statement of Financial Position), the Partnership announced the calling of a general meeting of the participation unit holders for December 27, 2018, whose agenda includes: (1) Update of the compensation policy for officers in the Partnership and in the General Partner on insurance and indemnification of the directors and officers; (2) Approval of framework terms and conditions for a period of three years for future engagements of the General Partner and/or the Partnership in a D&O liability insurance policy in the Partnership and in the General Partner, as part of a group insurance policy that is taken out by the Delek Group.

U. Further to Note 12I3 to the Annual Financial Statements regarding a motion for class certification (the "**Motion for Certification**") with respect to the merger transaction between the Partnership and the Avner Partnership, it is noted that on October 15, 2018, a pretrial was held in the Motion for Certification in which the parties agreed to try to reach a stipulation regarding the petitioners' motion for a discovery and inspection order, and deliver a notice to the court on the matter within 60 days.

Notes to the Condensed Interim Financial Statements as of September 30, 2018 (Dollars in thousands)

Note 5 – 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 issued bonds whose fair value, as of September 30, 2018, is approx. $1,368.2 million (as of December 31, 2017: approx. $1,695 million, as of September 30, 2017: approx. $1,747.3 million), and whose book value is approx. $1,363.2 million (as of December 31, 2017: approx. $1,664 million, as of September 30, 2017: approx. $1,682.2 million).

B. Set forth below are figures regarding the fair value hierarchy of the financial instruments measured at fair value which were recognized in the Condensed Statements of Financial Position:

	30.9.2018			
	Unaudited			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss:				
- Bonds	85,774	-	-	85,774
- Structured deposits[9]	25,283	-	24,794	50,077
- Contingent proceeds from the sale of the Karish and Tanin leases in respect of future-production-based royalties (See Note 4E above)[10]	-	-	120,100	120,100
- Receivables from the sale of the Karish and Tanin leases in respect of a final investment decision for the development of the Karish Tanin leases (See Note 4E above)[11]	-	89,900	-	89,900
- ETFs	24,494	-	-	24,494
Total Financial Assets	135,551	89,900	144,894	370,345

[9] In the report period, structured deposits at Level 3 in the amount of approx. $35 million were repaid (in the 3-month period ended on September 30, 2018 - 0), structured deposits in the amount of approx. $15 million were purchased (in the 3-month period ended on September 30, 2018 - 0) and the balance of the deposits was revaluated at the amount of approx. $80 thousand (expense) (in the 3-month period ended on September 30, 2018 - $33 thousand (expense)).

[10] In the report period, the balance was revaluated at the amount of approx. $32.5 million (income) (in the 3-month period ended on September 30, 2018 - $4.1 million (income)).

[11] In the report period approx. $10.8 million were received (in the 3-month period ended on September 30, 2018 - 0). The balance was revaluated at approx. $21.25 million (income) (in the 3-month period ended on September 30, 2018 - $0.8 million (income)) and classified from Level 3 to Level 2.

Notes to the Condensed Interim Financial Statements as of September 30, 2018 (Dollars in thousands)

Note 5 – Financial Instruments (Cont.):
Fair value of financial instruments (Cont.):
B. (Cont.):

	30.9.2017			
	Level 1	Level 2	Level 3	Total
	Unaudited			
Financial assets at fair value through profit or loss:				
- Bonds	66,936	-	-	66,936
- Contingent proceeds from the sale of the Karish and Tanin leases in respect of future-production-based royalties (see Note 4E above)[12]	-	-	80,800	80,800
- ETFs	4,077	-	-	4,077
Financial assets available for sale:				
- Contingent proceeds from the sale of the Karish and Tanin leases in respect of a final investment decision for the development of the Karish Tanin leases (see Note 4E above)[13]	-	-	71,700	71,700
Total Financial assets	71,013	-	152,500	223,513
Financial liabilities at fair value through profit and loss:				
- Financial derivatives[14]	-	-	(73)	(73)
Total Financial liabilities	-	-	(73)	(73)
Total assets, net of liabilities	71,013	-	152,427	223,440

[12] During the 9-month period ended September 30, 2017, the balance was revaluated at approx. $7.1 million (income) (in the 3-month period ended September 30, 2017, $4.1 million (income)).

[13] During the 9-month period ended September 30, 2017, the balance was revaluated at approx. $5.1 million (income) (in the 3-month period ended September 30, 2017, $3.5 million (income)).

[14] During the 9-month period ended September 30, 2017, the balance was revaluated at approx. $505 thousand, which was recognized in profit or loss in the financial expenses item (in the 3-month period ended September 30, 2017, approx. $0 thousand).

Notes to the Condensed Interim Financial Statements as of September 30, 2018 (Dollars in thousands)

Note 5 – Financial Instruments (Cont.):
Fair value of financial instruments (Cont.):
B. (Cont.):

	31.12.2017			
	Level 1	Level 2	Level 3	Total
	Audited			
Financial assets at fair value through profit or loss:				
- Bonds	95,070	-	-	95,070
- Contingent proceeds from the sale of the Karish and Tanin leases in respect of future-production-based royalties[15]	-	-	88,600	88,600
- ETFs	14,093	-	-	14,093
Financial assets available for sale:				
- Contingent proceeds from the sale of the Karish and Tanin leases in respect of a final investment decision for the development of the Karish Tanin leases[16]	-	-	78,500	78,500
Total financial assets	109,163	-	167,100	276,263
Financial liabilities at fair value through profit or loss:				
- Financial derivatives[17]	-	-	(126)	(126)
Total financial liabilities	-	-	(126)	(126)
Total assets, net of liabilities	109,163	-	166,974	276,137

Note 6 – Events Subsequent to the Date of the Statements of Financial Position:

A. For details on additional agreement with Jordanian consumers, see Note 4A3 above.

B. For details on a decrease in the voting rights in a company accounted for at equity, see Note 4D above.

C. For details on the Delek Group's and the Partnership's announcement regarding the exchange tender offer, see Note 4F above.

D. For details on an update to the motion for class certification, se Note 4L above.

E. For details on tax certificates of the Partnership, see Note 4R above.

F. For details on distribution to the limited partner, see Note 4S above.

G. For details on calling a general meeting, see Note 4T above.

[15] In 2017, the balance was revaluated at approx. $14.9 million that was recognized in profit or loss in the financial income item.

[16] In 2017, the balance was revaluated at approx. $11.9 million of which approx. $2.1 million were recognized in other comprehensive income and approx. $9.8 million were recognized in profit or loss in the financial income item.

[17] In 2017, the balance was revaluated at approx. $558 thousand that was recognized in profit or loss in the financial expenses item.

Report on the Effectiveness of Internal Control

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 the general partner in Delek Drilling – Limited Partnership (the "**General Partner**" and "**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. Asi Bartfeld, Chairman of the Board of the General Partner;
2. Yossi Abu, CEO of the General Partner;
3. Yossi Gvura, Deputy CEO and Market Risk Manager;
4. Yaniv Friedman, Deputy CEO.

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

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

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

In the quarterly report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the quarterly report for the period ended on June 30, 2018 (the "**Most Recent Quarterly Report on Internal Control**"), the internal control was found to be effective.

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

As of the date of the report, based on the evaluation of the effectiveness of the internal control in 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 Q3/2018 (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 auditor, the board of directors and to 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 for Q2/2018) and the date hereof, which can change the conclusion of the board of directors and the management of the Partnership's General Partner with regard to the effectiveness of internal control over 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 20, 2018	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 Q3/2018 (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 auditor 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 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 for Q2/2018) 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 of directors and the 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 20, 2018	Yossi Gvura, CPA Deputy CEO

Valuations

Delek Drilling – Limited Partnership

Valuations of Royalties and the Debt Component

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

****

November 2018

This document is a translation of the original Hebrew-language document of Giza Singer Even Ltd. of November 2018. 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.

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1. Introduction and Limitation of Liability

1.1 General

This work (the "**Work**" 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 "**Leases**") as of September 30, 2018 (the "**Valuation Date**") according to the management's requirement. We are aware that the Work is intended to be used by Delek Drilling, *inter alia*¸ for quarterly and periodic financial statements, and therefore we agree that the Work 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, all as specified in the engagement letter of November 3, 2016.

For the preparation of the Work 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 Work furnished to you does not constitute a verification to the correctness, integrity and accuracy of this Information. An economic valuation is supposed to reflect in a reasonable and fair manner a given situation at a certain time, based on known data and while referring to basic assumptions and forecasts which were evaluated.

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

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

The Work 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 Work may change. We reserve the right for ourselves, to re-update the Work in view of new data which were not presented to us. For the avoidance of doubt, this Work is valid as of the date of signing hereof only.

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

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

We shall further note that upon our valuation of the consideration, we relied on the assumption that the transaction for the sale of rights in the Karish and Tanin Leases was made at market conditions between a willing buyer and seller, and we were not presented with any information which might contradict this assumption.

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 Work. Furthermore, we confirm that our fee is not dependent on the results of the Work.

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 Work 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>

- Periodic report of the Partnership for 2017
- Information regarding the terms of the transaction and forecasts received from the Partnership
- Prospectus released by Energean Oil & Gas plc (the parent company of Energean Israel Limited) of March 16, 2018 (the "**Prospectus**") including the resource report prepared by Netherland Sewell and Associate Inc. ("**NASI**")
- Agreement for the sale of the rights in the Karish and Tanin Leases
- Immediate reports of publicly traded companies and overt 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 Work was carried out by a team headed by CPA Eitan Cohen, a partner and head of the economic department at Giza Singer Even with experience of over ten years in the fields of economic and business advisory, company valuations and financial instruments. In the past he served as the head of the economic department in an entrepreneurial company in the field of infrastructures and as a manager at the economic department of KPMG (Somekh Chaikin). Eitan is an accountant, holds a BA in economics and business administration from the Ben Gurion University and an MSc in Financial Mathematics from Bar Ilan University.

Sincerely,

GSE Financial Advisory

November 18, 2018

2. Executive Summary

2.1 Background

Delek Drilling is a public limited partnership (in the meaning thereof in the Partnerships Ordinance) listed for trade 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 are the quantities of natural gas and hydrocarbon liquids (condensate and natural gas liquids) at the Karish and Tanin reservoirs (100%) as released in the Prospectus of Energean Oil & Gas plc, the parent company of Energean Israel Limited[2] ("**Energean**" and/or the "**Purchaser**") of March 16, 2018[3]:

Lease	Reserves and Contingent Resources*	
	Natural Gas (BCM)	Hydrocarbon Liquids (MMBBL)
Karish	45.0	28.7
Tanin	21.7	4.1
Total	**66.7**	**32.8**

*The proved and probable reserves in the 2P category constitute more than 90% of the aggregate quantity of natural gas in the reservoir, according to Energean's report of August 16, 2018 on the London Stock Exchange. It is noted that Energean has not released a third party resource report that is updated in a manner consistent with the aforesaid release.

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**"), the Partnerships and Noble Energy Mediterranean ("**Noble**") were required, *inter alia*, to sell their holdings in the Karish and Tanin reservoirs in order to comply with the conditions which would entitle them to an exemption from several provisions of the Antitrust Law, 5748-1988 (the "**Antitrust Law**").

On August 16, 2016, an agreement was executed for the sale of all of the rights in Karish and Tanin between Delek Drilling and Avner 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[4] (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

[2] Formerly Ocean Energean Oil and Gas Ltd.
[3] According to the NSAI resource report attached to Energean Prospectus, Net Resources
[4] Making of a Final Investment Decision (FID) regarding the development of the Leases or on the date which the total expenses of the Purchaser regarding the development of the Leases cost $150 million (whichever is earlier).

of the rate of the existing royalties[5], by which the Partnership is charged regarding the original share of Delek Drilling and Avner in the Leases (the "**Royalties**'). On December 27, 2016, the Partnerships announced that the conditions precedent for the closing of the transaction were fulfilled. On March 27, 2018, Energean notified the Partnership of the adoption of a decision of investment for the development of Karish reservoir.

2.2 Results of the Valuation

The valuation of the consideration was performed in the Discounted Cash Flow (DCF) method. According to the assumptions specified in the Work itself, the value of the Royalties in the transaction as of the Valuation Date is estimated at approx. $120.1 million. For specification regarding the valuation of the Debt Component, see Annex B.

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

		Change in the Natural Gas Price Vector (U.S. $ per mmbtu)						
		(1.50)	(1.00)	(0.50)	-	0.50	1.00	1.50
Change in Cap Rates (in Base Points)	+250bp	84.8	89.3	95.6	100.4	105.3	110.0	116.8
	+150bp	91.0	95.9	102.6	107.7	113.0	118.0	125.3
	+50bp	98.0	103.1	110.3	115.7	121.5	127.0	134.8
	-	101.7	107.0	114.5	**120.1**	126.1	131.8	139.9
	-50bp	105.6	111.1	118.9	124.7	130.9	136.9	145.3
	-150bp	114.1	120.0	128.4	134.6	141.4	147.9	157.0
	-250bp	123.6	130.0	139.0	145.7	153.1	160.2	170.0

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

3. Description of the Partnership's Business

3.1 Description of the Partnership

Delek Drilling is a limited partnership (within the meaning thereof in the Partnerships Ordinance) listed for trade 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 applicable to the Partnership as of the date of this Work:

Overriding Royalties	For 50% of the Revenues from the Karish and Tanin Leases	For 50% of the Revenues from the Karish and Tanin Leases
Offshore petroleum assets	3% before the Investment Recovery Date[6]	6%
	13% after the Investment Recovery Date	
Onshore petroleum assets	5% before the Investment Recovery Date	
	15% after the Investment Recovery Date	

3.2 Description of the Business Field

3.2.1 General

As aforesaid, the main field of business of the Partnership, is the exploration, development and production of petroleum, natural gas and condensate, in Israel and in Cyprus and the review of various infrastructure alternatives for natural gas flow to other target markets. The nature 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 as specified below:

[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 petroleum 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 petroleum 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**" after the deduction of all of the production costs 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 petroleum 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 and to interested parties in the Partnership, see Section 7.25.12 of the periodic report for 2017 of Delek Drilling.

- "Preliminary Permit" is intended to allow the permit holders a sufficient time margin to carry out inspections in order to estimate the chances of discovering hydrocarbons (except for exploration wells) and it is granted for a period of up to 18 months.

- "License" grants the license holder a right to explore natural gas and petroleum in the license area and to drill exploration wells. The license is granted for a period of up to 7 years.

- "Lease" grants the receiver of the lease the right to explore and produce natural gas and petroleum and is valid for a period of 30 years with an option for an extension of 20 additional years.

In addition, the Natural Gas Sector Law, 5760-2000 regulates mainly the issue of transmission, distribution and marketing of natural gas in Israel.

The natural gas sector in Israel began developing upon the discoveries of the natural gas reservoirs Noa and Mari B in the years 1999-2000, these discoveries allowed companies in the market, headed by the Israel Electric Corporation, 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 energetic independence of Israel and the development and expansion of uses of natural gas in the Israeli market.

3.2.2 Exploration and Development of Natural Gas Reservoirs

Exploration and development of natural gas reservoirs is a long and complex process, characterized by extensive uncertainty and significant capital investments throughout the entire stages of the process. There are material differences between the exploration and development of natural gas reservoirs onshore which are considered relatively simple and exploration and development offshore, which require larger money inputs and unique technologies, under more complex and dangerous conditions.

A typical process of exploration, development and production of natural gas in any area may include, *inter alia*, the following stages: Initial analysis of existing geological and geophysical data, for the selection of areas presenting exploration potential; Performance of geophysical surveys; the drilling of an exploration well and other tests (at this stage there is a possibility of discovering a dry well and cessation of the process); final analysis of the results of the drilling and, in the event of a natural gas finding, performance of an analysis of financial data and initial evaluation of the format and cost of development; formulation of a development plan and preparation of a financial plan for the project; final analysis of the data and making a decision whether the finding (the discovery) is commercial (at this stage too it is possible that the survey results will indicate that the finding is not commercial and the development of the reservoir will be ceased); performance of the reservoir's development work, including the drilling of production wells, laying pipelines, building treatment facilities etc.; regular operation and maintenance.

The natural gas market in Israel is young relative to other gas markets in the world, and for the purpose of developing it in the best effective manner, cooperation is required with multi-national companies which will provide the local players resources, knowledge and experience. In this context we shall emphasize that multi-national companies can invest and operate throughout the world, and they naturally weight, within the calculation of their cost-effectiveness, the potential profitability and the actual profitability in different locations around the world compared with the restrictions, costs and risks derived from the geopolitical condition and the regulatory environment in each area.

3.2.3 Benefits

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 operate by means of natural gas turbines and are characterized by low construction costs[7], shorter construction time, smaller areas of land[8] and many operational advantages. In addition to the relatively low price, natural gas is a more efficient energetic source than other fuels and it allows power plants and enterprises to reach a high energetic efficiency level which is also ultimately reflected in cost saving[9]. According to the estimates of the Natural Gas Authority[10], the transition to natural gas in the years 2004-2017 saved the Israeli market an estimated total of approx. ILS 54.4 billion. Most of such saving derives from the electricity sector, total consumption by which in 2017 amounted to approx. 8.5 BCM, which represents 83% 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, total consumption by which in 2017 amounted to approx. 1.8 BCM.

- **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 a higher ratio of Carbon and Nitrogen and Sulphur components, then upon their combustion contaminants at higher contamination levels are released, including ash particles of materials which are not burned but are present in the atmosphere and add to the air pollution. The natural gas combustion on the other hand, releases a small quantity of contaminants while reducing air pollution and maintaining a cleaner and healthier environment.

- **Energetic Independence** – The geopolitical characteristics of Israel make it an energetic island which cannot import fuels from neighboring countries and 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 will provide the Israeli industry energetic security in the long term and will reduce its dependence on international energy prices.

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

[8] The natural gas is transported by an underground pipe and unlike other fuels, requires no storage areas.

[9] Power plants operated with coal or fuel oil only utilize approx. 40% of the initial energy directed to the production of electricity. A combined cycle power plant combining a gas turbine and a steam turbine is more efficient and uses 55% of the energy. Cogeneration stations utilizing the thermal energy produced in the production process reach an efficiency level of approx. 80%.

[10] https://www.gov.il/BlobFolder/guide/natural_gas_basics/he/ng_2017.pdf.

- **Natural gas as a governmental source of income through taxation -** The Israeli natural gas market is expected to benefit the local economy also directly 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 and similarly to all of the other fuel products, the natural gas is also subject to excise tax. Furthermore, according to the Petroleum Law, the State is entitled to charge royalties at a rate of approx. 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 approx. 20%-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.

3.2.4 Customers

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

- **Israel Electric Corporation** (IEC) – The IEC constitutes for the Tamar Project partners a very important anchor customer, *inter alia*, for the obtaining of financing for the construction of infrastructure for production of natural gas and development of the reservoirs. In fact, without the existence of the transaction for the sale of natural gas to the IEC, it might not have been possible to secure the financing required for the development of the Tamar Project. 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 2017, consumption of natural gas for electricity production constituted approx. 83%[11] of the total natural gas consumption in the market, similarly to 2016. The share of the IEC represented approx. 63% of the natural gas consumption for electricity production in 2017, compared with approx. 61% in 2016, approx. 65% in 2015 and approx. 74% in 2014.. The remaining demand is by private electricity producers and this trend is expected to continue in the coming years.

- **Private Electricity Producers** – In terms of the volume of natural gas consumption, the tier of private electricity producers ("**PEPs**") is second to the IEC in importance. In 2017, consumption by PEPs totaled approx. 3.2 BCM[12].

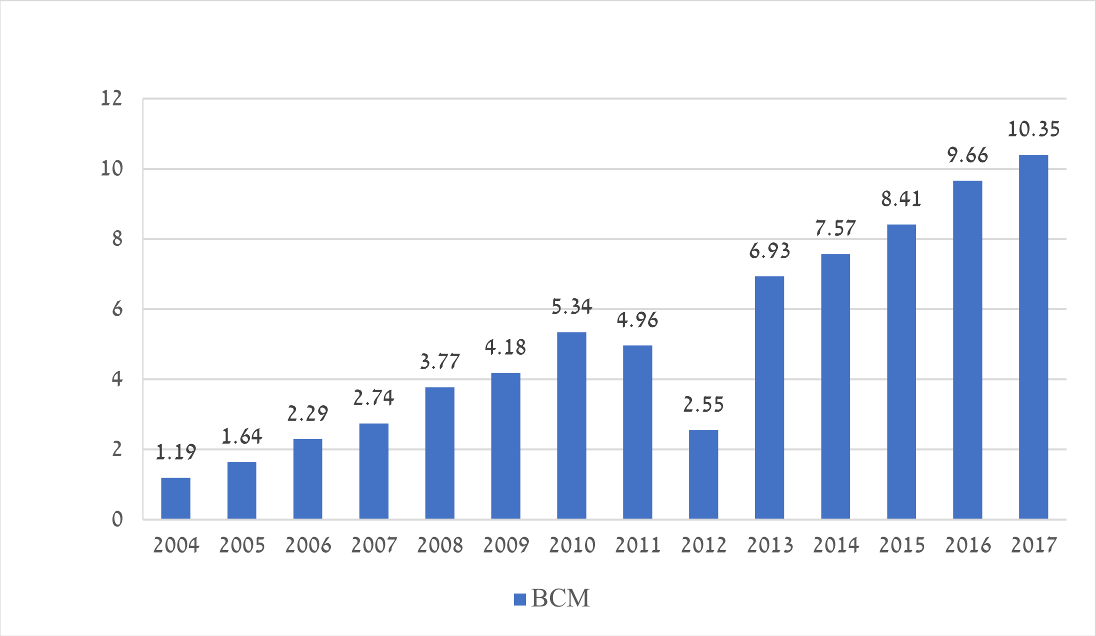
  Private electricity producers are divided into several types, according to the production technology which they use: conventional PEP, cogeneration facilities, pumped energy, renewable energies PEPs and large enterprises that constructed power plants for themselves for which they received a self-production license. As to the status of the PEPs in the natural gas sector, Section 93 of the Natural Gas Sector Law defines that natural gas sold to a PEP is a product subject to control under the Control of Prices of Commodities and Services Law, 5756-1996.

[11] https://www.gov.il/BlobFolder/guide/natural_gas_basics/he/ng_2017.pdf
[12] Including gas consumption by industrial plants for electricity production purposes.

- **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 electricity needs, constituting only part of the production capacity of the power plant, and the sale of the produced electricity to external consumers or to the IEC. Accordingly, the natural gas purchase agreements signed by most of the large industrial enterprises thus far also have the characteristics of agreements with private power plants. In 2017, total natural gas consumption by the industry sector amounted to approx. 1.81 BCM[13], an increase of 11% compared with 2016. The increase chiefly derives from the connection of new consumers to the distribution network and 4 additional consumers that consume CNG[13].

- **Medium and small consumers** – The distribution networks' consumers sector which includes mainly medium and small enterprises and businesses, such as laundries and bakeries, 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 Condensed Natural Gas (CNG) – a temporary and not optimal solution, as the cost of consumption can reach twice the cost of the liquidated natural gas.

- **Chart 1 – Natural Gas Consumption in the years 2004-2017 (Source: the Natural Gas Authority)**



[13] Excluding gas consumption by industrial plants for electricity production purposes.

3.2.5 Demand Forecast

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

- **Transition to the use of natural gas by private electricity producers and industrial plants** – In 2013, private electricity producers started using natural gas. In addition, the demand in the industrial sector grew and in recent years there is significant conversion from use of petroleum distillates in the industry to use of natural gas. There is also a trend of connecting additional industrial plants to the natural gas distribution network.

- **Increasing the demands in the electricity sector -** In recent years a trend is apparent for the conversion from using petroleum and coal distillates at the IEC power plants to the use of natural gas (in December 2015, the Minister of Energy, Dr. Yuval Steinitz decided of the reduction of 15% use of coal for electricity production in 2016 compared with 2015). Commencing in 2017 another reduction of 5% occurred and in total, a reduction of 20% compared with the use made in 2015.

  In August 2016 the Minister of Energy announced his decision to shut down four coal production units of IEC upon the connection of three gas reservoirs to the shore and the construction of new natural gas operated power plants within up to six years. Following 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 January 1, 2022. On May 28, 2017, the website of the Ministry of Energy released a notice regarding the decision of the Minister of Energy according to which the private sector will construct the natural gas operated power plants instead of the coal units 1-4 at the "Rabin Lights", *inter alia,* in order to ensure compliance with the timetables that he prescribed for the cessation of coal use at these units.

  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 January 2018 the Minister of Energy announced that he had decided to instruct the IEC to reduce the use of coal for electricity production at a rate of 30% compared with 2015 according to the announcement of the Ministry of Energy and the Ministry of Environmental Protection, this decision will lead to significant reduction of air pollution from the coal power plants and is expected to increase demand for natural gas in the market. According to the announcement of the Ministries, these steps, which were approved by the Minister of Energy, as well as power plants according to the Clean Air Law, 5768-2008 will lead to more than 70% of the electricity production in the market relying on natural gas and renewable energies in the end of 2018.

  In March 2018 the Finance Committee of the Knesset and thereafter the Plenum of the Knesset approved the orders, in which it was provided, *inter alia*, that commencing on March 15, 2019 the excise tax on coal will be increased by approx. 125% in view of the government's policy to gross up external costs of fuels and encourage the expansion of use of natural gas.

In addition, it was decided that from January 1, 2024, the excise tax on compressed natural gas (CNG) will increase gradually, subject to the existence of no less than 25 CNG fueling stations that shall receive all of the approvals required for operation. It was further determined that from May 1, 2018, the reimbursement of excise on diesel oil, which is used mainly for transportation purposes, will gradually be cancelled.

On June 3, 2018, the government approved a reform in the electricity sector and at the IEC (the "Reform"). The Reform includes, *inter alia*, the following steps which will be carried out in the course of the next eight years:

a. The IEC will sell, during the next 5 years, around 19 production units, which it currently holds, at 5 different sites, which constitute approx. one half of the production of electricity using gas: (a) Alon Tavor – within 18 months from the date of approval of the Reform; (b) Ramat Hovav – within two and a half years from the date of approval of the Reform; (c) Reading – within three years from the date of approval of the Reform; (d) eastern Hagit – within four years from the date of approval of the Reform; (e) Eshkol – within five years from the date of approval of the Reform.

b. The IEC will build two modern production units using natural gas at Orot Rabin, as part of the trend to reduce the use of coal in the electricity production process, as was expressed also in the notice of the Minister of Energy of January 3, 2018, as specified above, in lieu of the coal units 1 to 4 which are expected to close down .This activity will be incorporated in a wholly-owned subsidiary of the IEC.

Further to the foregoing approval of the Reform, on July 29, 2018 the government approved cessation of the current operation of the (coal-fired) electricity production units 1 to 4 at the Orot Rabin power plant, subject to fulfillment of conditions precedent (connection of three natural gas suppliers to the shore and commencement of operation of a first CCGT (combined cycle power plant) with a capacity of approx. 600 watts which will be built by a subsidiary of the IEC) from June 2022.

On October 9, 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 by means of using 80% natural gas and 20% renewable energies as of 2030, with a final shutdown of the coal-based 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.

The aforesaid has several main advantages, including, *inter alia*, the reduction of electricity production costs, since the natural gas is a more efficient energy source compared with the main energy sources currently used by the IEC (coal, diesel oil and fuel oil). Natural gas is also a cleaner source of energy compared with the sources of energy mentioned above, thereby increasing the demand for natural gas on account of more contaminating sources of energy.

- **Improvement in the diplomatic relations with neighboring countries** – 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. In this context we shall note the export agreement signed on September 26, 2016 between the Leviathan Partnership and the Jordanian electric corporation (NEPCO), for the supply of natural gas in a total amount of approx. $10 billion (we note that the conditions precedent in the agreement have been fulfilled, and that the gas transmission pipeline is currently under construction), and the agreements signed on February 19, 2018 between the Tamar and Leviathan partnerships and the Egyptian Dolphinus, for the supply of natural gas in a total sum of approx. $15 billion. It is noted that on September 27, 2018, an agreement was signed (subject to the fulfillment of conditions precedent, as specified in the Partnership's report) between EMED (a company held by Delek Drilling (25%), Noble Energy (25%) and the East Gas Company (50%)) for the acquisition of 39% of EMG, which owns an underwater pipeline for the transport of natural gas between Israel and Egypt, in order to execute the agreement with Dolphinus, as described above.

According to publications by the Ministry of Energy, the amount of natural gas consumed in the market in 2017 totaled approx. 10.35 BCM, an increase of approx. 7% compared with 2016. Total natural gas consumption for electricity production was estimated at approx. 8.5 BCM, representing approx. 83% of the total natural gas consumption. Furthermore, natural gas consumption by the industry sector was estimated at approx. 1.81 BCM.

The natural gas demand forecast released by the Gas Authority[14] is based, *inter alia*, on continued growth of electricity consumption with a multi-annual average of approx. 3%, with minimal use of diesel oil and fuel oil, reliance on coal plants at a similar scope to the current scope, except for the construction of new plants (assuming that coal units at the Rabin Lights power plant will not be converted to the use of natural gas), transition to natural gas as a primary fuel for electricity production commencing in 2014 and gradual assimilation of renewable energies. Furthermore, the forecast takes into account gradual conversion into use of natural gas in transportation, as well as local production of methanol and ammonia in the petrochemical industry.

According to forecasts that were published by various entities in the market, including forecasts which were included in the Tamar reservoir's partners reports to TASE, the level of demand for natural gas in the years 2020 and 2025 will be approx. 14 BCM and 20.3 BCM, respectively.

[14] Source: http://energy.gov.il/Subjects/NG/Pages/GxmsMniNGEconomy.aspx.

3.2.6 Regulatory Environment

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

- **Antitrust and exemption from the provisions of the Antitrust Law** – In 2012 the Antitrust Commissioner declared the partners in the Tamar Project as holding a monopoly in the supply of natural gas in Israel. Following the declaration, restrictions may be imposed on the activity of the partners in the Tamar Project, by virtue of the Antitrust Law. Furthermore, during the years 2011-2014 the Antitrust Commissioner considered declaring the partners in the Leviathan Project as taking part in restrictive arrangements pertaining to the marketing of natural gas from the Leviathan reservoir.

  The Gas Framework grants an exemption to Delek Drilling, Noble and Ratio regarding the restrictive arrangements pertaining to the Leviathan reservoir. The Gas Framework grants an exemption from Delek Drilling and Noble being the holders of a monopoly with respect to the Tamar and Leviathan reservoirs (the "**Exemption**"). The grant of the Exemption as described above is subject to the fulfillment of the following conditions:

  - The sale of the rights of Delek Drilling and Noble in the Karish and Tanin reservoirs to a third party, not related to any of them, within 14 months from the date of grant of the Exemption or from the date of release of a new regulation draft by the Petroleum Commissioner pertaining to the qualifying conditions for an operator, whichever is later. The condition defines a minimal price as the lower of $40 million or the total consideration paid for all of the rights in Karish and Tanin. We shall note that 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 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. As of the date of the Work, the Partnership holds 22% of the Tamar reservoir. Furthermore, we shall note that 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.

  - 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.

- **Royalties to the State of Israel** – Under the Petroleum Law, a lease holder is charged with 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 manner of calculation of the value at the wellhead for the Tamar reservoir is under discussion between the Petroleum Commissioner and the partners in the Tamar reservoir and the manner of calculation has not been set yet. Currently the Tamar partnerships pay advance payments on account of royalties at the rate of 12% of the Tamar Project revenues. The manner of calculation of the royalties for the Leviathan, Karish and Tanin reservoirs has not been determined yet.

- **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.

- **Price Control** – In the period between the taking effect of the Gas Framework until the fulfilment of the entire conditions of the Exemption, the price control in the natural gas sector by virtue of the Antitrust Law will be limited to the imposition of reporting requirements regarding profitability and the gas price, provided that during this period the holders of rights in Tamar and Leviathan shall offer potential consumers a price based on the weighted average price of the prices in the agreements existing in the reservoirs or prices in export agreements. Following is a summary of the price and linkage alternatives released within Government Resolution 476 of August 16, 2015:

  - **Alternative 1** – A price which will be set and updated according to the formula P(T) = R(T-2)/Q(T-2). With P(T) being the base price; R(T-2) being the amount of revenues from the total sales of natural gas carried out in the quarter preceding the quarter which preceded the date of execution of the agreement by the holder of a lease; and Q(T-2) being the aggregate amount of natural gas, supplied to the consumers in the quarter preceding the quarter which preceded the date of execution of the agreement by a holder of a lease. The base price will be updated based on the result obtained from the calculation according to the aforesaid formula.

  - **Alternative 2** – A price which will be set according to the price of a Brent oil barrel, as calculated according to the formula optimal for the consumer prevailing on the date of resolution, in agreements of the lease holders for supply from the "Tamar" field.

  - **Alternative 3** – The holders of rights in the leases will offer the potential consumers who are Private Electricity Producers (PEP) holding a license for installed capacity of

20 Megawatt or more per site, in addition also the alternative which includes linkage to the weighted production tariff published by the PAU-E as specified below:

- **Conventional electricity producers** – simple average of the prices set in the contracts of the three large PEPs, and of the linkage under such contracts;

- **Cogeneration electricity producers –** simple average of the prices set on the date of the government resolution in the cogeneration contracts linked to the weighted production tariff and the linkage under such contracts;

The aforesaid averages will be calculated by the Natural Gas Authority according to data provided thereto by the holders of rights in the leases. Following are the linkage formulas for private electricity producers for Q1/2018:

<u>Conventional Private Electricity Producer</u>

CP$ = 5.71 * (53.3%* Pt/Pt0 + 46.7%* Pt/Pt0 * Ns0/Ns)

<u>Cogeneration Private Electricity Producer</u>

CP$ = 5.81 * (90%* Pt/Pt0 + 10%* Pt/Pt0 * Ns0/Ns)

Whereby:

CP$	-	Indexed monthly price in $ per MMBTU
Pt	-	Production component tariff known on the last date of the month preceding the month of calculation of the price
Pt0	-	Base production component tariff = ILS 0.3463 per kilowatt per hour
Ns	-	Monthly average of Shekel-Dollar exchange rate as of the month of calculation of the price
Ns0	-	Dollar base rate = ILS 3.65 per Dollar

The lease holders will offer the consumer a floor price according to the offering in the existing agreements according to increments of $5.2 per MMBTU, $5 per MMBTU and $4.7 per MMBTU and the update mechanism will begin according to the last change which occurred in the production component. As of January 2018, the floor price is $4.7 per MMBTU.

- The option to choose among the price alternatives specified above will be made available to the Purchaser only just before the engagement in a contract. Furthermore, the holders of rights in the leases will be entitled to offer the potential consumers a discount on prices deriving from the alternatives specified above. In addition, the parties to the agreement will be entitled to elect any method of updating the base price, provided that it will be reasonable and accepted in the natural gas agreements in Israel or worldwide. In such case, the base price will be updated according to the linkage method selected.

3.2.7 Transactions for the purchase of natural gas from Karish and Tanin gas reservoirs

In December 2017 an agreement was executed for the sale of natural gas between Energean and 3 companies held by the Israeli Corporation Ltd. (Israel Chemicals ("**ICL**"), Oil Refineries Ltd. ("**ORL**") and OPC Energy Ltd. ("**OPC**") which is the second largest natural gas consumer in Israel after IEC, at a total scope of approx. 39 BCM for 15 years.

The price mechanism between Energean and ICL and ORL, which are the main purchasers in the transaction (purchased 30 BCM of the total amount) is set as follows:

<u>When PT is larger than 43.47</u>:

$CP = 3 + ((P_0 * PT/PT_0) * 0.5)$

<u>When PT is smaller than 43.47</u>:

$CP = P_0 * PT/PT_0$

Whereby:

P0	-	$3.975 per MMBTU of natural gas
PT0	-	Equal to 28.8
PT	-	The weighted average of the production component tariff as published from time to time by the PAU-E
Ns	-	Monthly average of Shekel-Dollar exchange rate as of the month of calculation of the price

In Addition, within the aforesaid agreements, there is a floor price of $3.975 per MMBTU of natural gas.

The price mechanism between Energean and OPC is set as follows:

CP = P0 * PT/PT0

Whereby:

P0	-	$3.975 per MMBTU of natural gas
PT0	-	Equal to 28.0 when PT is higher than 26.4 Equal to 26.4 when PT is lower than or equal to 26.4
PT	-	The weighted average of the production component tariff as published from time to time by the PAU-E

Furthermore, within the aforesaid agreements, there is a floor price of $3.975 per MMBTU of natural gas when PT is larger than or equal to 26.4 and a floor price of $3.8 per MMBTU of natural gas when PT is smaller than 26.4.

3.2.8 Risk and Uncertainty Factors

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

- **Changes in the electricity production tariff, price indices, alternative energy sources prices** – The prices paid by the consumers for the natural gas derive, *inter alia*, from the electricity production tariff, the Shekel/US Dollar exchange rate, the US consumer price index and the prices of fuels alternative to gas such as fuel oil, diesel oil and Brent. Furthermore, a significant change in alternative energy sources could lead to a change in the use model of the IEC such that priority shall be granted to power plants operated by energy sources alternative to gas. A decline in tariffs can adversely affect also the prices which will be obtained from the Karish and Tanin reservoirs and the economic merit in the development thereof.

- **Competition on gas supply** – In recent years, several significant gas reservoirs were discovered in Israel in amounts which significantly exceed the estimates of the Ministry of Energy regarding the needs of the local market. In addition, in 2015, a material natural gas reservoir was discovered in Egypt ("**Zohar**") and in 2018, a natural gas reservoir was discovered in Block 6 in Cyprus, these reservoirs could have a negative effect on the capacity of natural gas export from Israel on the one hand, and they could lead to an increase in competition in the natural gas market in Israel by increasing the supply (through import) on the other hand. 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.

- **Dependence on the proper working order of the 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 national transmission system for the supply of gas and of the regional distribution networks.

- **Operational risks and lack of sufficient insurance coverage** – Petroleum and gas exploration and production activities are exposed to a variety of risks, such as uncontrolled eruption of liquids and gas from the well, explosion, collapse of the well and other events which could affect the functioning of the production and transmission system, each of which could cause destruction or damage to petroleum or gas wells, the transmission and production facilities, exploration equipment etc. 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 purchaser could also waive the performance of certain activities required according to the work plan of the reservoirs and lose its rights therein as a result.

- **Regulatory Changes** – The field of activity 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 Defense, the Ministry of Environmental Protection, the tax authorities 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 field of activity and several resolutions, laws and directives were released, the implementation of which could have a negative effect on the reservoirs' operations.

- **Further risk factors** – There are other factors which contribute to the uncertainty prevailing in the field of activity including dependence on subcontractors, difficulties in obtaining financing, dependence on weather and sea conditions, cancellation or expiration of rights and petroleum assets and more.

3.2.9 Developments in the Market

- **Raising senior debt from a lenders' consortium -** On March 2, 2018 an agreement for the raising of senior debt in the amount of approx. $1.275 billion[15] was executed between Energean Oil & Gas plc and a consortium of local and international lenders towards the development of the Karish reservoir.

- **The offering of Energean on the London Stock Exchange** – On March 15, the parent company of Energean, Energean Oil & Gas plc completed an initial public offering on the London Stock Exchange, within that offering, it raised approx. $460 million, designated to be used, *inter alia*, for the development of the Karish reservoir.

- **Adoption of an investment decision** – On March 27, 2018, Energean notified the Partnership of the adoption of a decision of investment in the development of the Karish reservoir, and on March 29, it paid the Partnership the first payment in the amount of $10.85 million.

- **Drilling of an exploration well** – On June 25, 2018, Energean announced that the company's board of directors had approved the drilling of an exploration well in the Karish lease, which is expected to commence in March 2019.

[15] See page 289 of Energean's Prospectus of March 22, 2018.

- **Resource classification** – On August 16, 2018, Energean notified that approx. 92% of the contingent resources of natural gas and hydrocarbon liquids in the best estimate category (2C) in the Karish and Tanin reservoirs were classified as reserves (2P), with no change in the total of all contingent resources (2C) and reserves (2P) together. It is noted that Energean has not released a third party resource report that is updated in a manner consistent with the aforesaid release.

- **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.

4. Description of the transaction of sale of rights in the Karish and Tanin Leases

4.1 The Sold Rights

On February 7, 2012 and on May 22, 2013, the Partnerships reported to TASE that the Tanin and Karish gas leases, respectively, constitute natural gas discoveries. The share of each of the Partnerships in each of the Leases is 26.4705% (the share of Noble – 47.059%). 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 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 Antitrust Law given compliance with several conditions, including the sale of Karish and Tanin Leases within 14 months.

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

On August 16, 2016, an agreement was executed for the sale of all of the rights in the Karish and Tanin Leases between Delek Drilling and Avner and Energean Israel Ltd. (formerly Ocean Energean Oil and Gas Ltd.), a company registered in Cyprus which is a subsidiary of Energean E&P Holdings Ltd. ("**Energean**" and/or the "**Purchaser**")[16]. 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.

Following is a specification of the amounts of natural gas and hydrocarbon liquids (condensate and natural gas liquids) at the Karish and Tanin reservoirs (100%) which were released in the Energean Prospectus of March 16, 2018[17]:

Lease	**Reserves and Contingent Resources***	
	Natural Gas (BCM)	**Hydrocarbon Liquids (MMBBL)**
Karish	45.0	28.7
Tanin	21.7	4.1
Total	**66.7**	**32.8**

*The proved and probable reserves in the 2P category constitute more than 90% of the aggregate quantity of natural gas in the reservoir, according to Energean's report of August 16, 2018 on the London Stock Exchange. It is noted that Energean has not released a third party resource report that is updated in a manner consistent with the aforesaid release.

[16] Energean Israel Ltd. serves as the operational arm of Energean E&P Holdings Ltd. in Israel.
[17] According to reports received by Energean from NSAI, Net Resources.

4.2 The Consideration

Following is a description of the consideration components in the Purchase Agreement:

a. The Purchaser will purchase from Delek Drilling (the "**Seller**") all of the rights of the Seller and of Noble in Karish and Tanin Leases (the "**Sold Rights**").

b. In consideration for the Sold Rights, the Purchaser will pay the Seller 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 Seller on the transaction closing date;

   ii. An additional payment of $30 million which was paid to the Seller on the transaction closing date;

   iii. The consideration balance, in an amount of $108.5 million, will be paid to the Seller in ten annual equal installments plus interest according to the mechanism set in the agreement. These payments will be made immediately after the date on which a Final Investment Decision (FID) will be adopted regarding the development of the Leases, or on the date which the total expenses of the Purchaser in relation to the development of the Leases will exceed $150 million, whichever is earlier (for elaboration see Annex B);

   iv. Note that on March 27, 2108, Energean notified the Partnership of making an Investment Decision in the development of Karish reservoir and on March 29 it paid the Partnership the first payment in an amount of $10.85 million.

   v. The Purchaser will transfer to the Seller 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[18] borne by the Partnerships in respect of their original share in the Leases.

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

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 Seller in ten equal annual payments plus interest commencing from the date on which the Purchaser made a Final Investment Decision (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 Seller, which is contingent upon the development of the Leases, whether by a Final Investment Decision (FID) or the actual performance of the investment (the "**Debt Component**").

   Note that on March 27, 2018 Energean notified the Partnership of the adoption of a Decision of Investment in the development of the Karish reservoir and therefore the Debt Component is defined as deferred consideration. As to the valuation of the Debt Component see Annex B.

ii. Royalties from revenues (net of existing royalties[19]) which will be paid to the Seller at rates of 7.5% before the Levy and 8.25% after the Levy. Therefore, the royalties are also contingent upon the development of the Leases and the ability of the Purchaser to produce revenues from natural gas and condensate from the reservoirs (the "**Royalties**").

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

5.2 Work Assumptions

5.2.1 General

The main work assumptions as specified below are based on market data from public sources, information appearing in the Prospectus released by Energean on March 16, 2018, and the

[19] The sold rights will be transferred to the Purchaser together with the existing royalties in the Leases borne by each of the Sellers, with respect to their original share (26.4705%).

financial model of holdings which was received from the Partnership and whose main assumptions were examined by us and were found to be reasonable. **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 The Valuation Date

The valuation was carried out as of September 30, 2018.

5.2.3 Timetable

Within our Work we assumed that in order to develop the Leases and provide the amounts of gas assumed, Energean will be required to execute agreements for the sale of natural gas. The agreements executed during the last year between Energean and the Israeli Corporation, Dorad, Rapak and Edeltech reflect the sale of more than 90% of the natural gas resources in the reservoirs and support the reasonability and feasibility of the estimate that the reservoirs will be developed.

Note that the development of the natural gas reservoirs Karish and Tanin is a strategic move for the State of Israel with respect to the variation of the gas supply sources and redundancy regarding the infrastructures of transporting natural gas onshore. Therefore, in our estimation, there is high probability that the State of Israel will act so that the reservoirs will be developed by the removal of possible barriers on the way to the development of the reservoirs.

On March 22, 2018, Energean announced the adoption of a Decision of Investment in the development of Karish and Tanin and as a result of the Purchase Agreement, the first payment for the Debt Component was received on March 29, 2018 (the other annual payments will be received on March 31 of each of the years 2019-2027). Furthermore, it was assumed that the development of the reservoirs will be done gradually, such that the commencement of the production from Tanin lease will begin towards the completion of the production from Karish lease.

5.2.4 Quantity forecast and annual production rate

From an analysis of the demand forecast in the local market as released on the MAYA system by the Partnership, it arises that the forecasted annual demand during the running-in period and in the beginning of the commercial operation period in 2022, is expected to be approx. 15-18 BCM with the main demand deriving from an increase in electricity production (as a result of natural growth) and as a result of the conversion of coal plants to the use of natural gas (as specified in Section 3.2.4 above).

According to the development plan of the reservoirs released by Energean in the Prospectus, Energean estimates that it is expected to sell approx. 5.0 BCM on average throughout the years of the forecast, out of which approx. 3.3 BCM to 3.8 BCM are within the Take or Pay mechanisms included in the agreements with its customers. Therefore, we assumed a natural gas production rate of approx. 3.0 BCM in the first year of operation, with a gradual increase up to a rate of maximal annual natural gas sale rate of approx. 4.0 BCM from the third year of operation onwards, with the annual condensate quantity deriving from the ratio between the overall condensate quantity and the overall natural gas quantity, in each reservoir, and based on the work assumption that all of the hydrocarbon liquids which will be produced are of the condensate type (for a specification of the annual production rate forecast see Annex A).

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

Lease	Karish	Tanin
Operation period commencement	1/2022	7/2033
Operation period end	9/2033	3/2039
Natural Gas		
Average annual production rate (BCM)	3.83	3.77
Total (BCM)	45.0	21.7
Condensate		
Production ratio*	18.06	5.35
Total (MMBBL)	28.7	4.1

* bbl of condensate per 1 mmcf of natural gas

5.2.5 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, and the parameters specified below:

  i. **The Production Component Tariff**: as of the Valuation Date, the production component tariff is 28.16 Agorot, as determined commencing in January 2018. In the years 2018 and until the end of 2027, an approx. 2% (nominal) annual growth was assumed, except for the years 2021 and 2024 for which it was assumed that no increase shall occur in the production tariff, due to the update of the gas prices expected for the IEC, in view of the weighting of the conditions that in our estimation will prevail on the dates of the update and will affect the conditions of the negotiations between the parties (including the prices of alternative fuels, the difference between the price of the IEC and the Private Electricity Producers and the alternatives that each of the parties shall have). From 2028 onwards, a growth rate of approx. 1.5% of the production component tariff was assumed.

  ii. **ICL and ORL** – floor price of US$3.975 per mmbtu according to an agreement between the company and ICL and ORL.

  iii. **OPC** – floor price of US$3.975 per mmbtu when the production component is larger or equal to 26.4 Agorot, and a floor price of US$3.8 per mmbtu when the production component is lower than 26.4 according to an agreement between the company and OPC.

- It was assumed that the gas amount which will be sold will be equally distributed between Private Electricity Producers (contracts such as the contract with OPC) and industrial producers (contracts such as the contracts with ICL and ORL).

5.2.6 Condensate Prices Forecast

The condensate prices forecast was estimated based on the average of the long-term petroleum prices forecast of the World Bank[20] and the EIA[21] and based on the Partnership's assumption that the condensate price will be derived from the Brent price while corresponding to the differences in the petroleum quality.

5.2.7 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. 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.

5.2.8 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[22]) with the Investment Coverage Ratio reaching 2.3. The levy will be calculated and imposed for every reservoir separately.

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

5.2.9 Royalties Cap Rate

The royalties cap rate was estimated at 11%, similarly to the cap rate estimated in the work prepared by us as of March 31, 2018. For further details, see Section 5.2.9 in the paper as of March 31, 2018.

[20] A world Bank Quarterly Report: Commodity Markets Outlook, April 2018
[21] U.S Energy Information Administration: Annual Energy Outlook 2018
[22] Corporate tax of 23% was assumed according to the historical tax rate known as of the date of the valuation.

5.3 Results of the Valuation

According to the assumptions specified in the Work itself, the value of the royalties is estimated at approx. $120.1 million. For details regarding the valuation of the debt component, see Annex B.

5.4 Examination of the reasonableness of the valuation

For the purpose of checking the reasonableness of the value of the royalties, we checked the difference between the cap rate reflected by the flow of royalties (before tax) from the Karish and Tanin reservoirs, based on the forecasts announced in Energean's prospectus in Q1/2018, relative to the cap rate reflected by the flow of royalties (before tax) from the Tamar Reservoir, based on the forecasts announced by Delek Royalties (2012) Ltd. in a shelf prospectus of April 2018.

5.4.1 The cap rate reflected by the value of the royalties according to forecasts given by Energean in the prospectus

As stated in Section 5.2 above, the assumptions we used, *inter alia*, in connection with the natural gas sale rates and price, are lower than the forecasts stated by Energean in the said prospectus. It arises from an examination we conducted that the cap rate reflected in the flow of royalties (before tax) according to forecasts made by Energean in the prospectus, compared to the value of the royalties according to the valuation (discounted at a cap rate of 11%), is approx. 15.3%.

For a specification of the main assumptions underlying Energean's flow forecast, see Annex C.

5.4.2 Examination of the cap rate reflected in similar properties

We examined the cap rate (before tax) reflected in the Tamar reservoir, which is derived from the market value of Delek Royalties (as of the date of writing hereof, the main asset of Delek Royalties is the right to royalties from Delek Drilling and Tamar Petroleum) and adjustment thereof to the enterprise value, and a forecast of the projected cash flows from the reservoir before tax (according to forecasts made by Delek Royalties (2012) in a shelf prospectus of April 2018 and adjustments made by us to the prices of gas and hydrocarbon liquids.

In our estimation, in view of the excess construction and operating risks in the Karish and Tanin reservoirs relative to the Tamar reservoir, which is an active reservoir, and in view of the differences in the sizes of the reservoirs and the strategic importance of the Tamar reservoir relative to the Karish and Tanin reservoirs, this difference (which in our estimation is higher than 2%) is reasonable.

For a specification of the main assumptions underlying Delek Royalties' flow forecast, see Annex D.

5.5 Sensitivity Analyses

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

		Change in the Natural Gas Price Vector (U.S. $ per mmbtu)						
		(1.50)	(1.00)	(0.50)	-	0.50	1.00	1.50
Change in Cap Rates (in Base Points)	+250bp	84.8	89.3	95.6	100.4	105.3	110.0	116.8
	+150bp	91.0	95.9	102.6	107.7	113.0	118.0	125.3
	+50bp	98.0	103.1	110.3	115.7	121.5	127.0	134.8
	-	101.7	107.0	114.5	**120.1**	126.1	131.8	139.9
	-50bp	105.6	111.1	118.9	124.7	130.9	136.9	145.3
	-150bp	114.1	120.0	128.4	134.6	141.4	147.9	157.0
	-250bp	123.6	130.0	139.0	145.7	153.1	160.2	170.0

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

		Change in the Annual Production Rate of Natural Gas (BCM)						
		(1.00)	(0.50)	(0.25)	-	0.25	0.50	1.00
Change in Cap Rates (in Base Points)	+250bp	86.1	92.7	98.4	100.4	101.9	102.8	105.4
	+150bp	92.8	99.8	105.8	107.7	109.2	110.0	112.5
	+50bp	100.4	107.7	113.9	115.7	117.3	118.0	120.4
	-	104.5	112.0	118.4	**120.1**	121.6	122.3	124.6
	-50bp	108.8	116.5	123.0	124.7	126.2	126.8	129.0
	-150bp	118.3	126.5	133.2	134.6	136.1	136.6	138.6
	-250bp	129.0	137.6	144.6	145.7	147.1	147.5	149.3

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

		Change in the Condensate Price Vector (U.S. $ per bbl)						
		(15.00)	(10.00)	(5.00)	-	5.00	10.00	15.00
Change in Cap Rates (in Base Points)	+250bp	96.7	97.9	99.1	100.4	101.6	100.4	101.6
	+150bp	103.8	105.0	106.3	107.7	109.0	107.8	109.0
	+50bp	111.6	112.9	114.3	115.7	117.1	115.9	117.2
	-	115.8	117.2	118.6	**120.1**	121.5	120.2	121.6
	-50bp	120.3	121.7	123.2	124.7	126.2	124.8	126.3
	-150bp	130.0	131.5	133.0	134.6	136.2	134.8	136.4
	-250bp	140.7	142.3	144.0	145.7	147.4	146.0	147.6

Annex A – Cash Flow Forecast (Nominal)

Year	Unit	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Production													
Gas production - Karish	*bcm/y*	-	-	-	*3.00*	*3.50*	*4.00*	*4.00*	*4.00*	*4.00*	*4.00*	*4.00*	*4.00*
Gas production - Tanin	*bcm/y*	-	-	-	-	-	-	-	-	-	-	-	-
Condensate production - Karish	*bbl/y m*	-	-	-	*1.91*	*2.23*	*2.55*	*2.55*	*2.55*	*2.55*	*2.55*	*2.55*	*2.55*
Condensate production - Tanin	*bbl/y m*	-	-	-	-	-	-	-	-	-	-	-	-
Prices													
Natural gas price	*US$*	-	-	-	*4.18*	*4.27*	*4.27*	*4.35*	*4.44*	*4.53*	*4.60*	*4.67*	*4.74*
Condensate Price	*US$*	-	-	-	*71.52*	*74.27*	*76.56*	*78.72*	*81.23*	*83.44*	*85.95*	*88.41*	*90.63*
Revenues													
Karish - Revenues													
Natural Gas Revenues	*US$ MM*	-	-	-	*451.6*	*537.4*	*614.2*	*626.4*	*639.0*	*651.7*	*661.5*	*671.4*	*681.5*
Condensate Revenues	*US$ MM*	-	-	-	*136.8*	*165.8*	*195.3*	*200.8*	*207.2*	*212.9*	*219.3*	*225.5*	*231.2*
Total Gross Revenues	*US$ MM*	-	-	-	*588.4*	*703.2*	*809.5*	*827.3*	*846.2*	*864.6*	*880.8*	*897.0*	*912.7*
Tanin - Revenues													
Natural Gas Revenues	*US$ MM*	-	-	-	-	-	-	-	-	-	-	-	-
Condensate Revenues	*US$ MM*	-	-	-	-	-	-	-	-	-	-	-	-
Total Gross Revenues	*US$ MM*	-	-	-	-	-	-	-	-	-	-	-	-
K&T - Total Gross Revenues	*US$ MM*	-	-	-	*588.4*	*703.2*	*809.5*	*827.3*	*846.2*	*864.6*	*880.8*	*897.0*	*912.7*
Delek Drilling - Transaction Revenues													
*Transaction ORRI, Net**	*US$ MM*	-	-	-	*27.7*	*33.1*	*33.2*	*18.8*	*16.6*	*17.2*	*14.9*	*14.1*	*14.4*
Total Discounted Transaction Revenues	*US$ MM*	-	-	-	***18.7***	***20.2***	***18.3***	***9.3***	***7.4***	***6.9***	***5.4***	***4.6***	***4.2***

*Net of Existing ORRI net of Petroleum Tax

Year	Unit	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Production											
Gas production - Karish	bcm/y	4.00	4.00	2.50	-	-	-	-	-	-	-
Gas production - Tanin	bcm/y	-	-	1.45	4.00	4.00	4.00	4.00	4.00	0.25	-
Condensate production - Karish	bbl/y m	2.55	2.55	1.59	-	-	-	-	-	-	-
Condensate production - Tanin	bbl/y m	-	-	0.27	0.76	0.76	0.76	0.76	0.76	0.05	-
Prices											
Natural gas price	US$	4.81	4.88	4.95	5.03	5.10	5.18	5.26	5.33	5.41	5.50
Condensate Price	US$	94.11	96.95	100.14	103.60	106.86	109.70	114.20	117.77	121.30	125.16
Revenues											
Karish - Revenues											
Natural Gas Revenues	US$ MM	691.7	702.1	445.4	-	-	-	-	-	-	-
Condensate Revenues	US$ MM	240.1	247.3	159.7	-	-	-	-	-	-	-
Total Gross Revenues	US$ MM	931.8	949.4	605.1	-	-	-	-	-	-	-
Tanin - Revenues											
Natural Gas Revenues	US$ MM	-	-	257.8	723.3	734.2	745.2	756.4	767.7	49.3	-
Condensate Revenues	US$ MM	-	-	27.4	78.3	80.8	82.9	86.3	89.0	5.8	-
Total Gross Revenues	US$ MM	-	-	285.1	801.6	814.9	828.1	842.7	856.7	55.1	-
K&T - Total Gross Revenues	US$ MM	931.8	949.4	890.2	801.6	814.9	828.1	842.7	856.7	55.1	-
Delek Drilling - Transaction Revenues											
*Transaction ORRI, Net**	US$ MM	14.7	15.0	23.0	23.1	14.2	13.1	13.3	13.5	0.9	-
Total Discounted Transaction Revenues	US$ MM	**3.9**	**3.6**	**4.9**	**4.5**	**2.5**	**2.0**	**1.9**	**1.7**	**0.1**	**-**

*Net of Existing ORRI net of Petroleum Tax

Annex B – Valuation of the Debt Component

A. General

Within the agreement for the sale of all of the rights in the Leases it was provided that the Partnership will be entitled, *inter alia*, to consideration in an amount of $108.5 million which will be paid in ten equal annual payments plus interest commencing from the date on which the Purchaser made a Final Investment Decision (FID) or the Purchaser invested in the development of the reservoir an aggregate sum exceeding $150 million, whichever is earlier. Therefore, this consideration component is similar in its nature to a financial debt of the Purchaser, contingent upon the development of the Leases, whether by a Final Investment Decision (FID) or by an actual performance of investment. In view of the Investment Decision adoption of March 2018, the Debt Component was defined within this Work as deferred consideration and valued as a financial debt.

B. Cap Rate

The cap rate of the Debt Component was estimated at 7.5% according to the methodology described in Section 5.2.9.1 of the work carried out by us as of December 31, 2017, according to which it was assumed that the cap rate after the Investment Decision is approx. 7.5%, based on the average rate of return of the Ratio Series B bond, after the release of the FID for the Leviathan reservoir plus a non-negotiability premium of approx. 0.5%. In the work as of December 31, 2017, it was assumed that the Investment Decision would be made towards the end of Q1/2019 and that the cap rate would be gradually reduced by approx. 0.5% up to this date. However, since the Investment Decision for the Karish reservoir occurred already during Q1/2018, in this Work the cap rate was set at 7.5% as aforesaid, similarly to the cap rate estimated in the previous work as of June 30, 2018. For further details, see Annex B of the previous work as of June 30, 2018.

We shall note that according to the report in the Energean Prospectus[23], on March 2, 2018, it executed with a consortium of local and international lenders an agreement for the raising of senior debt in the sum of approx. $1.275 billion, in favor of the development of Karish reservoir (the "**Financing Agreement**"). According to the terms of the Financing Agreement, the senior debt will be paid by a single payment upon the lapse of 3.75 years, with the interest for the first year being LIBOR plus a 3.75% margin; the interest for the second year is LIBOR plus a margin of 4%; the interest for the third year is LIBOR plus a margin of 4.25%; the interest for the last 9 months is LIBOR plus a margin of 4.75% (the weighted average of the margin is 4.15%). The fixed interest included in the Financing Agreement was estimated by us at approx. 6.8% through a transaction for the swap of variable interest (LIBOR 3 months) to fixed interest (IRS – Interest Rate Swap) plus the average margin.

According to information received from the Partnership, the senior debt is at a higher seniority level than the level of the debt component contemplated in our Work. In addition, in our estimate, on the date of the valuation, not all of the conditions precedent in the Financing Agreement have been fulfilled yet and no withdrawal has been actually carried out yet, and therefore, it was assumed that the cap rate of the Debt Component is higher than the rate of return embedded in the senior debt.

[23] See page 289 of Energean's Prospectus of March 22, 2018.

C. **The results of the valuation**

According to the balance of the cash flows expected to be received by the Partnership (9 equal annual payment in the sum of $10.85 million, plus interest commencing on March 31, 2019), the value of the Debt Component was estimated at approx. $89.9 million.

Following is an analysis of the sensitivity of the Debt Component to the cap rate (U.S. $ in millions):

	Profit (Loss) from Changes		Fair value	Profit (Loss) from Changes	
Change in the cap rate	2%	1%	$ in thousands	-1%	-2%
Total	**(6.0)**	**(3.1)**	**89.9**	**3.3**	**6.7**

Annex C – Energean's Forecast – Main Underlying Assumptions

The main underlying assumptions as specified below are based on the forecasts of Energean, as stated in the prospectus released thereby on March 16, 2018.

We note that the forecasts for the rate of production of natural gas and hydrocarbon liquids included Energean's estimates until the end of 2031. In our estimation, and based on our professional experience ,the remaining quantity of natural gas not produced until then (approx. 11.7 BCM) is expected to be produced by the end of 2034 at the following rate:

Y2032 – 40% of the remaining quantity 4.7) BCM), Y2033 – 40% of the remaining quantity (4.7 BCM), Y2034 – 20% of the remaining quantity 2.3) BCM.(

Annual production rate and quantities forecast

According to Energean's forecasts, the annual rate of production of natural gas (gross gas resources) will be approx. 5.1 BCM over the forecast years (2021-2031), following which the production rate is expected to decline to approx. 4.7 BCM in the years 2032-2033, and to 2.3 BCM in 2034.

The annual rate of production of hydrocarbon liquids will be approx. 3.2 MMBBL in the years 2021-2026, gradually declining thereafter to 1.4 MMBBL in 2031. The remaining hydrocarbon liquids not produced by December 31, 2031 (2.2 MMBBL) are expected to be produced thereafter, at a ratio similar to the rate of production of the gas remaining in the reservoir.

Natural gas prices forecast

Gas prices are expected to gradually rise from U.S. $4.73 per MMBTU[24] in 2021, to U.S. $5.53 per MMBTU in 2031, and to U.S. $5.68 per MMBTU in 2032-2034.

Hydrocarbon liquids prices forecast

The prices of hydrocarbon liquids (including condensate) are expected to gradually rise from U.S. $78.36 per barrel in 2021 to approx. U.S. $93.8 per barrel in 2031, and U.S. $97.1 per barrel in the years 2032-2034.

[24] The gas prices in Energean's forecasts are stated in MCF; the conversion from MCF to MMBTU was performed according to a ratio of MCF=1.025 MMBTU.

Annex D – Delek Royalties' Forecast – Main Underlying Assumptions

The main underlying assumptions as specified below are based on market data from public sources and on the financial model of the Tamar lease, published by Delek Royalties, the main assumptions of which were examined by us and found to be reasonable. **It is emphasized that the assumptions and information specified below constitute forward-looking information, within the meaning thereof in the Securities Law, 5728-1968, the materialization of which, in whole or in part, in the said or in any other manner, is uncertain.**

Forecast of quantities and annual production rate

According to the forecasts released in the prospectus for supplementation of April 22, 2018 by Delek Royalties, the annual rate of production of natural gas is approx. 5.27 BCM for the rest of 2018, approx. 10.65 BCM in 2019, approx. 10.36 BCM in 2020, approx. 10.33 BCM in 2021 and approx. 10.65 BCM from 2022 forth, until the depletion of the reservoir, while the annual condensate quantity derives from the ratio between the total condensate quantity and the total natural gas quantity.

Natural gas prices forecast

The forecast for the prices of natural gas is based on the following assumptions:

i. The current mix of customers of the Tamar reservoir comprises the IEC, private electricity producers, cogeneration electricity producers, industrial customers and others. We assumed that the mix of customers will not materially change from the existing mix, i.e. the majority of customers are the IEC and private electricity producers (approx. 62%). It was assumed that the IEC's share in the mix will moderately decline, while the share of the private electricity producers will rise according to the assumption that the increase in the demand for electricity will be supplied by the private producers.

ii. According to the terms of the agreement signed between the Israel Electric Corp. and Delek Drilling, the price per heat unit (MMBTU) will be linked to the American index plus 1% until 2019, and less 1% from 2020 to 2028. In addition, the parties have the option to update the price (up or down) in two strokes in the years 2021 and 2024 up to approx. 25% and 10% respectively. We therefore assumed that the IEC's rate would be downward adjusted by about 50% of the maximum update rates, in view of a weighting of the conditions which we believe will prevail at the time of the updates and which will affect the conditions of the negotiations between the parties (including the prices of alternative fuels, the difference between the price of the IEC and the private electricity producers and the alternatives each one of the parties will have). Upon expiration of the IEC's engagement contract with the Partnership, we assumed that the price the IEC would pay in the future will be identical to that paid by the private electricity producers.

Definitions

Delek Drilling/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 lease with a preliminary permit, license or lease by virtue of the Petroleum Law in Israel or a right of similar meaning granted by the entity authorized therefor outside Israel
Ratio	Ratio Oil Exploration (1992), Limited Partnership
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