Delek Drilling

2021

FINANCIAL STATEMENTS AS OF 31.3.2021

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Delek Drilling

31.3.2021

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Delek Drilling

Description of the Partnership Business

2021

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

of the 2020 Periodic Report

<u>of Delek Drilling – Limited Partnership (the "Partnership")</u>[1]

1. **<u>Section 7.2.4 of the Periodic Report – scheduled work plan in the Leviathan project</u>**

   While noting the volume of production from the Leviathan project and the demand in Q1 2021 and in order to improve the production system redundancy, the operator, Noble Energy Mediterranean Ltd. ("**Noble**") has recommended to the partners to bring forward the drilling of another production well, which was scheduled to be drilled in later years, to the beginning of 2022. As of the date of this report, the Leviathan partners approved a budget for the purchase of initial equipment in the amount of approx. $14 million (in 100% terms).

2. **<u>Section 7.3 of the Periodic Report – the Tamar and Dalit project and Section 7.29.32 – a risk factor regarding geopolitical risks</u>**

   For details on the interruption of natural gas production from the Tamar reservoir due to the geopolitical situation, see the Partnership's immediate report of May 12, 2021 (Ref. No. 2021-01-084423), the details appearing in which are incorporated herein by reference. Therefore, as of the date of this report, natural gas to customers of Tamar reservoir in the domestic market is supplied from Leviathan reservoir, which is roughly at the full daily production capacity. It is noted that in view of the geopolitical situation, the flow of gas to Egypt was temporarily discontinued and is expected to be resumed when stability is restored.

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

   The operator of the New Ofek License updated the Partnership that, on May 4, 2021, the approval of the Petroleum Commissioner at the Ministry of Energy (the "**Commissioner**") was received to extend the New Ofek License until June 20, 2022, and change the dates of performance of the work plan in the New Ofek License, including postponement of the date of commencement of performance of production tests to June 1, 2021.

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[1] The update includes material news or changes that occurred in the Partnership's business from the date of release of the 2020 periodic report which was released on March 17, 2021 (Ref. No.: 2021-01-036588) (the "**Periodic Report**") until shortly before the date of this report on any matter that is required to be described in the Periodic Report. The update refers to the section numbers in Chapter A (Description of the Partnership's Business) in the Periodic Report.

4. **Sections 7.6 and 7.25.12 of the Periodic Report – the 406/"New Yahel" license (the "New Yahel License")**

The operator of the New Yahel License updated the Partnership that, on May 4, 2021, the approval of the Commissioner was received to extend the New Yahel License until June 20, 2022.

5. **Section 7.11.4(a)(6)(b) of the Periodic Report – nullification of the right of veto on marketing resolutions; balancing agreement in respect of the gas produced from Tamar reservoir and settlement agreement between the Tamar partners and the Israel Electric Corp. Ltd. (the "IEC")**

For details on the extension of the period for fulfillment of conditions precedent in the settlement agreements that were signed between the Tamar partners and the IEC and the Leviathan partners and the IEC, see the Partnership's immediate reports of March 31, 2021 and May 2, 2021 (Ref. No.: 2021-01-052443, 2021-01-052689 and 2021-01-075528, respectively), the details appearing in which are incorporated herein by reference.

6. **Section 7.20 of the Periodic Report – financing**

a. The bonds of Delek and Avner (Tamar Bond) Ltd. (the "**Bonds of Tamar Bond**")

In reference to the rating report of the Bonds of Tamar Bond that was published by Midroog, see the Partnership's immediate report of May 12, 2021 (Ref. No. 2021-01-083913), the details appearing in which are incorporated herein by reference

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

Further to Section 7.20.4 of the Periodic Report, it is noted that the Partnership has met the financial covenants to which it committed in the public offering of the Series A Bonds of the Partnership, as stated in Section 7.20.12(a) of the Periodic Report, as specified below:[2]

Financial covenant	The ratio checked as of March 31, 2021 and as of the report date
Economic capital of the Partnership	Approx. 3,584
Economic capital to debt ratio	Approx. 9
Distribution	-

[2] For details on the method of calculation of the terms in the table, see Section 7.20.12(a) of the Periodic Report.

7. **<u>Section 7.21 of the Periodic Report – taxation</u>**

a. Further to Section 7.21.3(g) of the Periodic Report regarding the filing of an originating application by the Partnership and the General Partner with the Tel Aviv District Court, in which the Court was moved, *inter alia*, to determine the appropriate arrangements for balancing between individuals and corporations holding participation units of the Partnership, in view of tax payments which the Partnership is required to pay under Section 19 of the Taxation of Profits from Natural Resources Law, 5771-2011, it is noted that each of the parties in the proceeding is required to file a summary document on its behalf with the Court by June 1, 2021.

b. Further to Section 7.21.6(c) of the Periodic Report regarding the disputes that have arisen between the Partnership and the Israel Tax Authority, and disagreements regarding the amount of the Partnership's taxable income for 2016, it is noted that, in accordance with the Court's decision, the notice stating the grounds for the appeal on behalf of the Partnership was filed with the Court on May 3, 2021 and a date for a pre-trial hearing in the appeal was scheduled for September 5, 2021.

c. Further to Section 7.21.8 of the Periodic Report regarding the Partnership's taxable income that was attributed to an Entitled Holder for the holding of participation units of the Partnership in 2018, it is noted that on March 24, 2021 a non-consensual assessment was received from the Tax Authority pursuant to Section 145(a)(2)(b) of the Income Tax Ordinance, 5721-1961. For additional details, see the Partnership's immediate report of March 25, 2021 (Ref. No.: 2021-01-044877), the details appearing in which are incorporated herein by reference. The Partnership intends to file an administrative objection to all of the determinations of the assessing officer in the assessment. The final date for filing this administrative objection is until May 29, 2021.

8. **<u>Section 7.22.6 of the Periodic Report – material legal or administrative proceedings in connection with the environment</u>**

a. Further to Section 7.22.6(b) of the Periodic Report regarding an appeal that was filed with the Supreme Court by several local and regional councils against the Head of the Air Quality Division at the Ministry of Environmental Protection and against Noble in connection with the Leviathan platform's emission permit it is noted that, on April 5, 2021 a hearing was held in the appeal, and that a judgment has not yet been issued in the matter.

b. Further to Section 7.22.6(f) of the Periodic Report regarding a warning and summons to a hearing received by Noble from the Ministry of Environmental Protection (in this section: the "**Ministry**") regarding an alleged violation of the sea discharge permit that was issued for the Leviathan platform with respect to the standards for open system effluents set forth in the permit it is noted that, on March 22, 2021 a hearing was held in the matter and on March 24, 2021 the hearing summary was received from the Ministry stating that the Ministry shall not recommend a punitive sanction due to the alleged deviations however, in the event of additional deviations, shall consider exercising all of its powers by law. It was further determined that Noble is required to prepare procedures and complete actions for cleaning and locating sources of oil.

c. Further to Section 7.22.6(g) of the Periodic Report regarding a class action that was filed by a resident of Dor Beach on behalf of "anyone who was exposed to the air, sea and coastal environment pollution, due to prohibited emissions from the gas platform operated by the respondents in the sea, which is located opposite Dor Beach, and treats the natural gas reservoir 'Leviathan', in the period from the commencement of the platform's activity in December 2019 until a judgment is issued in the claim" against Noble and Chevron Corporation, it is noted that on May 5, 2021, the Court instructed the parties to hold negotiations with the purpose of reaching a stipulation that will obviate the need for litigation, and ordered that an update on such negotiations be given by June 20, 2021.

9. **Section 7.23 of the Periodic Report – restrictions on and control of the Partnership's activity**

a. For details on the Partnership's engagement in a non-binding MOU with investors headed by Mubadala Petroleum (in this section: the "**MOU**" and the "**Buyers**") for the sale of 22% of its rights in the Tamar project to a company owned by the Buyers, see the Partnership's immediate report of April 26, 2021 (Ref. No.: 2021-01-070344), the details appearing in which are incorporated herein by reference. Note that in view of the engagement in the MOU as aforesaid, the Tamar project was classified as discontinued operations. For further details see Note 4 to the financial statements as of March 31, 2021 attached below. As of the date of this report, the parties to the MOU are continuing to act for the signing of a binding agreement in the upcoming weeks.

b. For details on the Partnership's engagement in an agreement with a third party for the off-TASE sale of all of its holdings (22.6%) in Tamar Petroleum Ltd. ("**Tamar Petroleum**"), see the Partnership's immediate report of April 28, 2021 (Ref. No.: 2021-01-072519), the details appearing in which are incorporated herein by reference. It is noted that on May 5, 2021 the transaction for the sale of the shares of Tamar Petroleum as aforesaid was closed and, in such context, the shares were transferred against payment of the consideration.

c. Further to Section 7.23.5(f) of the Periodic Report regarding a government decision on "promotion of renewable energy in the electricity sector and amendment of government decisions" (the "**Government Decision**") and the publication by the Ministry of Energy, together with the Planning Administration, dated November 2018, with regard to promotion of a comprehensive national outline plan for the electricity sector infrastructures ("**NOP 41**") whose main goals are marking of designated areas that will serve as sites for electricity production from renewable energies, and creating a uniform planning framework for the manufacture and storage of electricity from a variety of sources using various technologies, it is noted that on May 4, 2021, approval was given for NOP 41, an extensive and comprehensive plan of infrastructures which meets the national needs of the economy for the years 2030 and 2050, in reference to the mix of energy sources, variety of production methods, and guaranteeing of redundancy and reliability in the power supply and introduction of significant capacity of energy storage. The plan implements the Government Decision and outlines the principles for the planning of the energy infrastructures. The plan unites the national outline plans pertaining to electricity, natural gas and fuels, designates areas for sites for electricity production using renewable energy, electricity transmission corridors and energy infrastructures.

d. Further to Section 7.23.5(g) of the Periodic Report regarding the targets of the energy sector for 2050, it is noted that on April 18, 2021 the Ministry of Energy published a program for reaching the emission reduction targets in the energy sector in 2050, as part of the efforts of the State of Israel and other countries worldwide to handle the climate crisis[3], that determines a target of an 80% reduction in greenhouse gas emissions in the sector by 2050 and several secondary targets which include a commitment to shut down the coal-fired power plants by 2025, reduction of greenhouse gas emissions in the electricity sector at the rate of between 75% to 85% by 2050 and an annual improvement of 1.3% in the energy intensity indicator (energy consumption per output unit).

10. **<u>Section 7.26 of the Periodic Report – legal proceedings</u>**

a. Further to Section 7.26.3 of the Periodic Report regarding a motion for class certification alleging that the merger transaction between the Partnership and Avner Oil Exploration – Limited Partnership (in this section: "**Avner**") was approved in an unfair proceeding, and the consideration that was paid to the Avner minority unit holders, as was determined in the merger agreement, is unfair, it is noted that on March 17, 2021 the parties filed a motion to approve a stipulation regarding the closing statements and accordingly, the Court's decision was issued whereby the petitioners' closing statements shall be filed by June 13, 2021, the respondents' closing statements shall be filed by September 13, 2021, and the petitioners' responding summations shall be filed by October 18, 2021. On April 26, 2021 the parties moved to postpone the aforesaid dates by seven days, and the Court granted the motion.

b. Further to Section 7.26.4 of the Periodic Report regarding a class action and a motion for certification thereof (in this section: the "**Certification Motion**"), which was filed with the Tel Aviv District Court (Economic Department) by a shareholder of Tamar Petroleum and by the Public Representatives Association (in this section: the "**Petitioners**"), against

[3] https://www.gov.il/he/departments/news/press_180421

the Partnership, Tamar Petroleum, officers thereof and against Leader Issues (1993) Ltd. (in this section: the "**Respondents**"), in connection with the offering of shares of Tamar Petroleum in July 2017, it is noted that on April 6, 2021 the Court granted the Petitioners' motion to amend the Certification Motion and ruled that the Petitioners may file the amended Certification Motion in accordance with the language that was filed with the Court, subject to payment of expenses to the Respondents in the total amount of ILS 100,000. For additional details, see the Partnership's immediate report of April 6, 2021 (Ref. No.: 2021-01-057549), the details appearing in which are incorporated herein by reference. In addition, on April 8, 2021 the Court ruled that the Respondents shall file their answers to the amended Certification Motion by May 20, 2021 and that the Petitioners shall respond to these answers by June 3, 2021. On May 9, 2021 the Respondents filed a motion for stay of proceedings in the case, on the grounds that the Respondents intend to file a motion for leave to appeal from the decision to approve the amendment of the Certification Motion, and on the same date the Court granted the motion and stayed the proceedings in the case.

c. Further to Section 7.26.5 of the Periodic Report, regarding the filing of a class action and a motion for certification thereof, which was filed with the Tel Aviv District Court by an electricity consumer (in this section: the "**Petitioner**") against the Partnership and Noble and against the other holders of the Tamar project and the Leviathan project (as parties against which no remedy is sought), in connection with the competitive process for the supply of natural gas conducted by the IEC (see Section 7.11.4(b)2 of the Periodic Report) and in connection with a possible amendment to the agreement for the supply of gas from the Tamar project to the IEC, as agreed by Isramco Negev 2, Limited Partnership, Tamar Petroleum, Dor and Everest Infrastructures, Limited Partnership, with no involvement on the part of the Partnership and Noble, it is noted that on May 5, 2021 the Court ordered that the hearing in the dismissal motion be held on September 14, 2021.

d. Further to Section 7.26.6 of the Periodic Report regarding a complaint that was filed by the supervisor against the Partnership, the Partnership's general partner and the royalty interest owners (which include Delek Group Ltd., Delek Energy Systems Ltd. and Delek Royalties (2012) Ltd.) and a counter-complaint that was filed by the royalty interest owners, all in connection with the Investment Recovery Date in the Tamar project, it is noted that on March 17, 2021 an affidavit in lieu of direct testimony was filed on behalf of the Partnership as well as a supplemental economic opinion on its behalf. In addition, on April 5, 2021 a pretrial hearing was held, in whose context it was proposed that the parties will refer to a mediator, and following the parties' agreement to refer to Supreme Court Judge (Ret.) Yoram Danziger as a mediator, the Court ruled that the parties shall update it on the progress of the mediation proceeding by May 20, 2021 and that, insofar as the mediation is successful, the trial hearing dates will be obviated. On May 5, 2021 a hearing was held before the mediator in the presence of the parties in which it was determined that each party will present its arguments to the mediator separately. In such context, a meeting with counsel for the supervisors was held on May 9, 2021, a meeting with counsel for the Partnership is due to be held on May 27, 2021 and a date for a hearing before the mediator with counsel for the royalty interest holders has not yet been scheduled.

e. Further to Section 7.26.9 of the Periodic Report regarding a class action and a motion for certification thereof that was filed by a holder of participation units of the Partnership (in this section: the "**Petitioner**") against the Partnership, the Partnership's general partner, Delek Group Ltd., Yitzhak Sharon (Tshuva), the directors of the Partnership's general partner (including the former chairman of the board) and the CEO of the Partnership's general partner (in this section: the "**Respondents**"), with the Economic Department of the Tel Aviv District Court, claiming that the Respondents refrained from disclosing in the Partnership's reports the existence of a clause in agreements for the sale of natural gas from the Leviathan and Tamar reservoirs to Dolphinus Holdings Limited, it is noted that, according to the Court's decision, the Petitioner is required to file a response to the answer by June 15, 2021.

f. Further to Section 7.26.10 of the Periodic Report regarding a petition that was filed by the Partnership and Noble which hold the Alon D license (in this section: the "**License Holders**") with the Supreme Court sitting as the High Court of Justice, it is noted that, on May 13, 2020 the State filed its preliminary response to the petition, in the context of which it argued *inter alia* that the petition ought to be denied because Energean Israel Ltd. ("**Energean**") was not added as a respondent. On the same date, Energean filed a motion to summarily dismiss the petition with prejudice or alternatively add it as a respondent in the proceeding and enable it to raise its arguments. On May 18, 2021 the License Holders filed a response to the motion on Energean's behalf, in the context of which they moved to deny its motion. The hearing in the petition is scheduled for May 19, 2021.

g. On April 21, 2021, the Israel Union for Environmental Defense (Adam Teva V'Din) – an Israeli environment protection association (in this section: the "**Petitioner**"), filed an administrative petition with the Jerusalem District Court (sitting as an administrative affairs court), against the Tax Authority, the Supervisor for Implementation of the Freedom of Information Law, Noble, the Partnership, Ratio Oil Exploration (1992) – Limited Partnership, Givot Olam Oil Exploration – Limited Partnership (1993), E.C.L. Group Ltd., Dead Sea Works Ltd. and Rotem Amfert Negev Ltd. (in this section: the "**Respondents in the Original Petition**"). In the petition, the Court was moved to order the Tax Authority to provide the Petitioner with information about the revenues from the State's income from Israel's natural resources, as well as general information regarding reports received by the Tax Authority and the treatment thereof since the legislation of the Taxation of Profits from Natural Resources Law, 5771-2011. In the petition, it was stated that it was filed after the Tax Authority refused, in March 2021, to respond to a freedom of information application submitted by the Petitioner, in which the Tax Authority was requested to provide the sought information. On May 6, 2021, the Petitioner filed, after receiving the Court's permission therefor, an amended petition in which it added to the Respondents in the Original Petition all of the partners in the Tamar project who were not named in the original petition (collectively with the Respondents in the Original Petition, in this section, the "**Respondents**"). On May 6, 2021, the Court ordered the Respondents to file responses to the petition by June 15, 2021.

h. On April 7, 2021, the Partnership together with the other Tamar partners and Leviathan partners, filed a petition against the Natural Gas Council and the Ministry of Energy (in this section: the "**Respondents**"). The petition moves to nullify decision no. 5/2020 dated December 29, 2020 of the Natural Gas Sector Council (in this section, the "**Council**") – amendment of Council decision no. 8/2019 – on criteria and rates regarding the operation of the transmission system in a flow control regime (Amendment No. 2) which was published on January 3, 2021 (in this section: the "**Decision**"). The Decision stipulates that the natural gas providers shall incur the cost of half the "reasonable measurement gap", defined in the Decision as a difference of up to 0.5% between the quantity of gas measured by the meter at the entrance to the natural gas transmission system and the quantity measured by the meter at the exit therefrom. In the petition it was claimed that this Decision was issued without any legal authority and is affected by extreme unreasonableness. On April 8, 2021, the Court ordered the Respondents to file responses to the petition by June 8, 2021.

11. **<u>Section 7.27 of the Periodic Report – business strategy and targets</u>**

Further to Section 7.27.1 of the Periodic Report regarding the promotion of the possibility of listing the Partnership's main assets on a foreign stock exchange, note that on May 4, 2021 the General Partner and the Limited Partner filed a motion with the Court, pursuant to Sections 350 and 351 of the Companies Law, 5759-1999, to approve the convening of a general meeting of the holders of the Partnership's participation units for purposes of approval of an arrangement whose essence is the replacement of the participation units with ordinary shares of a new company that incorporated in the UK (New Med Energy Plc.) (the "**Arrangement**"). For additional details, see the Partnership's immediate reports of May 4, 2021 (Ref. No.: 2021-01-077190 and 2021-01-077859), the details appearing in which are incorporated herein by reference. Further to the filing of the motion as aforesaid, on May 11, 2021, an objection was filed to the motion on behalf of holders of participation units, and on May 11, 2021 and May 12, 2021, the Court issued decisions in regards to the objection. For further details, see the Partnership's immediate reports of May 11, 2021 and May 12, 2021 (Ref. Nos.: 2021-01-083259 and 2021-01-084417, respectively), the details appearing in which are incorporated herein by reference.

As of the date of this report, the Partnership is continuing to promote the approval of the Arrangement and simultaneously acting to formulate timetables for the performance of the Arrangement, subject to receipt of all of the necessary approvals. It is clarified that, as of the report date, there is no certainty regarding the date of approval of the Arrangement, if at all, and with regard to the possibility of receiving all the approvals that are necessary for its consummation.

12. **Regulation 10C of Chapter D of the Periodic Report – use of securities proceeds in reference to the designated uses of the proceeds according to the prospectus**

For details on the extension of the period for offering of securities according to the Partnership's shelf prospectus until May 14, 2022, see the Partnership's immediate report of May 9, 2021 (Ref. No.: 2021-01-080940), the details appearing in which are incorporated herein by reference.

13. **Below is a table that includes natural gas and condensate production data in Q1 2021 in the Tamar project:**[4, 5]

		Q1	
		Natural gas	**Condensate**
Total output (attributable to the holders of the equity interests of the Partnership) during the period (in MMCF for natural gas and in thousands of barrels for condensate)		13,441.3	18.2
Average price per output unit attributed to the holders of the equity interests of the Partnership (Dollar per MCF and per barrel)[6]		4.59	50.26
Average royalties (any payment derived from the output of the producing asset including from the gross income from the petroleum asset) paid per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)	The State	0.49	5.3
	Third Parties	0.39	4.1
	Interested Parties	-	-
Average production costs per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)[7]		0.73	3.98
Average net proceeds per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)		2.98	36.88

[4] The portion attributed to the holders of the equity interests of the Partnership in the output, in the royalties paid, in the production costs and in the income, net, was rounded off to two digits after the decimal point.

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

[6] The average price per output unit factors in the Partnership's actual price which includes the outline for the sale of natural gas between the Tamar project and the Yam Tethys project. In this regard, see Sections 7.7 and 7.26.2 of the Periodic Report.

[7] The data include current production costs only and do not include exploration and development of the reservoir and tax payments that will be made in the future by the Partnership.

14. **Below is a table that includes natural gas and condensate production data in Q1 2021 in the Leviathan project:**[8, 9]

		Q1 Natural gas
Total output (attributable to the holders of the equity interests of the Partnership) during the period (in MMCF for natural gas and in thousands of barrels for condensate)		43,467
Average price per output unit attributed to the holders of the equity interests of the Partnership (Dollar per MCF and per barrel)		4.98
Average royalties (any payment derived from the output of the producing asset including from the gross income deriving from the petroleum asset) paid per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)	The State	0.54
	Third Parties	0.13
	Interested Parties	0.7
Average production costs per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)[10], [11]		0.61
Average net proceeds per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)		3.63

Date: May 18, 2021

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

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

[9] Since the sum of the costs entailed by production of the condensate during Q1 2021 exceeded the sum of the revenues received in respect thereof, and since the condensate is a byproduct of natural gas production, separate figures were not presented in the above table in connection with the production of the condensate, and all of the costs and expenses in connection with production of the condensate were attributed to the production of the natural gas.

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

[11] It is noted that the average production costs per output unit include costs for the transmission of natural gas through INGL's transmission system to EMG's terminal in Ashkelon for the purpose of supplying the gas to Egypt in the sum of approx. $12.5 million in Q1/2021 (all in 100% terms).

Delek Drilling

Board of Directors Report

2021

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.

May 18, 2021

Delek Drilling Limited Partnership

Report of the Board of Directors of the General Partner for the Period Ended March 31, 2021

The board of directors of Delek Drilling Management (1993) Ltd. (the "**General Partner"**) hereby respectfully submits the board of directors' report for the three-month period ended March 31, 2021 (the "**Report Period**").

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

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

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

Main changes that occurred in the Report Period:

For a comprehensive description of the main changes in the Partnership's business in the Report Period, see the update to Chapter A (Description of the Partnership's Business) of the periodic report for 2020 (the "**Periodic Report**"), and the condensed interim financial statements as of March 31, 2021 (the "**Condensed Interim Financial Statements**"), which are attached below.

2. Results of operations

A. General

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

On May 4, 2021 the General Partner and the trustee moved the court to exercise the authority vested in it by Sections 350 and 351 of the Companies Law, 5759-1999 (the "**Companies Law**"), and order the convening of a general meeting of the holders of the participation units issued by the trustee (the "**Participation Units**"), to discuss approval of an arrangement for exchange of the Participation Units for ordinary shares of a new company, New Med Energy Plc. ("**New Med**"), which was incorporated in England and is due to hold the full rights of the trustee and the General Partner in the

Partnership (100%). New Med’s shares will be listed for concurrent trading on the Tel Aviv Stock Exchange and the London Stock Exchange. For further details, see Note 1C to the attached financial statements. In April 2021 the Partnership announced the signing of a non-binding MOU for the sale of its interests in the Tamar and Dalit leases. Note that the Tamar operations were classified as assets held for sale. For further details see Note 4 to the financial statements which are attached below.

The Partnership’s net income from continuing operations in the Report Period amounted to approx. $93 million, compared with approx. $31 million in the same period last year. The increase in profit in the Report Period relative to the same period last year resulted mainly from an increase in net revenues from the sale of natural gas from the Leviathan reservoir.

The Partnership's net profit in the Report Period amounted to approx. $115 million, compared with approx. $84 million in the same period last year.

B. Analysis of statements of comprehensive income

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

	1-3/2021	1-3/2020[1]	2020[1]
Revenues:			
From natural gas and condensate sales	216,455	141,905	587,086
Net of royalties	32,164	21,298	86,327
Revenues, net	**184,291**	**120,607**	**500,759**
Expenses and costs:			
Cost of gas and condensate production	26,910	18,427	89,673
Depreciation, depletion and amortization expenses	21,034	17,528	79,446
Other general expenses	766	1,219	3,410
G&A expenses	3,022	2,641	14,630
Total expenses and costs	**51,732**	**39,814**	**187,159**
Partnership's share in the profits (losses) of a company accounted for at equity	(1,215)	5	(7,707)
Operating income	**131,344**	**80,798**	**305,893**
Financial expenses	(51,073)	(52,083)	(231,847)
Financial income	12,920	2,501	87,986
Financial expenses, net	(38,153)	(49,582)	(143,862)
Net income from continuing operations	**93,191**	**31,216**	**163,031**
Net income from discontinued operations	**21,548**	**53,051**	**203,089**
Net profit	**114,739**	**84,267**	**365,120**
Other comprehensive profit (loss) from continuing operations:			
Amounts which may subsequently be carried to the income statement:			
Loss from cash flow hedging transactions	-	(6,486)	(4,757)
Carried to the income statement for cash flow hedging transactions	-	(42)	7,360
Comprehensive income from continuing operations	**93,191**	**24,688**	**164,634**
Other comprehensive income (loss) from discontinued operations:			
Amounts which will not be subsequently carried to the income statement:			
Profit (loss) from investment in equity instruments designated for measurement at fair value through other comprehensive income	9,086	(35,975)	(29,322)
Comprehensive income from discontinued operations	**30,634**	**17,076**	**173,676**
Total comprehensive income	**123,825**	**41,764**	**338,401**

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

Net revenues in the Report Period amounted to approx. $184 million, compared with approx. $121 million in the same period last year, an increase of approx. 52%. The increase chiefly derives from the increase in the quantities of natural gas sold from the Leviathan reservoir, from a total of approx. 1.6 BCM in the same period last year to a total of 2.7 BCM in the Report Period.

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

		(BCM)		
	Israel	**Jordan**	**Egypt**	**Total**
Q1/2020	0.73	0.61	0.30	1.64
Q1/2021	1.26	0.66	0.79	2.71

Cost of gas and condensate production mainly includes management and operating expenses in the Leviathan project which include, *inter alia*, expenses of haulage and transport, salaries, consulting, maintenance, insurance and cost of transport of natural gas to Egypt. The cost of gas and condensate production in the Report Period amounted to approx. $27 million, compared with approx. $18 million in the same period last year, an increase of approx. 50%.

The increase in the Report Period mainly derives from the haulage and transport expenses and costs of gas transport to Egypt.

Depreciation, depletion and amortization expenses in the Leviathan project in the Report Period amounted to approx. $21 million, compared with approx. $18 million in the same period last year, an increase of approx. 17%. The increase derives primarily from the increase in the gas quantities produced from the Leviathan reservoir. Conversely, in the same period last year, amortization of approx. $4 million was recorded for the Yam Tethys project.

Other general expenses in the Report Period amounted to approx. $1 million, similarly to the same period last year. The expenses include, *inter alia*, expenses of geologists, engineers and consulting, as well as G&A expenses of various projects which are not in the production stage.

G&A expenses in the Report Period amounted to approx. $3 million, similarly to the same period last year, and include, *inter alia,* expenses for professional services and payroll expenses and management fees to the General Partner. In addition, G&A expenses include expenses in the amount of approx. $0.5 million (in the same period last year: approx. $0.6 million), which were recorded against a capital reserve for transactions between a corporation and a controlling interest holder thereof and which mainly derive from costs that are financed by the General Partner, which according to the partnership agreement, are not borne by the Partnership.

The Partnership's share in the profits (losses) of a company accounted for at equity in the Report Period amounted to a loss of approx. $1 million, compared with a profit of approx. $5 thousand in the same period last year. The loss in the period derived from the company accounted for at equity

EMED Pipeline B.V. ("**EMED**") which holds 39% of the shares of Eastern Mediterranean Gas Company S.A.E ("**EMG**").

Financial expenses in the Report Period amounted to approx. $51 million, compared with approx. $52 million in the same period last year. Most of the financial expenses derived from interest in respect of bonds in the sum of approx. $50 million. In the same period last year, the financial expenses derived mainly from interest in respect of bonds in the sum of approx. $17 million, and from expenses in respect of liabilities to banking corporations in the sum of approx. $32 million.

Financial income in the Report Period amounted to approx. $13 million, compared with approx. $3 million in the same period last year. The increase in financial income mainly derives from an increase in income from the revaluation of royalties and annual payments receivable from the Karish and Tanin leases in the sum of approx. $11 million, which mainly derived from the passage of time and the decrease of the capitalization interest rate of the annual payments receivable. For further details, see Note 5N to the financial statements attached hereto, Annex C to the Board Report and the Valuation attached hereto.

Net income from discontinued operations in the Report Period amounted to approx. $22 million, compared with approx. $53 million in the same period last year and derives from the Partnership's holdings in the Tamar project which are intended for sale. The decrease in the profit from the same period last year mainly derived from the decrease in the quantities of natural gas and condensate sold from the Tamar reservoir (approx. 1.7 BCM in the Report Period compared with approx. 2.0 BCM in the same period last year) and from payment of the oil and gas profits levy in the Tamar project. For further details see Note 4 to the financial statements attached hereto.

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

Total condensed statement of financial position as of March 31, 2021 amounts to approx. $4,736 million, compared with approx. $4,585 million as of December 31, 2020.

Current assets of the Partnership as of March 31, 2021 amount to approx. $582 million, compared with approx. $418 million as of December 31, 2020, as specified below:

1) **Cash and cash equivalents** as of March 31, 2021 total approx. $138 million, compared with approx. $70 million as of December 31, 2020. The increase derives primarily from the Partnership's proceeds from the Leviathan project and from proceeds for repayment of a loan given to Energean. Conversely, the Partnership paid tax for individual holders and a

balancing payment to non-individual holders in the sum of approx. $36 million and invested money in the Leviathan project and other projects.

2) **Short-term investments** as of March 31, 2021 total approx. $245 million, compared with approx. $169 million as of December 31, 2020, and primarily include deposits serving as a safety cushion for the bonds of Tamar Bond in the sum of approx. $84 million (approx. $35 million as of December 31, 2020) and a deposit serving as a safety cushion for the bonds of Leviathan Bond in the sum of approx. $161 million (approx. $134 million as of December 31, 2020). The increase in deposits as aforesaid mainly derived from income in respect of gas sales from the Leviathan reservoir and the Tamar reservoir.

3) **Trade receivables** as of March 31, 2021 total approx. $165 million, compared with approx. $146 million as of December 31, 2020. The increase derived primarily from an increase in the trade receivables balance in the Leviathan project.

4) **Other receivables** as of March 31, 2021 total approx. $34 million, compared with approx. $33 million as of December 31, 2020, and mainly includes current payments receivable from a company accounted for at equity and current maturities of a loan to Energean.

Assets held for sale as of March 31, 2021 total approx. $869 million, and include the Partnership's assets attributed to the Tamar project, as well as the Partnership's holdings of Tamar Petroleum shares. See Note 4 to the financial statements attached hereto.

Non-current assets as of March 31, 2021 total approx. $3,285 million, compared with approx. $4,167 million on December 31, 2020, as specified below:

1) **Investments in oil and gas assets** as of March 31, 2021 total approx. $2,584 million, compared with approx. $3,440 million as of December 31, 2020. The decrease mainly derives from the classification of the investment in the Tamar project as assets held for sale, as well as the recording of depreciation, depletion and amortization expenses in the Leviathan project in the sum of approx. $19 million.

2) **Investment in a company accounted for at equity** as of March 31, 2021 totaled approx. $66 million compared with approx. $67 million as of December 31, 2020, and includes the investment in EMED shares.

3) **Long-term bank deposits** as of March 31, 2021 amount to approx. $101 million, similarly to the balance as of December 31, 2020, serving primarily as a safety cushion for the bonds of Leviathan Bond.

4) **Other long-term assets** as of March 31, 2021 totaled approx. $535 million, compared with approx. $559 million as of December 31, 2020. The decrease mainly derived from the classification of the Partnership's investment in Tamar Petroleum shares as assets held for sale and from the

classification of receivables from a company accounted for at equity as short-term.

Current liabilities as of March 31, 2021 amount to approx. $1,247 million, compared with approx. $566 million as of December 31, 2020, as specified below:

1) **Bonds** include the Series A bonds in the sum of approx. $394 million (net of issue expenses), maturing in December 2021 and the bonds of Tamar Bond maturing in December 2023 and December 2025, in the sum of approx. $636 million (net of issue expenses) which were classified as current liabilities as stated in Note 1G to the financial statements below. See also Part Four below.

2) **Provision for tax and balancing payments** as of December 31, 2020 totaled approx. $36 million, paid in January 2021.

3) **Trade and other payables** as of March 31, 2021 amounted to approx. $157 million, compared with approx. $74 million as of December 31, 2020. The increase derives primarily from interest payable on bonds and from an increase in the positive balance of the operator in the Leviathan and Tamar projects.

4) **Other short-term liabilities** as of March 31, 2021 amounted to a sum of approx. $60 million, compared with approx. $62 million as of December 31, 2020, and they derive from the oil and gas asset retirement obligation in the Yam Tethys project.

Liabilities referring to assets held for sale as of March 31, 2021 total approx. $32 million, and include the Partnership's liabilities attributed to the Tamar project. See Note 4 to the financial statements attached hereto.

Non-current liabilities as of March 31, 2021 amount to approx. $2,335 million, compared with approx. $3,021 million as of December 31, 2020, as specified below:

1) **Bonds** – in the sum of approx. $2,221 million include the bonds of Leviathan Bond (net of issue expenses) (see Part Four below), compared with the sum of approx. $2,855 as of December 21, 2020. The decrease derived from the classification of the Tamar Bond bonds as current liabilities, as aforesaid.

2) **Other long-term liabilities** as of March 31, 2021 total approx. $115 million, compared with approx. $166 million as of December 31, 2020. The decrease mainly derives from the classification of the oil and gas asset retirement obligation in the Tamar project as "liabilities referring to assets held for sale".

The capital of the limited partnership as of March 31, 2021 totals approx. $1,122 million, compared with approx. $998 million as of December 31, 2020. The increase in capital mainly derives from the profit in the Report Period in the sum of approx. $115 million, and the recording of profit from an investment in an equity instrument designated for measurement at fair value through other comprehensive income in the sum of approx. $9 million.

B. <u>Cash flow</u>

Cash flows generated by the Partnership from operating activities in the Report Period amounted to approx. $207 million, compared with approx. $70 million in the same period last year. The increase mainly derived from the increase in profit for the period, the increase mainly derived from the increase in profit for the period, from the more moderate increase in trade receivables and from the greater increase in payables in the Report Period compared with the same period last year.

Cash flows used for investment activities in the Report Period amounted to approx. $99 million, compared with approx. $172 million in the same period last year. In the Report Period, the Partnership invested approx. $14 million, mainly in the Leviathan project, and the sum of approx. $75 million in short-term deposits that serve as safety cushions for the Tamar Bond and Leviathan Bond bonds, and further invested approx. $24 million in long-term assets, mainly in connection with the expansion of the infrastructure for transmission to Egypt. Conversely, approx. $14 million were received from repayment on account of a loan that was given in the context of the transaction for the sale of the Karish and Tanin leases.

Cash flows used for financing activities in the Report Period total approx. $40 million, compared with a total of approx. $27 million derived from financing activities in the same period last year. Cash flows from financing activities in the Report Period were used for tax and balancing payments.

C. <u>Financing</u>

1. On April 26, 2021, the Partnership entered into an MOU with investors headed by Mubadala Petroleum (the "**Buyers**") in connection with the sale of 22% of its rights in the Tamar project to a company owned by the Buyers (the "**Sale Transaction**" and the "**Buying Company**", respectively).

   The MOU prescribes the commercial principles for a binding agreement in connection with the Sale Transaction (the "**Binding Agreement**"), as specified below:

   a. The object of sale includes 22% (out of 100%) of the Partnership's rights in each one of the Tamar I/12 and Dalit I/13 leases, and the Partnership's rights in the joint operating agreement that applies to the leases, the Tamar gas agreements and the ancillary agreements between the partners in the leases (the "**Object of Sale**"). The Object of Sale will be transferred to the Buying Company free and clear of liens and third party rights, on an as-is basis, subject to representations and warranties that will be specified in the Binding Agreement, and subject to the Buyers' undertakings to incur the existing royalties for the Partnership's rights in the Project.

b. Against receipt of the rights in the Object of Sale, the Buyers will pay consideration of up to $1.1 billion, which will include non-conditional consideration of $1 billion and conditional consideration of up to $100 million, payable subject to the fulfillment of certain conditions and targets as shall be agreed between the parties in the Binding Agreement.

c. The cutoff date for purposes of calculation of the consideration for the transfer of rights and liabilities in the Object of Sale is April 1, 2021, and it will be adjusted to the revenues and expenses that will derive from the Object of Sale from said cutoff date.

d. The Binding Agreement shall be subject to conditions precedents, including: (a) approval of the Petroleum Commissioner; (b) approval of the meeting of the unit holders and/or the Partnership's supervisor (insofar as required); (d) removal of liens imposed on the Object of Sale; and (e) additional conditions precedent that will be agreed in the Binding Agreement.

e. The parties will act to reach the Binding Agreement as soon as practicable and by no later than May 31, 2021 and the Partnership undertook not to enter into an agreement for the sale of the Object of Sale with any third party until such date.

f. The MOU will terminate at the date of the engagement in the Binding agreement or 90 days of the date of the MOU, whichever is earlier.

g. The Binding Agreement will be governed by the laws of England and Wales. Claims and disputes will be litigated in arbitration before three arbitrators.

The sale proceeds will be first used to repay the Partnership's liabilities to the holders of the Bonds of Tamar Bond, 50% of the Series A Bonds, and payment of applicable taxes for the sale. It is clarified that as of the date of approval of the financial statements, there is no certainty that the parties will sign a Binding Agreement, upon the terms and conditions specified above or the dates prescribed therein, if at all. As of the date of approval of these Condensed Interim Financial Statements, the parties to the MOU continue to act for a binding agreement to be signed in the upcoming weeks.

2. On April 27, 2021 the Partnership entered into an agreement with a third party for the off-TASE sale of all of its holdings (22.6%) in Tamar Petroleum, in consideration for a total cash amount of approx. ILS 100 million (approx. $30.9 million), reflecting a price per share of 500.035 Agorot (the "**Transaction**"). On May 5, 2021, the transaction as aforesaid was closed and, in such context, the shares were transferred against payment of the consideration.

D. <u>Balancing payments and tax payments and a distribution to the limited partner</u>

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

E. In accordance with the provisions of Section 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Securities Regulations**"), a corporation which, on the date of release of the financial statements, has bond certificates in circulation, is required to examine whether warning signs, as defined in the Securities Regulations, exist in respect thereof. Should one or more of the warning signs occur, the corporation will attach a disclosure of projected cash flow.

According to the figures of the Partnership's financial statements as of March 31, 2021, the Partnership has a working capital deficit of approx. $90 million, arising mainly from current maturities of Series A bonds in a sum of approx. $394 million, maturing in December 2021. It is noted that net current maturities include Tamar Bond bonds in the sum of approx. $575 million (net of a safety cushion of approx. $60 million, which is presented in current assets), which have been reclassified from long-term to short-term and are expected to be prepaid together with one half of the Series A bonds in the sum to up to $200 million upon the sale of the Partnership's holdings in the Tamar and Dalit leases as specified in Note 4 to the financial statements attached below.

The Partnership's management has presented to the board of directors of the General Partner all of the sources that may be used by the Partnership for the repayment of its liabilities in the coming years, including the Partnership's projected revenues from the Tamar and Leviathan projects, expected cash flow from royalties and repayment of a loan from the sale of the "Karish" and "Tanin" leases, the balance of cash and short-term and long-term deposits in the sum of approx. $587 million, which have accrued in the Partnership's coffers (including money accrued in the Partnership's coffers until the date of the report), which are designated for the operating activities and for repayment of its liabilities, the Partnership's plans to sell its direct holdings in the Tamar project in accordance with the provisions of the Gas Framework and the sale of the shares of Tamar Petroleum that was closed in May 2021.

The board of directors of the Partnership's General Partner, after examining on May 18, 2021 the estimated sources and uses report presented thereto by the Partnership's management, under different scenarios, gained the impression that, based on past experience, the Partnership's proven ability to raise money in recent years, and the Partnership's assets, the assumptions underlying the report are reasonable and accordingly, the said deficit does not indicate a liquidity problem in the Partnership, and accordingly no warning sign as defined in Section 10(b)(14)(a) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 is present.

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

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

Caution concerning forward-looking information – The Partnership’s assessments regarding the possible implications of Covid-19 constitute forward-looking information, as defined in Section 32A of the Securities Law, 5728-1968. Such information is based, *inter alia*, on the Partnership’s assessments and estimates as of the date of this report and on reports published in Israel and around the world on this issue and the directives of the relevant authorities, the materialization of which is uncertain and not in the Partnership’s control.

Part Two – Exposure to and Management of Market Risks

Over the course of the reported period, no change occurred in the areas of the Partnership's exposure or in the market risks, as reported in the board of directors' report for 2020, except as stated below:

1. Report on linkage bases in Dollars in thousands, as of March 31, 2021

	Financial Balances				
	In dollars or dollar-linked	In non-linked ILS	Non-linked	Non-financial balances	Total
Assets					
Cash and cash equivalents	135,088	2,991	-	-	138,079
Short-term investments	244,498	210	-	-	244,708
Trade receivables	164,969	-	-	-	164,969
Other receivables	25,040	-	-	9,058	34,098
Assets held for sale	2,023	-	26,119	841,039	869,181
Investments in oil and gas assets	-	-	-	2,583,681	2,583,681
Investment in company accounted for at equity	-	-	-	66,073	66,073
Long-term deposits in banks	100,586	-	-	-	100,586
Other long-term assets	309,950	-	-	224,821	534,771
Total assets	**982,154**	**3,201**	**26,119**	**3,724,672**	**4,736,146**
Liabilities					
Trade and other payables	128,837	836	-	27,224	156,897
Other short-term liabilities	-	-	-	59,941	59,941
Bonds	3,250,538	-	-	-	3,250,538
Liabilities referring to assets held for sale	-	-	-	32,248	32,248
Other long-term liabilities	-	-	-	114,533	114,533
Total liabilities	**3,379,375**	**836**	**-**	**233,946**	**3,614,157**
Total net balance	**(2,397,221)**	**2,365**	**26,119**	**3,490,726**	**1,121,989**

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

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

3. Sensitivity tests

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

Description of parameters, assumptions and models:

Parameters:

Parameter	Source/Treatment Method
ILS/Dollar exchange rate	Representative rate as of March 31, 2021
Dollar interest	According to the LIBOR curve

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

Sensitive Instrument	Profit/(Loss) from the Changes		Fair Value	Profit/(Loss) from the Changes	
	2%	1%		-1%	-2%
Royalties receivable from the Karish and Tanin leases	(21,034)	(10,907)	247,900	11,771	24,497
Loan to Energean as part of the sale of the Karish and Tanin leases	(3,664)	(1,876)	63,000	1,969	4,036
Total	**(24,698)**	**(12,783)**	**310,900**	**13,740**	**28,533**

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

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

Sensitive instrument	Profit/(loss) from changes in natural gas prices				Fair Value	Profit/(loss) from changes in natural gas prices			
	30%	20%	10%	5%		-5%	-10%	-20%	-30%
Royalties receivable from the Karish and Tanin leases	24,761	13,593	10,520	4,688	247,900	(5,887)	(4,314)	(14,234)	(21,766)

Sensitive instrument	Profit/(loss) from changes in condensate prices				Fair Value	Profit/(loss) from changes in condensate prices			
	30%	20%	10%	5%		-5%	-10%	-20%	-30%
Royalties receivable from the Karish and Tanin leases	15,597	15,342	7,704	3,860	247,900	(3,877)	(1,413)	(8,648)	(10,449)

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

Sensitive Instrument	Profit/(Loss) from the Changes		Fair Value	Profit/(Loss) from the Changes	
	10%	**5%**		**-5%**	**-10%**
	3.667	**3.501**	**3.334**	**3.167**	**3.001**
Cash and cash equivalents	(299)	(150)	2,991	150	299
Bank deposits	(21)	(11)	210	11	21
Trade and other payables	84	42	(836)	(42)	(84)
Total	**(236)**	**(119)**	**2,365**	**119**	**236**

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 March 31, 2021, which are attached below.

2. Critical accounting estimates

No material change occurred in the Report Period compared with the report for 2020, except as stated in Note 4 to the financial statements attached below in connection with assets held for sale.

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

Tamar Bond bond series[2]	2023	2025
Par value on issue date	400,000	400,000
Issue date	May 19, 2014	May 19, 2014
Par value as of March 31, 2021	320,000	320,000
Linked par value as of March 31, 2021	320,000	320,000
Value on the Partnership's books as of March 31, 2021	322,470	321,573
TASE value as of March 31, 2021[3]	335,712	340,528
Fixed annual interest rate	5.082%	5.412%
Principal payment date	December 30, 2023	December 30, 2025
Interest payment dates	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2014-2023	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2014-2025
Linkage base: base index[4]	None	
Conversion right	None	
Right to prepayment or mandatory conversion[5]	Right to prepayment	
Guarantee for payment of the liability	See Note 10B to the annual financial statements	
Name of the trustee	HSBC BANK USA, NATIONAL ASSOCIATION	
Name of person in charge at the trust company	Susie Moy	
Trustee's address and e-mail	HSBC Bank USA, National Association, as TRUSTEE 452 5th Avenue, 8E6 New York, NY 10018 CTLANYDealManagement@us.hsbc.com	
Rating as of the issue date[6]	Moody's: Baa3 Stable S&P: BBB- Midroog Ltd: Aa2 Stable Standard & Poor's Maalot: ilAA	
Rating as of the report date[7]	Moody's: Baa3 Negative S&P: BBB- Negative Midroog Ltd: Aa2 Negative Standard & Poor's Maalot: ilAA Negative	
Until March 31, 2021 and during the report year, did the company meet all of the conditions and obligations under the indenture?	Yes	
Is the bond series material?[8]	Yes	
Have any conditions establishing cause for acceleration of the bonds been fulfilled?	No	
Pledges to secure the bonds	See Note 10B to the annual financial statements.	

[2] $80 million were repaid in each one of the series as part of the sale of 9.25% (out of 100%) of the interests in the Tamar lease.
[3] The bonds are traded in Israel on "TACT-Institutional" on TASE.
[4] The principal and interest of the bonds are in dollars.
[5] The Partnership is entitled to prepay the loan, in whole or in part, at any time, subject to a prepayment fee. Prepayment following events determined in the bonds may be performed without a prepayment fee.
[6] 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.
[7] See the Partnership's immediate report of May 12, 2021 (Ref. No.: 2021-01-083913), the information included in which is incorporated herein by reference.
[8] A series of bond certificates is deemed material if the total liabilities of the corporation thereunder at the end of the report year, as presented in the financial statements, constitute five percent or more of the total liabilities of the corporation.

Bond series of Leviathan Bond	2023	2025	2027	2030
Par value on the issue date	500,000	600,000	600,000	550,000
Issue date	August 18, 2020	August 18, 2020	August 18, 2020	August 18, 2020
Par value as of March 31, 2021	500,000	600,000	600,000	550,000
Linked par value as of March 31, 2021	500,000	600,000	600,000	550,000
Value on the Partnership's books as of March 31, 2021	504,147	602,721	600,875	548,373
TASE value as of March 31, 2021[9]	532,030	661,200	667,734	612,414
Fixed annual interest rate	5.750%	6.125%	6.500%	6.750%
Principal payment date[11]	June 30, 2023	June 30, 2025	June 30, 2027	June 30, 2030
Interest payment dates	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2023	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2025	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2027	Semiannual interest payable on every June 30th and every December 30th from the issue date in 2020-2030
Linkage base: base index[10]	None			
Conversion right	None			
Right to prepayment or mandatory conversion[11]	Right to prepayment			
Guarantee for payment of the liability	See Note 10C to the financial statements attached below.			
Name of the trustee	HSBC Bank USA, National Association			
Name of person in charge at the trust company	Asma Alghofailey			
Trustee's address and e-mail	HSBC Bank USA, National Association, as TRUSTEE 452 5th Avenue, 8E6 New York, NY 10018 asma.x.alghofailey@us.hsbc.com			
Rating as of the issue date[12]	Fitch Rating: BB stable Moody's: Ba3 Stable S&P: BB- Stable Standard & Poor's Maalot: ilA+ stable			
Rating as of the report date[13]	Fitch Rating: BB stable Moody's: Ba3 Stable S&P: BB- Stable Standard & Poor's Maalot: ilA+ stable			
Until March 31, 2021 and during the report year, has the company fulfilled all of the conditions and obligations under the indenture?	Yes			
Is the bond series material?[14]	Yes			
Have any conditions establishing cause for acceleration of the bonds been fulfilled?	No			
Pledges to secure the bonds	See Note 10C to the financial statements attached below.			

[9] The bonds are traded in Israel on the "TACT-institutional" system on TASE

[10] The bonds' principal and interest are depicted in dollars.

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

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

[13] See Footnote 12.

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

The Bond Series	Series A
Par value on the issue date in ILS in thousands	1,528,533
Issue date	December 26, 2016
Par value as of March 31, 2021 in ILS	1,509,670
Linked par value as of March 31, 2021 in ILS in thousands	1,317,947
Value on the Partnership's books as of March 31, 2021 in ILS in thousands	1,315,405
TASE value as of March 31, 2021 in ILS in thousands	1,339,077
Fixed annual interest rate	4.5%
Principal payment date	December 31, 2021
Interest payment dates	Semiannual interest payable on every June 30th and every December 31st from the issue date in 2017-2021
Linkage base: base index	The bond is stated in ILS. The principal and interest are linked to a dollar rate of 3.819
Conversion right	None
Right to prepayment or mandatory conversion[15]	Right to prepayment
Guarantee for payment of the liability	See Note 10E to the financial statements below.
Name of the trustee	Reznik Paz Nevo Trusts Ltd.
Name of person in charge at the trust company	Adv. Michal Avtalion-Rishony
Trustee's address and e-mail	14 Yad Harutzim St., Tel Aviv
Rating as of the issue date[16]	Midroog Ltd.: A1 stable
Rating as of the report date[17]	Midroog Ltd.: A2 stable
Until March 31, 2021 and during the report year, has the Partnership met all of the conditions and obligations under the indenture?	Yes
Have any conditions establishing cause for acceleration of the bonds been fulfilled?	No
Pledges to secure the bonds	See Note 10E to the financial statements below
The Partnership's financial equity as of March 31, 2021, as defined in the indenture[18]	Approx. $3,584 thousand
The financial equity to debt ratio as of March 31, 2021, as defined in the indenture[21]	Approx. 9
Is it material[19]	Yes

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

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

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

[18] Included in accordance with the Partnership's undertaking on the date of issue of the bonds – for further details, see Note 10E to the financial statements below. The ratio was calculated, *inter alia*, based on the discounted cash flows of the Tamar project included in Section 3.11 of the Description of the Partnership's Business Chapter in the above Annual Report and of the Leviathan project (as released in the immediate report of March 10, 2021, Ref. no. 2021-01-030942) as of December 31, 2020.

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

Additional information

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**
Chairman of the Board	CEO

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

Annex A to the Board of Directors' Report

Figures regarding Delek & Avner (Tamar Bond) Ltd.

Further to Note 10B to the financial statements for 2020 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)

	31.3.2021	31.12.2020
	Unaudited	Audited
Assets:		
Current Assets:		
Short term Bank deposits	95	89
Interest receivable	8,395	-
Related Parties	39,898	99,911
	48,388	100,000
Noncurrent Assets:		
Loans to shareholders	639,507	639,491
Long term bank deposits	60,008	-
	699,515	639,491
	747,903	739,491
Liabilities and Equity:		
Current Liabilities:		
Interest Payable	8,395	-
	8,395	-
Noncurrent Liabilities:		
Bonds	640,000	640,000
Loans from shareholders	100,000	100,000
	740,000	740,000
Equity (Deficit)	(492)	(509)
	747,903	739,491

Statements of Comprehensive Income (Expressed in US$ Thousands)

	For the Three Months Ended 31.3.2021	For the Three Months Ended 31.3.2020	For the Period Ended 31.12.2020
	Unaudited	Unaudited	Audited
Financial expenses	8,439	12,666	48,119
Financial income	(8,510)	(12,866)	(48,768)
Total comprehensive income	(17)	(200)	(649)

SPONSOR FINANCIAL DATA REPORT[20]
Cash flow for the period from January 1, 2021 – March 31, 2021

	Item	Quantity/Actual Amount (In thousands)
A.	Total Offtake (BCM) (100%)[21]	1.7
B.	Tamar Revenues (100%) [22]	284,281
C.	Loss Proceeds, if any, paid to Revenue Accounts	-
D.	Sponsor Deposits, if any, into Revenue Accounts	-
E.	Gross Revenues (before Royalties)[22]	81,863
F.	Overriding Royalties	
	(a) Statutory Royalties	(8,942)
	(b) Third Party Royalties	(6,222)
G.	Net Revenues	66,699
H.	Costs and Expenses:	
	(a) Fees Under the Financing Documents	(68)
	(b) Taxes	(8,366)
	(c) Operation and Maintenance Expenses	(6,791)
	(d) Capital Expenditures	(2,556)
	(e) Payments under the Tamar FUA	-
	(f) Insurance	-
I.	Total Costs and Expenses (sum of Items H(a), (b), (c), (d), (e) and (f)	(17,781)
J.	Total Cash Flows Available for Debt Service (Item G minus Item H)	48,918
K.	Total Debt Service	-

[20] 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.
[21] Sections A and B are based on 100% of Tamar partners on an accrual basis.
[22] Sections C-K are based on Delek Drilling Share in Tamar (22%) and on actual cash flow of the Sponsor Accounts as part of the Tamar Bond indenture.

Annex B to the Board of Directors' Report

Figures regarding Leviathan Bond Ltd.

Further to Note 10C to the financial statements attached below and Part Five of the Board of Directors' Report and following a tax ruling received by the Partnership immediately prior to the issue of the bonds, below are financial figures which will be provided to the holders of the bonds of Leviathan Bond Ltd.

Statements of Financial Position (Expressed in US$ Thousands)

	31.03.2021	31.12.2020
	Unaudited	Audited
Assets:		
Current Assets:		
Short term Bank deposits	40	15
Related parties	-	**
Interest receivable	35,406	
	35,446	15
Noncurrent Assets:		
Loans to shareholders	2,248,282	2,247,611
Long term bank deposits	100,000	100,000
	2,348,282	2,347,611
	2,383,728	2,347,626
Liabilities and Equity:		
Current Liabilities:		
Related parties	40	15
Interest payable	35,406	-
	35,446	15
Noncurrent Liabilities:		
Bonds	2,250,000	2,250,000
Loans from shareholders	100,000	100,000
	2,350,000	2,350,000
Equity (Deficit)	(1,718)	(2,389)
	2,383,728	2,347,626

*** Date of incorporation**

**** Less than $1,000**

Statements of Comprehensive Income (Expressed in US$ Thousands)

	For the Period Ended 31.03.2021	For the Period Ended 31.12.2020
	Unaudited	Audited
Financial expenses	35,430	54,427
Financial income	(36,101)	(52,038)
Total comprehensive expenses (income)	(671)	2,389

SPONSOR FINANCIAL DATA REPORT[23]

		Period Ended
		31.03.2021
	Item	Quantity/Actual Amount (in USD$,000)
A.	Total Offtake (BCM)	2.7[24]
B.	Leviathan Revenues (100%)	477,873[25]
C.	Loss Proceeds, if any, paid to Revenue Account	-
D.	Sponsor Deposits, if any, into Revenue Account	-
E.	Gross Revenues (before Royalties)	196,695
F.	Overriding Royalties	
	(a) Statutory Royalties	(21,914)
	(b) Third Party Royalties	(8,692)
G.	Net Revenues	166,089[26]
H.	Costs and Expenses:	
	(a) Fees Under the Financing Documents (Interest Income)	24
	(b) Taxes	-
	(c) Operation and Maintenance Expenses	8,231[27]
	(d) Capital Expenditures	1,481[28]
	(e) Insurance (income)	-
I.	Total Costs and Expenses (sum of Items H(a), (b), (c), (d) and (e))	9,670
J.	Total Cash Flows Available for Debt Service (Item G *minus* Item H)	156,419
K.	Total Cash Flow from operation (Item G minus Items H(c) and H(e)	157,876
L.	Total Debt Service	-
M.	Total Distribution to the Sponsor	130,000

[23] The aforesaid report is delivered to the trustee for the bonds on a quarterly and annual basis and represents the cash flow deriving for the Partnership from the Leviathan project relative to the amounts required for the debt service in such period.
[24] Gas sales from January 1st 2021 until March 31st 2021 for 100% of the Leviathan partners on an accrual basis.
[25] Gas sales from January 1st 2021 until March 31st 2021 for 100% of the Leviathan partners on an accrual basis.
[26] Sections C-M are based on Delek Drilling Share in Leviathan (45.34%) and on actual cash flow of the Sponsor Accounts as part of the Leviathan Bond indenture from January 1st 2021 until March 31st 2021.
[27] As of January 1st 2021 until March 31st 2021 a sum of 7,345$ USD Thousands was paid by the Sponsor from its own sources.
[28] As of January 1st 2021 until March 31st 2021, 2020 a sum of 24,078$ USD Thousands was paid by the Sponsor from its own sources.

Annex C to the Board of Directors' Report

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

Following are details of a highly material valuation with respect to the profit from the revaluation of royalties from the sale of the Partnership's interests in the Karish and Tanin leases (for further details, see Note 5N to the financial statements attached below and the Valuation attached below):

Identification of the object of the valuation:	Royalties in respect of the sale of all of the interests in the Karish and Tanin leases.
Timing of the valuation:	March 31, 2021.
Value of the object of the valuation shortly before the date of the valuation, if GAAP, including depreciation and amortization, did not warrant a change in its value according to the valuation:	Not applicable.
Value of the object of the valuation determined according to the valuation:	A sum of approx. U.S. $247.9 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 10 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. In addition, insofar as the Valuator shall be charged in a non-appealable judgment with payment of any amount to a third party in connection with the work, the Partnership shall pay the Valuator an amount charged to the Valuator which exceeds the sum of the fees paid for the work multiplied by 3. It is noted that this indemnity undertaking shall not apply if it is ruled that the Valuator acted in connection with performance of the work with malicious intent or negligently.
The valuation model applied by the Valuator:	Discounting expected cash flows while adjusting the discount rates to the risks entailed by the cash flow forecasts.
The assumptions based on which the Valuator prepared the valuation according to the valuation model:	The key assumptions underlying the valuation are as follows: 1. Dates of production of gas from the Karish lease: April 1, 2022 to December 31, 2040; 2. Average annual production rate from the Karish lease: approx. 3.85 BCM of natural gas; average annual rate of condensate production from the Karish lease of approx. 5.0 million barrels of condensate; 3. Dates of production of gas from the Tanin lease: January 1, 2027 to December 31, 2036; 4. Average annual rate of production from the Tanin lease: approx. 2.51 BCM of natural gas; average annual rate of condensate production from the Tanin lease of approx. 0.44 million barrels of condensate; 5. Royalty component cap rate: 12.0%; 6. Effective royalty rate to be paid to the State for the gas and the condensate: 11.5%; 7. Gas price formula: The basic price in the contracts according to which the valuation was prepared was estimated based on the formula

	specified in the price mechanism between Energean and ICL and ORL and between Energean and OPC and weighting the price of gas in the Ramat Hovav contract; 8. Condensate price: The condensate price forecast was estimated based on a long-term oil price forecast average of the World Bank[29] and the EIA[30] and the Brent forward prices according to Bloomberg figures and based on the assumption that the condensate price will derive from the Brent price with adjustments to oil quality differences; 9. On February 11, 2021, Energean released an updated resource report of D&M, a qualified resources and reserves evaluator, for the Karish and Tanin leases. According to this report, the quantity of gas in Karish Center is approx. 40.2 BCM and the quantity of hydrocarbon liquids is approx. 65.1 MMBBL, in Karish North the quantity of gas is approx. 33.1 BCM and the quantity of hydrocarbon liquids is approx. 30.6 MMBBL, and in Tanin, the quantity of gas is approx. 25.1 BCM and the quantity of hydrocarbon liquids is approx. 3.9 MMBBL. 10. Petroleum profit levy: According to the Petroleum Profit Taxation Law, 5771-2011; 11. Corporate tax rate: 23%, according to the statutory tax rate throughout the years of the forecast.

[29] A world Bank Quarterly Report: Commodity Markets Outlook, April 2021.
[30] U.S Energy Information Administration: Analysis & Projections, April 2021.

Financial Statements

2021

March 18, 2021

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 as specified below:

A review report of May 18, 2021 on the Partnership's condensed financial information as of March 31, 2021 and for the three-month period then ended.

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

Delek Drilling – Limited Partnership

Condensed Interim Financial Statements as of March 31, 2021

in U.S. Dollars in Thousands

Unaudited

This report is a translation of Delek Drilling - Limited Partnership's Hebrew-language Condensed Interim Financial Statements as of March 31, 2021. It is prepared solely for convenience purposes. Please note that the Hebrew version is the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

Delek Drilling – Limited Partnership

Condensed Interim Financial Statements as of March 31, 2021

in U.S. Dollars in Thousands

Unaudited

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<u>Auditors' review report to the partners of Delek Drilling – Limited Partnership</u>

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 March 31, 2021 and the Condensed Statements of Comprehensive Income, Changes in the Partnership's Equity and Cash Flows for the three-month period then ended. The board of directors and management of the Partnership's General Partner are responsible for the preparation and presentation of financial information for such interim period in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of financial information for such interim period under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on financial information for such interim period based on our review.

Scope of Review

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

Conclusion

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

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

Tel Aviv, May 18, 2021

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

Delek Drilling – Limited Partnership

Condensed Interim Statements of Financial Position (Dollars in thousands)

	31.3.2021	31.3.2020	31.12.2020
	Unaudited	Unaudited	Audited
Assets:			
Current assets:			
Cash and cash equivalents	138,079	95,877	69,979
Short-term investments	244,708	176,022	169,367
Trade receivables	164,969	110,956	145,681
Other receivables	34,098	61,538	32,876
	581,854	444,393	417,903
Assets held for sale (Note 4)	869,181	-	-
	1,451,035	444,393	417,903
Non-current assets:			
Investments in oil and gas assets	2,583,681	3,467,859	3,439,902
Investment in a company accounted for at equity	66,073	75,000	67,288
Long-term deposits in banks	100,586	103,345	100,529
Other long-term assets	534,771	476,433	559,065
	3,285,111	4,122,637	4,166,784
	4,736,146	4,567,030	4,584,687
Liabilities and equity:			
Current liabilities:			
Bonds	1,029,829	319,565	393,806
Liabilities to banking corporations	-	1,986,511	-
Provision for tax and balancing payments	-	-	36,462
Trade and other payables	156,897	148,717	73,567
Other short-term liabilities	59,941	-	62,212
	1,246,667	2,454,793	566,047
Liabilities relating to assets held for sale (Note 4)	32,248	-	-
	1,278,915	2,454,793	566,047
Non-current liabilities:			
Bonds	2,220,709	1,032,079	2,854,699
Other long-term liabilities	114,533	224,556	166,246
	2,335,242	1,256,635	3,020,945
Equity:			
Partnership's equity	154,791	154,791	154,791
Capital reserves	(39,061)	(66,728)	(48,616)
Retained earnings	1,006,259	767,539	891,520
	1,121,989	855,602	997,695
	4,736,146	4,567,030	4,584,687

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

May 18, 2021			
Date of approval of the financial statements	Gabi Last Chairman of the Board Delek Drilling Management (1993) Ltd. General Partner	Yossi Abu CEO Delek Drilling Management (1993) Ltd. General Partner	Yossi Gvura Deputy CEO Delek Drilling Management (1993) Ltd. General Partner

Delek Drilling – Limited Partnership

Condensed Interim Statements of Comprehensive Income (Dollars in thousands)

	For the three-month period ended		For the year ended
	31.3.2021	31.3.2020[1]	31.12.2020[1]
	Unaudited	Unaudited	Audited
Revenues:			
From natural gas and condensate sales	216,455	141,905	587,086
Net of royalties	32,164	21,298	86,327
	184,291	120,607	500,759
Expenses and costs:			
Cost of production of natural gas and condensate	26,910	18,426	89,673
Depreciation, depletion and amortization expenses	21,034	17,528	79,446
Other direct expenses	766	1,219	3,410
G&A expenses	3,022	2,641	14,630
Total expenses and costs	51,732	39,814	187,159
Partnership's share of profit (losses) of company accounted for at equity	(1,215)	5	(7,707)
Operating income	131,344	80,798	305,893
Financial expenses	(51,073)	(52,083)	(231,847)
Financial income	12,920	2,501	87,985
Financial expenses, net	(38,153)	(49,582)	(143,862)
Profit from continuing operations	93,191	31,216	162,031
Profit from discontinued operations, net (Note 4)	21,548	53,051	203,089
Net profit	**114,739**	**84,267**	**365,120**
Other comprehensive income (loss) from continuing operations:			
Amounts which may subsequently be reclassified to profit or loss:			
Loss from cash flow hedging transactions	-	(6,486)	(4,757)
Carried to profit or loss for cash flow hedging transactions	-	(42)	7,360
	-	(6,528)	2,603
Comprehensive income from continuing operations	**93,191**	**24,688**	**164,634**
Other comprehensive income (loss) from discontinued operations			
Amounts which shall not subsequently be reclassified to profit or loss:			
Profit (loss) from investment in equity instruments designated for measurement at fair value through other comprehensive income	9,086	(35,975)	(29,322)
Comprehensive income from discontinued operations	30,634	17,076	173,767
Total comprehensive income	**123,825**	**41,764**	**338,401**
Basic and diluted profit per participation unit (in dollars):			
From continuing operations	0.080	0.027	0.138
From discontinued operations	0.018	0.045	0.173
Net profit	0.098	0.072	0.311
The weighted number of participation units for the purpose of said calculation (in thousands)	1,173,815	1,173,815	1,173,815

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

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

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

	The Partnership's equity	Capital reserve for redemption of participation units	Capital reserve for transactions between a corporation and a control holder thereof	Capital reserve for equity instruments	Retained earnings	Total
	Unaudited					
For the three-month period ended March 31, 2021:						
Balance as of January 1, 2021 (audited)	154,791	1,631	20,331	(70,578)	891,520	997,695
Net profit	-	-	-	-	114,739	114,739
Other comprehensive income	-	-	-	9,086	-	9,086
Total comprehensive income	-	-	-	9,086	114,739	123,825
Capital reserve for benefits from a control holder	-	-	469	-	-	469
Balance as of March 31, 2021	154,791	1,631	20,800	(61,492)	1,006,259	1,121,989

	The Partnership's equity	Capital reserve for redemption of participation units	Capital reserve for transactions between a corporation and a control holder thereof	Capital reserve for equity instruments and cash flow hedging transactions	Retained earnings	Total
	Unaudited					
For the three-month period ended March 31, 2020:						
Balance as of January 1, 2020 (audited)	154,791	1,631	17,377	(43,859)	683,567	813,507
Net profit	-	-	-	-	84,267	84,267
Other comprehensive loss	-	-	-	(42,503)	-	(42,503)
Total comprehensive income (loss)	-	-	-	(42,503)	84,267	41,764
Profits distributed	-	-	-	-	(295)	(295)
Capital reserve for benefits from a control holder	-	-	626	-	-	626
Balance as of March 31, 2020	154,791	1,631	18,003	(86,362)	767,539	855,602

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

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

	The Partnership's equity	Capital reserve for redemption of participation units	Capital reserve for transactions between a corporation and a control holder thereof	Capital reserve for equity instruments and cash flow hedging transactions	Retained earnings	Total
	Audited					
For the year ended December 31, 2020:						
Balance as of January 1, 2020	154,791	1,631	17,377	(43,859)	683,567	813,507
Net profit	-	-	-	-	365,120	365,120
Other comprehensive loss	-	-	-	(26,719)	-	(26,719)
Total comprehensive income (loss)	-	-	-	(26,719)	365,120	338,401
Profits distributed	-	-	-	-	(65,593)	(65,593)
Declared tax payments and balancing payments	-	-	-	-	(36,428)	(36,428)
Advance tax payments on account of the tax owed by the participation unit holders	-	-	-	-	(55,146)	(55,146)
Capital reserve for benefits from a control holder	-	-	2,954	-	-	2,954
Balance as of December 31, 2020	**154,791**	**1,631**	**20,331**	**(70,578)**	**891,520**	**997,695**

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

Delek Drilling – Limited Partnership

Condensed Interim Statements of Cash Flows (Dollars in thousands)

	For the three-month period ended		For the year ended
	31.3.2021	31.3.2020	31.12.2020
	Unaudited		Audited
Cash flows – operating activities:			
Profit for the period	114,739	84,267	365,120
Adjustments for:			
Depreciation, depletion and amortization	30,486	26,370	140,295
Change in fair value of financial derivatives, net	-	176	(2,920)
Update of asset retirement obligations	512	2,270	(631)
Revaluation of short-term and long-term investments and deposits	(57)	(426)	2,390
Income due to revaluation of share-based payment	(11)	(23)	(13)
Benefit from a control holder included in expenses against a capital reserve	469	626	2,954
Revaluation of other long-term assets	(11,932)	(143)	(84,836)
Partnership's share in losses (profits) of company accounted for at equity	1,215	(5)	7,707
Changes in assets and liabilities items:			
Increase in trade receivables	(4,598)	(64,094)	(98,819)
Decrease in other receivables	14,453	171	23,319
Increase in other long-term assets	(1,725)	(990)	(5,697)
Increase (decrease) in trade and other payables	59,870	22,402	(21,060)
Increase (decrease) in liability for oil and gas profit levy	4,966	-	(1,333)
Increase (decrease) in other long-term liabilities	(1,177)	(1,037)	2,199
	92,471	(14,703)	(36,445)
Net cash deriving from operating activities	**207,210**	**69,564**	**328,675**
Cash flows - investment activity:			
Investment in oil and gas assets	(13,639)	(88,795)	(165,085)
Investment in other long-term assets	(24,085)	(10,379)	(14,596)
Repayment of a loan granted	14,343	14,843	14,843
Increase in short-term investments, net	(75,341)	(112,563)	(105,908)
Deposit in long-term deposits in banks	-	-	(100,000)
Maturity of long-term bank deposits	-	-	100,000
Change in respect of operator of joint ventures	(255)	24,981	28,921
Net cash used for investment activity	**(98,977)**	**(171,913)**	**(241,825)**
Cash flows - financing activity:			
Bond offering (net of issue costs)	-	-	2,217,332
Receipt of loans from banking corporations (net of debt-raising expenses)	-	61,782	103,831
Repayment of long-term loans from banking corporations	-	-	(2,050,000)
Profit, tax and balancing payments distributed	(36,262)	(33,825)	(99,120)
Payments on account of the tax due by the holders of participation units	(3,871)	-	(35,021)
Buy-back of bonds issued	-	-	(4,939)
Repayment of bonds	-	-	(320,000)
Decrease in long-term liabilities	-	(777)	-
Net cash deriving from (used for) financing activity	**(40,133)**	**27,180**	**(187,917)**
Increase (decrease) in cash and cash equivalents	68,100	(75,169)	(101,067)
Balance of cash and cash equivalents as of beginning of period	69,979	171,046	171,046
Balance of cash and cash equivalents as of end of period	138,079	95,877	69,979
Annex A – Non-cash flow financing and investment activity:			
Investments in oil and gas assets against liabilities	3,857	45,483	42,259
Balancing payments and tax advances due on account of the unit holders	-	-	36,428
Annex B – Additional information on cash flows:			
Interest paid (including capitalized interest)	-	34,280	256,977
Interest received	3,654	1,405	1,666

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 supervisor, CPA Micha Blumenthal on behalf of Fahn Kanne & Co., CPAs, and Adv. Uri Keidar on behalf of Keidar Supervision and Management (collectively: the "**Supervisor**").

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

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

B. As of the date of approval of the Financial Statements, the Partnership's primary business is exploration, development and production of natural gas, condensate and oil in Israel and Cyprus, as well as the promotion of various natural gas-based projects, aiming to increase the sales volume of natural gas. Concurrently, the Partnership is exploring various business opportunities with characteristics similar to those in which it is active.

Note 1 – General (Cont.):

C. On May 4, 2021, the General Partner and the Trustee moved the court to exercise its authority under Sections 350 and 351 of the Companies Law, 5759-1999 (the "**Companies Law**") and to order that a general meeting of the holders of the participation units issued by the Trustee (the "**Participation Units**") be convened, to discuss approval of an arrangement concerning the exchange of the Participation Units for ordinary shares of a new company, New Med Energy Plc. ("**New Med**") (the "**Arrangement**"), incorporated in England, which will hold all of the rights of the Trustee and the General Partner in the Partnership (100%). New Med's shares will be listed concurrently on TASE and on the London Stock Exchange on the Standard Main Market list. The General Partner shall assign the management rights in the Partnership to a new general partner which will be wholly owned and fully controlled (100%) by New Med. In the context of the Arrangement, and insofar as approved, changes shall be made to the current limited partnership agreement in order to make it consistent with the new corporate structure and with the Partnership's becoming a private partnership wholly owned and fully controlled (100%) by New Med. The purpose of the Arrangement is to apply the following restructuring in the rights of the holders of the Participation Units, on the Arrangement closing date: (1) New Med shall wholly own and fully control the Partnership (100%), as specified above; (2) Delek Group and the public investing in the Participation Units shall hold, in lieu of the Participation Units that they held (and which conferred on them a right to participate in the company's rights in the Partnership), New Med shares, which shall confer on them 99.99% of its share capital (the "**Exchange of Units**"). The holding in New Med's shares on the closing date of the Arrangement shall be according to the rate of their holdings in the Participation Units on the effective date for the closing of the Arrangement (*pro rata*).

D. Note 1 – General (Cont.):

C. (Cont.)

Consequently, Delek Group shall hold the majority of New Med's shares by virtue of its holdings upon the closing of the Arrangement, if closed, and it shall be deemed the controlling shareholder of New Med; (3) the present General Partner (which shall continue to be held by Delek Group) shall hold New Med shares that confer thereon 0.01% of its share capital (in addition to New Med shares that shall be allotted thereto in the context of the Exchange of Units in respect of the Participation Units currently held thereby), although it will stop being the Partnership's general partner and will assign the management rights in the Partnership to a new general partner which shall be wholly owned and fully controlled (100%) by New Med; and (4) the Partnership itself shall remain "as is", without any change, including all of its operations, and with all of its assets and liabilities, and in this context its undertakings to pay the royalties, remaining unchanged, although with respect to additional rights or new petroleum assets that New Med shall purchase in the future (after the closing of the Arrangement), the royalty interest owners shall not be entitled to royalties in respect thereof, insofar as the new rights are not acquired by the Partnership but rather by New Med or other subsidiaries thereof. The Partnership is expected to retain its status as a "reporting corporation" until the final repayment of Series A bonds, which, according to the terms and conditions thereof, will be on December 31, 2021. Following the closing of the Arrangement and the listing of New Med's shares on the London Stock Exchange and on TASE, New Med will be subject to two reporting regimes, i.e., the reporting regime under the English law applicable to English companies listed on the London Stock Exchange, as well as the reporting regime applicable to a "reporting corporation" under the Israeli Securities Law. In addition, New Med and the holders of its shares will be subject to a tax regime which is derived from New Med's tax status, which is different to the unique tax regime determined in Israeli law in relation to public petroleum partnerships that are traded on the stock exchange and in relation to the holders of the participation units.

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

Further to the filing of the motion as aforesaid, on May 11, 2021, an objection to the motion was filed with the court on behalf of participation unit holders, and on May 11, 2021 and May 12, 2021, the court's decisions were received in connection with the objection, whereby a preliminary hearing will be held on the objection only after the lapse of the deadline for the filing of objections to the motion on May 25, 2021.

Note 1 – General (Cont.):

C. (Cont.)

As of the date of approval of the Financial Statements, the Partnership is continuing to promote approval of the Arrangement, and in this context is working on formulating timetables for performance of the Arrangement, subject to receipt of all of the necessary approvals. It is clarified that as of the date of approval of the Financial Statements, there is no certainty with respect to the date of approval of the Arrangement, if at all, or with respect to the possibility of obtaining all of the approvals required for performance thereof.

E. On April 26, 2021, the Partnership engaged with investors headed by Mubadala Petroleum in a non-binding MOU (the "**MOU**") for the sale of its interests in the Tamar and Dalit leases. For details, see Note 4A below. In addition, on April 27, 2021, the Partnership sold its holdings in Tamar Petroleum Ltd. ("**Tamar Petroleum**") in consideration for approx. $30.9 million. For details, see Note 4B below.

F. The Partnership's income in the report period from the sale of natural gas is affected mainly by the volume of natural gas consumption for the domestic market, Egypt and Jordan. The Partnership's share in the income and in the natural gas quantities sold in the report period from continuing operations to the domestic market totaled approx. $92.3 million (from the sale of approx. 0.57 BCM) (March 31, 2020: approx. $56.6 million (from the sale of approx. 0.33 BCM)), and to Egypt and Jordan totaled approx. $124.1 million (from the sale of approx. 0.66 BCM) (March 31, 2020: approx. $85.3 million (from the sale of approx. 0.41 BCM)).

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

H. As of March 31, 2021, the Partnership has a working capital deficit for a 12-month period from continuing operations of approx. $90 million, which mainly derives from Series A bonds maturing in December 2021. On May 18, 2021, the General Partner's board of directors determined that the said deficit does not indicate a liquidity problem at the Partnership and that it will have sufficient resources in the coming year to finance its operations and/or to meet its existing and expected liabilities. It is noted that the net current liabilities include Tamar Bond bonds in the sum of approx. $575 million (net of a safety cushion of approx. $60 million, which is presented in the current assets), which have been reclassified from long-term to short-term and are expected to be prepaid together with one half of the Series A bond series in a sum of up to approx. $200 million upon the sale of the Partnership's holdings in the Tamar and Dalit leases as specified in Note 4 below.

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

J. The Condensed Interim Financial Statements fulfill the disclosure provisions pursuant to Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Note 2 - Significant Accounting Policies:

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

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

A non-current asset or group of assets are classified as held for sale when their settlement is done mainly through a sale transaction and not through ongoing use. The aforesaid occurs where the assets are available for immediate sale in their 'as is' condition, the Partnership has an obligation to sell, there is a plan to identify a buyer, and it is highly probable that the disposition will be completed within one year from the date of the classification. These assets are not depreciated from the date of their initial classification as such, and are presented as current assets separately, according to the lower of their value in the financial statements and their fair value net of sale costs. Other comprehensive income (loss) in respect of a non-current asset or group of assets classified as held for sale is presented separately under equity. Where the Partnership changes the planning of the sale such that recovery of the asset will not be performed through a sale transaction, it ceases to classify the asset as held for sale and measures it according to the lower of the book value thereof had it not been classified as held for sale or according to the recoverable amount of the asset on the date of adoption of the decision not to sell.

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

B. Initial application of amendments to existing accounting standards:

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

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

The Amendments provide practical reliefs to handle the effect of the accounting treatment in the financial statements where IBORs (Interbank Offered Rates) shall be replaced with RFRs (Risk Free Interest Rates). In accordance with one of the practical reliefs, the company shall treat contractual amendments or amendments to the cash flows that are required as a direct consequence of implementation of the reform similarly to the accounting treatment of changes in variable interest. In other words, a company is required to recognize the changes in the interest rates through adjustment of the effective interest rate without changing the book value of the financial instrument. Use of this practical relief is dependent on the transition from IBOR to RFR occurring on the basis of economically equivalent conditions. In addition, the Amendments allow the changes required by the IBOR reform to be made to the designation of the hedging and the documentation without causing the hedging ratios to stop when certain conditions are fulfilled. In the context of the Amendments, temporary practical relief was also given in connection with the application of hedge accounting pertaining to identification of the hedged risk as 'separately identifiable'.

Notes to the Condensed Interim Financial Statements as of March 31, 2021 (Dollars in thousands)

Note 2 - Significant Accounting Policies (Cont.):

B. (Cont.)

The Amendments added disclosure requirements in connection with the effect of the expected reform on the company's financial statements, including reference to the manner in which the company manages implementation of the interest rate reform, the risks to which it is exposed as a result of the expected reform, and quantitative disclosures with respect to financial instruments at IBORs that are expected to change. The Amendments are applied from the annual periods commencing on or after January 1, 2021. The Amendments are applied retroactively, but restatement of comparison figures is not required. The above Amendments are not expected to have a material effect on the Partnership's Financial Statements.

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

Amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
In February 2021, the IASB published an amendment to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors (the "**Amendment**"). The purpose of the Amendment is to provide a new definition of the term "accounting estimates".

Accounting estimates are defined as "monetary amounts in the financial statements that are subject to measurement uncertainty". The Amendment clarifies what changes to accounting estimates are and how they differ from changes to the accounting policy and error corrections.

The Amendment will be applied prospectively to annual periods commencing on January 1, 2023, and applies to changes in the accounting policy and accounting estimates occurring at the beginning of such period or thereafter. Early application is possible.

Note 3 – Investments in Oil and Gas Assets:

A. Composition:

	31.3.2021	31.3.2020	31.12.2020
	Unaudited	**Unaudited**	**Audited**
Oil and gas assets:			
Michal Matan (Tamar project)	-	853,872	831,208
Ratio Yam (Leviathan project)	2,456,847	2,492,925	2,483,265
	2,456,847	3,346,797	3,314,473
Appraisal and exploration assets:			
Block 12 Cyprus	119,727	116,879	119,051
New Ofek	6,594	3,670	5,865
New Yahel	513	513	513
	126,834	121,062	125,429
Total	2,583,681	3,467,859	3,439,902

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

B. Developments in investments in oil and gas assets:

1. **Leviathan project**

   Considering the volume of production from the Leviathan reservoir during Q1/2021 and in order to improve the redundancy in the production system, the operator, Noble Energy Mediterranean Ltd. ("Noble"), recommended that the partners bring forward the drilling of another production well, which was planned to be drilled in later years, to early 2022. As of the date of approval of the Financial Statements, the Leviathan partners have approved a budget for the purchase of preliminary equipment in the sum of approx. $14 million (100%, the Partnership's share is approx. $6.3 million).

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

   Further to Note 7C7 to the Annual Financial Statements, on May 4, 2021 (after the date of the Statements of Financial Position), the operator of the Licenses reported that the (acting) Petroleum Commissioner had approved an extension of the Licenses until June 20, 2022, and a change in the date of performance of the work plan in the New Ofek license, including postponement of the date of commencement of performance of production tests to June 1, 2021.

Note 4 – Tamar Project Discontinued Operations:

A. On April 26, 2021 (after the date of the Statements of Financial Position), the Partnership entered into an MOU with investors headed by Mubadala Petroleum (the "**Buyers**") in connection with the sale of its rights in the Tamar project to a company owned by the Buyers (the "**Sale Transaction**" and the "**Buying Company**", respectively).

The MOU prescribes the commercial principles for the binding agreement in connection with the Sale Transaction (the "**Binding Agreement**"), as specified below:

1. The object of sale includes the Partnership's rights at the rate of 22% in each one of the Tamar I/12 and Dalit I/13 leases, and the Partnership's rights in the joint operating agreement that applies to the leases, the Tamar gas agreements and the ancillary agreements between the partners in the leases (the "**Object of Sale**"). The Object of Sale will be transferred to the Buying Company free and clear of liens and third party rights, on an as-is basis, subject to representations and warranties that will be specified in the Binding Agreement, and subject to the Buyers' undertakings to incur the existing royalties for the Partnership's rights in the project.

2. Against receipt of the rights in the Object of Sale, the Buyers will pay consideration of up to $1.1 billion, which will include non-conditional consideration of $1 billion and conditional consideration of up to $100 million, payable subject to the fulfillment of certain conditions and targets as shall be agreed between the parties in the Binding Agreement.

Notes to the Condensed Interim Financial Statements as of March 31, 2021 (Dollars in thousands)

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

A. (Cont.)

3. The cutoff date for purposes of calculation of the consideration for the transfer of rights and liabilities in the Object of Sale is April 1, 2021, and it will be adjusted to the revenues and expenses that will derive from the Object of Sale from the said cutoff date.

4. The Binding Agreement shall be subject to conditions precedents, including: (a) approval of the Petroleum Commissioner; (b) approval of the meeting of the unitholders and/or the Partnership's Supervisor (insofar as required); (c) consents required from parties to agreements to which the Partnership is a party (insofar as required); (d) removal of liens imposed on the Object of Sale; and (e) additional conditions precedent that will be agreed in the Binding Agreement.

5. The parties will act to reach the Binding Agreement as soon as practicable and by no later than May 31, 2021, and the Partnership undertook not to enter into an agreement for the sale of the Object of Sale with any third party until such date.

6. The MOU will terminate on the date of the engagement in the Binding Agreement or 90 days after the date of the MOU, whichever is earlier.

7. The Binding Agreement will be governed by the laws of England and Wales. Claims and disputes will be litigated in arbitration before three arbitrators.

The sale proceeds will first be used to repay the Partnership's liabilities to the holders of the Tamar Bond bonds, 50% of the Series A bonds, and payment of taxes that apply to the sale[2]. It is clarified that as of the date of approval of the financial statements, there is no certainty that the parties will sign a Binding Agreement according to the terms and conditions specified above or on the dates prescribed therein, or at all.

As of the date of approval of the Financial Statements, the parties to the MOU are continuing to act for the signing of a Binding Agreement in the coming weeks.

B. Below are the main groups of assets and liabilities classified as attributed to sale:

	31.3.2021
	Unaudited
Trade and other receivables	4,969
Investments in oil and gas assets	818,716
Other long-term assets	45,496
	869,181
Other long-term liabilities	32,248

[2] It is noted that the cost of the Partnership's interests in the Tamar project for tax purposes is estimated, as of March 31, 2021, at approx. $160 million. See Note 20A to the Annual Financial Statements.

Notes to the Condensed Interim Financial Statements as of March 31, 2021 (Dollars in thousands)

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

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

	31.3.2021	31.3.2020	31.12.2020
	Unaudited	Unaudited	Audited
Revenues:			
From natural gas and condensate sales	62,650	83,284	332,036
Net of royalties	(11,870)	(17,212)	(67,937)
	50,780	66,072	264,099
Costs and expenses:			
Cost of natural gas and condensate production	(9,826)	(5,432)	(24,284)
Depreciation, depletion and amortization expenses	(7,274)	(7,046)	(32,361)
Other direct expenses	(40)	(96)	(201)
Total costs and expenses	(17,140)	(12,574)	(56,846)
Operating income before oil and gas profit levy	33,640	53,498	207,253
Oil and gas profit levy	(12,099)	-	(3,837)
Operating income	21,541	53,498	203,416
Financial expenses	(104)	(519)	(664)
Financial income	111	72	337
Net financial income (expenses)	7	(447)	(327)
Net profit	21,548	53,051	203,089
Other comprehensive income (loss) from discontinued operations			
Amounts that will not be carried in the future to the income statement:			
Profit (loss) from investment in equity instruments designated for measurement at fair value through other comprehensive income	9,086	(35,975)	(29,322)
Total comprehensive income from discontinued operations	30,634	17,076	173,767

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

	31.3.2021	31.3.2020	31.12.2020
	Unaudited	Unaudited	Audited
Current	56,571	73,232	253,884
Investment	(5,437)	(5,323)	(18,720)
Financing	-	-	-

E. On April 27, 2021 (after the date of the Statements of Financial Position), the Partnership entered into an agreement with a third party for the off-exchange sale of all of its holdings (22.6%) in Tamar Petroleum, in consideration for the total sum of approx. ILS 100 million in cash (approx. $30.9 million), which reflects a share price of 500.035 agorot. On May 5, 2021, the said transaction was closed, and in the context thereof, the shares were transferred against payment of the consideration. The Partnership paid the capital gain tax balance in the sum of approx. $15 million, which was deferred to the date of the sale of the shares.

Note 5 – Additional Information:

A. Further to Note 20A12 to the Annual Financial Statements with respect to the Partnership's taxable income, which was attributed to entitled holders in respect of the holding of participation units of the Partnership in 2018, in view of the disputes that arose between the Partnership and the Tax Authority and disagreements in respect of the amount of the Partnership's taxable income in 2018, an assessment other than by agreement was received from the Tax Authority on March 24, 2021, pursuant to Section 145(a)(2)(b) of the Income Tax Ordinance, 5721-1961 (the "**Tax Assessment**"), whereby the Partnership's taxable business income in 2018 is approx. $195 million (instead of approx. $150 million as included in the Partnership's tax report filed with the Tax Authority) and the Partnership's capital gain in 2018 is approx. $17 million, as declared in the report that was filed by the Partnership as aforesaid.

The disputes primarily pertain to the interpretation of the manner of recognition of financial expenses and other expenses borne by the Partnership. According to the Tax Assessment, and insofar as all of the arguments of the Tax Authority are accepted, the Partnership will be required to make an additional tax payment (including linkage differentials and interest) on account of the holders of the Partnership's participation units, in the amount of approx. $13 million. It is noted that the amounts as aforesaid were translated from shekels to dollars according to the dollar exchange rate as of March 31, 2021.

It is noted that in view of the aforesaid, there may be a delay in the issuance of a final tax certificate for entitled holders in respect of the holding of participation units of the Partnership for the tax year 2018, until completion of the proceedings required for determination of the final assessment. In the Partnership's estimation, based on its professional advisors' opinion, the prospects of most of the Partnership's arguments being accepted are higher than 50%, and it therefore intends to file an administrative objection to all of the rulings of the assessing officer in the assessment, while the deadline for the filing thereof is by May 29, 2021.

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

C. Further to Note 12L2 to the Annual Financial Statements regarding a caution and a summons to a hearing received by Noble from the Ministry of Environmental Protection (in this section: the "**Ministry**") with respect to an ostensible violation of the sea discharge permit that was issued for the Leviathan platform with respect to the standards for open system emissions determined in the permit, it is noted that on March 22, 2021, a hearing was held on the matter, and on March 24, 2021, a summary of the hearing on behalf of the Ministry was received, which stated that the Ministry will not recommend a punitive sanction for the alleged deviations, but in the event of additional deviations, it will consider exercising all of its powers by law. It was further determined that Chevron is required to prepare procedures and to complete actions for the cleaning and identification of sources of oils.

Note 5 – Additional Information (Cont.):

D. Further to Note 12K3 to the Annual Financial Statements regarding a motion for class certification alleging that the merger transaction between the Partnership and Avner Oil Exploration – Limited Partnership (in this section: "**Avner**") was approved in an unfair proceeding, and the consideration that was paid to the Avner minority unitholders, as was determined in the merger agreement, is unfair, it is noted that on March 17, 2021, the parties filed a motion for approval of a stipulation regarding the closing statements, and accordingly, the court's decision was issued whereby the petitioners' closing statements will be filed by June 13, 2021, the respondents' closing statements will be filed by September 13, 2021, and the responding summations of the petitioners will be filed by October 18, 2021. On April 26, 2021, the parties moved to postpone the said dates by seven days, and the court granted the motion.

E. Further to Note 12K4 to the Annual Financial Statements regarding a class action and a motion for class certification (in this section: the "**Certification Motion**") in connection with the issuance of shares of Tamar Petroleum in July 2017, it is noted that on April 6, 2021, the court granted the petitioners' motion for amendment of the Certification Motion, ruling that the petitioners may file the amended certification motion according to the language that was filed with the court, subject to payment of costs to the respondents in the sum total of ILS 100,000. In addition, on April 8, 2021, the court ruled that the respondents will file their responses to the amended certification motion by May 20, 2021, and that the petitioners will reply to such responses by June 3, 2021. On May 9, 2021, the respondents filed a motion to stay the proceedings in the case due to the respondents' intention to file a motion for leave to appeal the decision to approve amendment of the Certification Motion, and on the same date, the court granted the motion and stayed the proceedings in the case.

F. Further to Note 12K5 to the Annual Financial Statements regarding the filing of a class action and a motion for class certification which was filed with the Tel Aviv District Court by an electricity consumer (in this section: the "**Petitioner**") against the Partnership and Noble and against the other holders of the Tamar project and the Leviathan project (as parties against which no remedy is sought), in connection with the competitive process for the supply of natural gas conducted by the IEC and in connection with a possible amendment to the agreement for the supply of gas from the Tamar project to the IEC, as agreed by Isramco, Tamar Petroleum, Dor and Everest, with no involvement on the part of the Partnership and Noble, it is noted that on May 5, 2021, the court ordered that a hearing of the dismissal motion will be held on September 14, 2021.

Note 5 – Additional Information (Cont.):

G. Further to Note 12K6 to the Annual Financial Statements regarding a complaint filed by the Supervisor against the Partnership, the Partnership's General Partner and the royalty interest owners (which include Delek Group Ltd., Delek Energy Systems Ltd. and Delek Royalties (2012) Ltd.), and a counter-complaint filed by the royalty interest owners, all in connection with the investment recovery date in the Tamar project, it is noted that on March 17, 2021, an affidavit in lieu of direct testimony was filed on behalf of the Partnership, as well as a supplementary economic opinion on its behalf. In addition, on April 5, 2021, a pretrial hearing was held, during which it was proposed that the parties resort to mediation, and after the parties' consent to approach Supreme Court justice (Ret.) Yoram Danziger as mediator, the court ruled that the parties are required to provide it with an update on the progress of the mediation proceeding by May 20, 2021, and that insofar as the mediation is successful, the trial hearing dates will be obviated. On May 5, 2021, a hearing was held before the mediator in the parties' presence, at which it was ruled that each party will present its claims to the mediator separately. In this context, a meeting with the supervisors' counsel was held on May 9, 2021, a meeting with the Partnership's counsel is due to be held on May 27, 2021, and no date has yet been scheduled for a meeting before the mediator with counsel for the royalty interest owners.

H. Further to Note 12K8 to the Annual Financial Statements regarding a class action and a motion for class certification which was filed by a holder of participation units of the Partnership (in this section: the "**Petitioner**") against the Partnership, the Partnership's General Partner, Delek Group Ltd., Yitzhak Sharon (Tshuva), the directors of the General Partner of the Partnership (including the former chairman of the board) and the CEO of the General Partner of the Partnership (in this section: the "**Respondents**"), with the Economic Department of the Tel Aviv District Court, alleging that the Respondents refrained from disclosing, in the Partnership's reports, the existence of a clause in the agreements for the sale of natural gas from the Leviathan and Tamar reservoirs to Dolphinus Holdings Limited, it is noted that in accordance with the court's decision, the Petitioner is required to file a reply to the response by June 15, 2021.

I. Further to Notes 12C1d and 12C2b to the Annual Financial Statements in connection with the settlement agreements that were signed on January 30, 2021 between the Tamar partners and Israel Electric Corp. Ltd. (the "**IEC**") and between the Leviathan partners and the IEC, on May 2, 2021, the parties to the settlement agreement in Tamar agreed to an extension of the timeframe for fulfillment of the condition precedent pertaining to the taking effect of an agreed order between Noble Energy Mediterranean Ltd. and the Competition Authority pursuant to Section 50B of the Economic Competition Law, 5748-1988, until May 31, 2021, and the parties to the settlement agreement in Leviathan agreed to an extension of the timeframe for fulfilment of the conditions precedent until such date.

J. Further to Note 12K13 to the Annual Financial Statements regarding a class action that was filed by a resident of the Dor Beach area, it is noted that on May 5, 2021, the court referred the parties to negotiate with the aim of reaching a stipulation that will obviate the need for litigation, and ordered that an update on the negotiations be provided by June 20, 2021.

Note 5 – Additional Information (Cont.):

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

According to the petition, it was filed after the Tax Authority refused, in March 2021, to grant a freedom of information application submitted by the Petitioner, in which the Tax Authority was requested to provide the requested information. On May 6, 2021, the Petitioner filed, after receiving the court's permission therefor, an amended petition in which it added to the Respondents in the Original Petition all of the partners in the Tamar project which were not named in the original petition (in this section, together with the respondents in the original claim: the "**Respondents**"). On May 6, 2021, the court ordered the Respondents to file replications to the petition by June 15, 2021.

L. On April 7, 2021, the Partnership together with the other Tamar partners and Leviathan partners, filed a petition against the Natural Gas Council and the Ministry of Energy (in this section: the "**Respondents**"). The petition moves to nullify decision no. 5/2020 dated December 29, 2020 of the Natural Gas Sector Council (in this section, the "**Council**") – amendment of Council decision no. 8/2019 – standards and rates regarding the operation of the transmission system in a flow control regime (Amendment No. 2) which was published on January 3, 2021 (in this section: the "**Decision**"). The Decision stipulates that the natural gas suppliers shall bear the cost of one half of the "reasonable measurement gap", defined in the Decision as a difference of up to 0.5% between the quantity of gas measured by the meter at the entrance to the national natural gas transmission system and the quantity measured by the meter at the exit therefrom. In the petition it was claimed that this Decision was issued without any legal authority and is tainted by extreme unreasonableness. On April 8, 2021, the court ordered the Respondents to file responses to the petition by June 8, 2021.

M. Further to Note 7C6 to the Annual Financial Statements regarding a petition filed by the Partnership and Noble, which hold the Alon D license (in this section: the "**License Holders**"), with the Supreme Court sitting as the High Court of Justice, it is noted that on May 13, 2020, the State filed its preliminary response to the petition, in which it asserted, *inter alia*, that the petition should be dismissed with prejudice due to the non-joining of Energean Israel Ltd. ("**Energean**") as a respondent. On the same date, Energean filed a motion to summarily dismiss the petition with prejudice, or alternatively to join it to the proceeding as a respondent and allow it to raise its claims. On May 18, 2021, the License Holders filed a response to the motion on behalf of Energean, in which they moved that its motion be denied. The hearing of the petition is scheduled for May 19, 2021.

Note 5 – Additional Information (Cont.):

N. Further to Note 8B to the Annual Financial Statements regarding an agreement for the sale of interests in the I/17 Karish and I/16 Tanin leases (collectively: the "**Leases**"), in March 2021, Energean reported on a bond offering, and in April 2021, it reported, *inter alia*, that the expected date of commencement of production of natural gas from the Karish reservoir is in Q1/2022.

In view of Energean's notice of the raising of the bonds, the cap rate used to calculate the receivables in connection with the loan to Energean was updated. Financial income recorded in the report period includes approx. $10.7 million which derives from the update of the value of the royalties from the Leases in the sum of approx. $5.7 million and from the update of the receivables in connection with the loan to Energean in the sum of approx. $5 million.

Below are main parameters from the valuations that were used for measurement of the royalties and the receivables: the cap rate for receivables was estimated at 5.66%; the cap rate for the royalties component was estimated at 12%; the sum total of the contingent resources of natural gas and hydrocarbon liquids used in the valuation for measurement of the royalties is estimated at approx. 98.4 BCM and at approx. 99.6 MMBBL, respectively; average annual production rate from the Karish lease: approx. 3.85 BCM of natural gas; average annual condensate production rate from the Karish lease of approx. 5.0 million barrels of condensate; average annual production rate from the Tanin lease: approx. 2.51 BCM of natural gas; average annual condensate production rate from the Tanin lease of approx. 0.44 million barrels of condensate.

O. On May 9, 2021 (after the date of the Statements of Financial Position), the Partnership announced that the ISA had decided to extend the period for the offering of securities under the Partnership's shelf prospectus which was released on May 14, 2019 until May 14, 2022.

P. On May 3, 2021 (after the date of the Statements of Financial Position), the Partnership filed with the court grounds for an appeal of the assessments by an order in respect of disputes that have arisen between the Partnership and the Tax Authority in connection with the taxable income for 2016, and a date for a pretrial hearing of the appeal has been scheduled for September 5, 2021. For further details, see Note 20A9 to the Annual Financial Statements.

Q. Further to Note 20A7 to the Annual Financial Statements regarding the filing of an originating application by the Partnership and the General Partner with the Tel Aviv District Court, in which the court was moved, *inter alia*, to determine the appropriate arrangements for balancing between individuals and corporations that hold participation units of the Partnership, in view of tax payments that the Partnership is required to make pursuant to Section 19 of the Taxation of Profits from Natural Resources Law, 5771-2011, it is noted that each one of the parties in the proceeding is required to file with the court a summary document on its behalf by June 1, 2021.

Notes to the Condensed Interim Financial Statements as of March 31, 2021 (Dollars in thousands)

Note 6 – Financial Instruments:

Fair value of financial instruments:

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

	As of March 31, 2021	
	Fair Value	Book Value
Bonds:	Unaudited	
Series A	401,643	399,752
Tamar Bond	676,240	644,044
Leviathan Bond	2,473,378	2,256,115
Total	3,551,261	3,299,911

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

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

	March 31, 2021			
	Level 1	Level 2	Level 3	Total
	Unaudited			
Financial assets at fair value through profit or loss:				
- Royalties receivable from the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	-	247,900	247,900
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	63,000	-	63,000
Total financial assets at fair value through profit or loss	-	63,000	247,900	310,900
Financial assets at fair value through other comprehensive income:				
- Investments in equity instruments designated for measurement at fair value through other comprehensive income	26,119	-	-	26,119
Total financial assets	26,119	63,000	247,900	337,019

Notes to the Condensed Interim Financial Statements as of March 31, 2021 (Dollars in thousands)

Note 6 – Financial Instruments (Cont.):

Fair value of financial instruments (Cont.):

B. (Cont.):

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
	Unaudited			
Financial assets at fair value through profit or loss:				
- Royalties receivable from the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	-	162,500	162,500
- Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements)	-	69,400	-	69,400
Total financial assets at fair value through profit or loss	-	69,400	162,500	231,900
Financial assets at fair value through other comprehensive income:				
- Investments in equity instruments designated for measurement at fair value through other comprehensive income	10,379	-	-	10,379
Total financial assets	10,379	69,400	162,500	242,279
Financial liabilities at fair value through other comprehensive income:				
- Cash flow hedging transactions in connection with financing interest for the Leviathan project	-	-	12,185	12,185
Total financial liabilities	-	-	12,185	12,185

Notes to the Condensed Interim Financial Statements as of March 31, 2021 (Dollars in thousands)

Note 6 – Financial Instruments (Cont.):

Fair value of financial instruments (Cont.):

B. (Cont.):

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

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

	For the three-month period ended March 31, 2021	
	Royalties based on Future Production	Total
	Unaudited	
Balance as of January 1, 2021 (audited)	242,200	242,200
Remeasurement recognized in profit or loss	5,700	5,700
Balance as of March 31, 2021	247,900	247,900

Notes to the Condensed Interim Financial Statements as of March 31, 2021 (Dollars in thousands)

Note 6 – Financial Instruments (Cont.):

Fair value of financial instruments (Cont.):

B. (Cont.):

	For the three-month period ended March 31, 2020		
	Royalties based on Future Production	Cash Flow Hedging Transactions	Total
	Unaudited		
Balance as of January 1, 2020 (audited)	161,900	(5,523)	156,377
Remeasurement recognized in profit or loss	600	(175)	425
Remeasurement recognized in other comprehensive income	-	(6,486)	(6,486)
Balance as of March 31, 2020	162,500	(12,184)	150,316

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

Note 7 – Subsequent Events:

A. See Note 1C for details regarding the filing of a motion for the convening of a meeting of the holders of the Partnership's participation units pursuant to Sections 350 and 351 of the Companies Law.

B. See Note 3B for details regarding extension of the Ofek and Yahel licenses.

C. See Note 4 for details regarding the signing of a non-binding MOU for the sale of the Partnership's interests in the Tamar project and the sales of shares of Tamar Petroleum.

D. See Note 5B for details regarding the filing of grounds for an appeal of tax assessments for 2016.

E. See Note 5O for details regarding extension of the period for the offering of securities under the Partnership's shelf prospectus.

F. On May 12, 2021, the Partnership announced that the operator in the Tamar project received notice on May 11, 2021 from the competent authorities that in view of the geopolitical situation it is required to halt natural gas production from the Tamar reservoir, and natural gas production from the Tamar reservoir was halted accordingly. As of the date of approval of the Financial Statements, production from the Tamar project has not yet been resumed. Therefore, natural gas for Tamar reservoir's customers in the domestic market is being supplied from the Leviathan reservoir, which is close to reaching its full daily production capacity. It is noted that in view of the geopolitical situation, the flow of gas to Egypt has been temporarily halted, and is expected to be resumed when stability is restored.

Delek Drilling

Report on the Effectiveness of internal controls

2021

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

For this purpose, the members of management are:

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

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

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

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

In the annual report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the periodic report for the period ended December 31, 2020 (the "**Most Recent Annual Report on Internal Control**"), the board and management of the General Partner evaluated the internal control at the Partnership; based on this evaluation, the board and management of the General Partner came to the conclusion that such internal control, as of March 31, 2021, is 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 Annual Report on Internal Control;

As of the date of the report, based on the evaluation of the effectiveness of the internal control made in the Most Recent Annual 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 Q1/2021 (the "**Reports**");

(2) To my knowledge, the Reports do not contain any misrepresentation nor an omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports;

(3) To my knowledge, the financial statements and other financial information included in the Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Partnership for the periods and as of the dates covered by the Reports;

(4) I have disclosed to the Partnership's auditors, the board of directors and the audit and financial statements review committees of the General Partner in the Partnership, based on my most current evaluation of internal control over financial reporting and disclosure:

(a) Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure which may reasonably adversely affect the Partnership's ability to gather, process, summarize or report financial information in a manner which casts a doubt on the reliability of the financial reporting and preparation of the financial statements in conformity with the provisions of the law; and –

(b) Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;

(5) I, myself or jointly with others in the General Partner of the Partnership:

(a) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, which are designed to ensure that material information in reference to the Partnership is brought to my knowledge by others in the Partnership, particularly during the preparation of the Reports; and –

(b) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, which are designed to reasonably ensure reliability of financial reporting and preparation of the financial statements in conformity with the provisions of the law, including in conformity with GAAP;

(c) No occurrence or issue have been brought to my attention that occurred during the period between the date of the most recent report (the periodic report for December 31, 2020) and the date hereof, which can change the conclusion of the board and management of the Partnership's General Partner with regard to the effectiveness of internal control over the Partnership's financial reporting and disclosure.

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

May 18, 2021	Yossi Abu, CEO

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

Statement of Managers

Statement of the most senior financial officer

I, Yossi Gvura, Deputy CEO, represent that:

(1) I have reviewed the interim financial statements and the other financial information included in the interim reports of Delek Drilling – Limited Partnership (the "**Partnership**") for Q1/2021 (the "**Reports**" or the "**Interim Reports**");

(2) To my knowledge, the interim financial statements and the other financial information included in the Interim Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports;

(3) To my knowledge, the interim financial statements and the other financial information included in the Interim Reports adequately reflect, in all material respects, the financial position, operating results of operations and cash flows of the Partnership for the periods and as of the dates covered by the Reports;

(4) I have disclosed to the Partnership's auditors and to the board of directors and the audit and financial statement review committees of the General Partner in the Partnership, based on my most current evaluation of internal control over financial reporting and disclosure:

(a) Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure, insofar as it relates to the interim financial statements and the other financial information included in the Interim Reports, which may reasonably adversely affect the Partnership's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of the financial reporting and preparation of the financial statements in conformity with the provisions of the law; and –

(b) Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;

(5) I, myself or jointly with others in the General Partner of the Partnership:

(a) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, which are designed to ensure that material information in reference to the Partnership is brought to my knowledge by others at the Partnership, particularly during the preparation of the Reports; and

(b) Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures, which are designed to reasonably ensure reliability of financial reporting and preparation of the financial statements in conformity with the provisions of the law, including in conformity with GAAP;

(c) No occurrence or issue have been brought to my attention, that occurred during of the period between the date of the most recent report (the periodic report for December 31, 2020) and the date hereof, pertaining to the interim financial statements and any other financial information included in the Interim Reports, which could, in my opinion, change the conclusion of the board and management of the Partnership's General Partner with regard to the effectiveness of internal control over the Partnership's financial reporting and disclosure.

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

May 18, 2021	Yossi Gvura, CPA Deputy CEO

Valuation

2021

Delek Drilling - Limited Partnership

Valuation of Royalties

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

****

May 2021

This document is a translation of the original Hebrew-language document of Giza Singer Even Ltd. of May 2021. It is prepared solely for convenience purposes. Please note that the Hebrew version is the binding version, and in any event of discrepancy – the Hebrew version shall prevail.

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1. Introduction and Disclaimer

1.1 General

This paper (the "**Paper**" and/or the "**Opinion**") was prepared by GSE Financial Advisory Ltd. ("**GSE**") for the purpose of valuation of the royalties to which the limited partnership Delek Drilling[1] ("**Delek Drilling**" and/or the "**Partnership**") is entitled for the sale of its rights in the I/16 "Tanin" and I/17 "Karish" Leases (the "**Royalties**") as of March 31, 2021 (the "**Valuation Date**"). We are aware that the Paper is intended to be used by Delek Drilling, *inter alia*, for quarterly and periodic financial statements, and therefore we agree that the Paper will be referred to and/or included in any report released by the Partnership and the interested parties therein, according to the Securities Law, 5728-1968 and the regulations thereunder.

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

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

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

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

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

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

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

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

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

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

1.2 Sources of information

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

- Information regarding the terms of the transaction for the sale of the Partnership's rights in the I/16 Tanin and I/17 Karish leases.

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

- Immediate reports of publicly traded companies and public information released on websites (including Energean's website), journalistic articles or other public sources.

- Internal sources and databases of Giza Singer Even.

- Meetings and/or phone calls with office holders at the Partnership.

1.3 Details of the valuating company

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

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

Sincerely,

GSE Financial Advisory

May 18, 2021

2. Executive Summary

2.1 Background

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

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

Following the decision of the Israeli government on a framework for the increasing of the amount of natural gas produced from the Tamar natural gas field and the quick development of the Leviathan, Karish and Tanin natural gas fields and other natural gas fields (the "**Gas Framework**"), Delek Drilling and Avner Oil Exploration – Limited Partnership ("**Avner**") (jointly, the "**Partnerships**") (which jointly held (in equal shares between them) 52.941% of the reservoirs) and Noble Energy Mediterranean ("**Noble**") (which held 47.059% of the reservoirs) were required, *inter alia*, to sell their holdings in the Karish and Tanin reservoirs within 14 months of the signing date of the exemption resolutions related to the Gas Framework (December 17, 2015) in order to comply with the conditions which would entitle them to an exemption from several provisions of the Restrictive Trade Practices Law, 5748-1988 (the "**Restrictive Trade Practices Law**").

On August 16, 2016, an agreement was executed for the sale of all of the rights in Karish and Tanin between the Partnerships and Energean, within which the Partnerships are entitled to consideration in the amount of $148.5 million, comprising cash payment of $40 million (paid on the date of the transaction closing) and $108.5 million which will be paid spread into 10 annual equal payments plus interest, with this amount depending on the Purchaser's decision to develop the reservoir, or on the date on which the Purchaser's total expenses in respect of the development of the leases will exceed $150 million, whichever is earlier (the "**Debt Component**"). Furthermore, the Partnerships will be entitled to royalties from the revenues generated for the Purchaser from the sale of natural gas and condensate produced from the leases, at the rates of 7.5% (before the payment of petroleum profit levy) and 8.25% (after payment of petroleum profit levy), net of the rate of the existing royalties,[2] by which the Partnerships are charged regarding the original share of Delek Drilling and Avner in the leases (the "**Royalties**'). The first payment for the Debt Component was made by Energean to Delek Drilling[3] on March 29, 2018, and has since been regularly paid each year on that date.

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

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

Following are the quantities of natural gas and hydrocarbon liquids (condensate and natural gas liquids) at the Karish and Tanin reservoirs (100%) as released in D&M CPR's report of February 11, 2021 by Energean Oil & Gas plc,[4] the parent company of Energean Israel Limited[5] ("**Energean**" and/or the "**Purchaser**"):

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

2.2 Result of the valuation

The value of the Royalties in the transaction of sale of the Karish and Tanin leases was estimated through the Discounted Cash Flow method, while adjusting the discounting rates to the risks embodied in the development of the reservoirs and the cash flow (including the impact of the Covid-19 crisis). According to the assumptions specified in the Paper itself, the value of the Royalties as of March 31, 2021 is estimated at approx. $247.9 million.

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

		Change in the Natural Gas Price Vector (U.S. $ per MMBTU)						
		(1.50)	(1.00)	(0.50)	-	0.50	1.00	1.50
Change in Cap Rates (in Base Points)	+250 bp	193.2	207.5	215.5	222.1	234.6	239.8	251.5
	+150 bp	201.6	216.5	224.9	231.9	244.9	250.4	262.6
	+50 bp	210.7	226.2	235.0	242.4	255.9	261.8	274.6
	-	215.5	231.4	240.4	**247.9**	261.8	267.9	280.9
	-50 bp	220.4	236.7	246.0	253.7	267.9	274.2	287.5
	-150 bp	230.9	247.9	257.8	265.9	280.8	287.5	301.5
	-250 bp	242.3	260.1	270.5	279.2	294.7	301.9	316.6

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

[5] Formerly Ocean Energean Oil and Gas Ltd.

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

3.1 Description of the Partnership

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

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

3.2 The sold rights

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

[6] The term "**Investment Recovery Date**" means the date after the signing of the agreement for the transfer of rights between the Partnership and Delek Energy Systems and Delek Israel (now Delek Group) which was signed in 1993 (as amended from time to time) according to which the Net Proceeds Value which the Partnership received or is entitled to receive for oil and/or gas and/or other valuable materials which were produced and used from the Petroleum Asset (i.e. – license or lease) where the finding is located, calculated in Dollars shall reach an amount which is equal to the full Value of All of the Partnership's Expenses in such Petroleum Asset calculated in Dollars.
The term "**Net Proceeds Value**" means the value of all of the proceeds as shall be approved by the accountants of the Partnership for oil and/or gas and/or other valuables which were produced and used from the Petroleum Asset (i.e. – license or lease) (the "**Gross Proceeds Value**") net of any and all production expenses thereof and royalties paid in respect thereof.
The term the "**Value of All of the Partnership's Expenses**" means all of the expenses incurred by the Partnership in the Petroleum Asset (i.e. – license or lease) where the oil and/or the gas and/or the other valuables are produced but excluding expenses (up to the Net Proceeds Value) which were deducted from the Gross Proceeds Value for the determination of the amount of the all of the Net Proceeds Value and as they shall be approved by the Partnership's accountants.
For details and elaboration regarding agreements pertaining to the payment of royalties to the State, to interested parties and to third parties of the Partnership, see Section 7.25.10 of Delek Drilling's periodic report for 2020.

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

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

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

On August 16, 2016, an agreement was executed for the sale of all of the rights in the Karish and Tanin leases between Delek Drilling and Avner and Energean Israel Ltd. (formerly Ocean Energean Oil and Gas Ltd.), a company registered in Cyprus which is a subsidiary of Energean E&P Holdings Ltd. ("**Energean**" and/or the "**Purchaser**").[7] The main activity of the Purchaser is exploration, development and production of gas and petroleum reservoirs in Greece and other countries in the Balkan and Middle East area.

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

3.3 The consideration

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

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

b. In consideration for the Sold Rights, the Purchaser will pay the Sellers a total amount of $148.5 million which will be received in the following manner:

   i. Cash payment of $10 million which was paid to the Sellers on the transaction closing date;

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

   iii. The consideration balance, in an amount of $108.5 million, will be paid to the Sellers in ten annual equal installments plus interest according to the

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

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;[8]

iv. The Purchaser will transfer to the Sellers royalties for natural gas and condensate which will be produced from the leases at a rate of 7.5% before payment of a petroleum profits levy by virtue of the Natural Resources Taxation Law (the "**Levy**") and 8.25% after the commencement of payment of the Levy, net of the rate of the existing royalties[9] borne by the Sellers in respect of their original share in the leases. Such rates are in 'wellhead' terms, while the effective payment rate is expected to be adjusted to hydrocarbon sales at the point of entry to the Israeli transmission system.

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

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

4. Description of the Business Environment

4.1 General

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

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

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

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

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

- **Saving of energy costs in industry and in electricity production** – The low price of natural gas compared with currently common alternative fuels such as diesel oil and fuel oil, leads to significant saving of production costs, and thereby also to a decrease in the final product prices whose production costs mainly consist of the costs of electricity. Most of the power plants constructed in recent years in Israel generate electricity through turbines which are operated by natural gas combustion and are characterized by low construction costs,[10] shorter construction time, smaller areas of land[11] and many operational advantages. In addition to the relatively low price, power plants operated by natural gas are more efficient than plants which are operated by other fuels and therefore

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

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

power plants and enterprises operate with a high energetic efficiency level which is also ultimately reflected in cost saving[12]. According to the estimates of the Natural Gas Authority[13], the transition to natural gas in the years 2004-2020 saved the Israeli market an estimated total of approx. ILS 78.6 billion. Most of such saving derives from the electricity sector (approx. ILS 59.9 billion), total consumption by which in 2020 amounted to approx. 9.23 BCM, which represents 78% of the demand for natural gas. The rest of the amount saved due to the transition to use of natural gas is primarily attributed to industrial plants (approx. ILS 18.7 billion), total consumption by which in 2020 amounted to approx. 2.51 BCM which represents an increase of 13% versus 2019.

- **Clean energy** – The main substances emitted from the burning of natural gas are carbon dioxide and water vapor. Since coal and petroleum are more complex fuels, with higher ratios of Carbon and Nitrogen and Sulphur components, then upon their combustion more contaminants are released, including ash particles of materials which are not burned and are emitted into the atmosphere and add to the air pollution. Natural gas combustion on the other hand, releases a relatively small quantity of contaminants, and therefore the use thereof reduces the air pollution. In such context it is noted that thanks to the conversion of most of the electricity production in Israel from coal, fuel oil and diesel oil to use of natural gas, air pollution levels caused by electricity production in Israel have been reduced by tens of percentage points.

- **Energy independence** – The geopolitical characteristics of Israel make it an energetic island with limited ability to import fuels from neighboring countries, which forced it to rely for many years on costly fuels import from Europe. Israel's energetic isolation was somewhat reduced between the years 2008 and 2012 upon the commencement of supply of natural gas from Egypt, however, the sudden cut of supply illustrated the importance of the development of local energy sources. The development of the natural gas market in Israel provides the Israeli industry with energetic security in the long term and will reduce its dependence on international energy prices.

- **Natural gas as a governmental source of income through taxation -** The Israeli natural gas market is directly benefiting and is expected to continue to directly benefit the local economy through governmental revenues from the taxation of the companies and from the VAT from sales to the ultimate consumer. Moreover, the Israeli market has a few unique taxation systems which apply to the natural gas sector, in addition to excise tax, which apply to natural gas, similarly to all of the other fuel products[14]. Furthermore, according to the Petroleum Law, the State charges royalties at a rate of up to. 12.5% of the total sales of natural gas at the wellhead. Moreover, following the conclusions of the Sheshinski Committee the State is entitled to proceeds of petroleum and gas profits levy at a rate of up to 50% (depending, *inter alia*, on the corporate tax rate) of the revenues of the holders of the petroleum rights, net of royalties, operation costs and development costs.

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

[13] https://www.gov.il/BlobFolder/reports/ng_2020/he/ng_2020.pdf

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

- **Israel's geostrategic position has been upgraded** – Thanks to the development of the gas reservoirs in Israel's EEZ, the State has at its disposal gas resources at a scope that exceeds the existing and expected needs of the domestic market. Thus, and further to Government Resolution 442 of June 13, 2014 regarding the policy on the export of natural gas, commercial quantities of natural gas are being exported from Israel to the countries in the region. In such context, export from the Tamar reservoir to industrial enterprises located on the Jordanian side of the Dead Sea commenced in 2017, and from 2020, with the beginning of production from the Leviathan reservoir, very significant quantities of natural gas are being exported to Jordan and Egypt.

4.2 Consumers

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

- **Israel Electric Corporation** – The IEC is a governmental company supervised by the Electricity Authority ("PUA-E"), *inter alia*, regarding the costs of inputs for electricity production, particularly, the costs of natural gas. In 2020, the IEC purchased approx. 4.9 BCM of natural gas from the Tamar and Leviathan partnerships and also imported and consumed approx. 0.4 million ton of LNG, relatively to 2019 in which it purchased approx. 4.23 BCM from the Tamar partnership and also imported and consumed approx. 0.4 million ton of LNG. The rate of electricity produced by the IEC through natural and liquefied gas is estimated in 2019 and 2020 at approx. 53.1% and approx. 56.9%, respectively.[15] In such context it is noted that recently, the Minister of Energy decided to stop the engagement with the regasification vessel used by the IEC for reception and regasification of imported LNG until the end of 2022. Accordingly, on October 21, 2020, the IEC notified the owners of the regasification vessel that the engagement for the lease of the vessel will end on October 25, 2022.

- **Independent power producers** – The independent power producers ("**IPPs**") are divided into several types, according to the production technologies which they use: conventional IPP, cogeneration facilities, renewable energies IPPs, pumped energy (this technology does not produce power but rather stores the energy for use during peak hours or hours where it is not possible to produce power from renewable energies) and large enterprises that constructed power plants for themselves for which they received a self-production license. Section 93 of the Natural Gas Sector Law defines that natural gas sold to an independent power producer is a product subject to control under the Control of Prices of Commodities and Services Law, 5756-1996. In 2020, the natural gas consumption of the IPPs amounted to approx. 3.77 BCM, which represents approx. 32% of the overall consumption of natural gas in that year.

- **Large industry consumers** – This tier of consumers comprises several significant consumers, which are essential to the development of the Israeli gas sector. Consumers with significant power and reputation in the Israeli market, having extensive experience and knowledge pertaining to the operations of Israeli industry in general and the operations of the natural gas sector in Israel in particular. Most of the large industrial

[15] Source: 2020 financial statement of IEC.

enterprises in the market executed agreements for the purchase of natural gas within the construction of private power plants at the enterprise's premises, for the supply of the enterprise's needs of electricity and heat (by generating steam from the residual heat of the power plants), constituting only part of the production capacity of the power plant, and the sale of the produced electricity to external consumers or to the IEC. Accordingly, the natural gas purchase agreements signed by most of the large industrial enterprises thus far also have the characteristics of agreements with private power plants. In 2020, natural gas consumption by the industry sector amounted to approx. 2.51 BCM, an increase of 13% compared with 2019. The increase chiefly derives from the higher demand of a number or large industrial consumers.

- **Medium and small consumers** – The distribution networks' consumers sector which includes mainly medium and small enterprises and businesses, is a relatively new sector in the natural gas sector which began executing agreements for purchase and infrastructure conversion performance only in recent years. These consumers typically consume low gas pressure, at a relatively small amount, non-continuous over a whole day (24 hours), some of which not yet connected to the onshore transmission systems, or the distribution, and therefore consuming Compressed Natural Gas (CNG) – a temporary and not optimal solution, since the cost of consumption can reach twice the cost of the natural gas which is transmitted through the distribution network. It is noted that according to the regulation in this respect, some of these consumers are building or planning to build small scale, natural gas-fired power plants, which are intended to provide electricity and heat to the enterprise on the premises of which such power plants are built.

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

4.3 Regulatory environment

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

- **Royalties to the State of Israel** – Under the Petroleum Law, a lease holder is liable for a royalty of 12.5% of the amount of natural gas or petroleum produced in the lease and the lease holder will pay the State the market value of the royalty at the wellhead. The method of calculation of the market value of the royalty at the wellhead for the Tamar reservoir is under discussion between the Petroleum Commissioner and the partners in the

Tamar reservoir and has not yet been finalized.[16] Commencing from 2019, the partners in the Tamar project made annual advance payments on account of royalties at the rate of 11.3% of the Tamar project revenues, and in 2017 and 2018 at the rate of 11.65%. In the Leviathan reservoir, the partners in the reservoir are paying royalties to the State of Israel at the rate of approx. 11.26%. In H1/2020, the Natural Resources Administration at the Ministry of Energy published directives that include general instructions on the method of calculation of the royalty value at the wellhead with respect to offshore petroleum rights. The directives further determine that the Commissioner will prescribe for each lease owner, from time to time, specific instructions for each lease, which will specify the deductible expenses, for purposes of calculating the royalty, according to the particular characteristics of the lease.

- **Taxation of Profits from Natural Resources Law** – The Resources Taxation Law prescribes a levy on petroleum and gas profits according to a mechanism which relates the rate of the levy and the ratio of the net accrued revenues from the petroleum and gas production project and the total accrued investments for the initial exploration and development of the reservoir ("**Investment Coverage Ratio**"). The minimal levy at a rate of 20% will be charged when the Investment Coverage Ratio will reach 1.5 and will increase gradually to a rate of 50% (depending, *inter alia*, on the Corporate Tax rate) when the Investment Coverage Ratio shall reach 2.3. The levy will be calculated and imposed on each reservoir separately. On January 7, 2021, the Ministry of Finance released a legislative memorandum which prescribes, *inter alia*, payment rules regarding assessments under dispute.[17]

- **Antitrust and exemption from the provisions of the Economic Competition Law** – In August 2015, a government resolution was made regarding a framework for the regulation of the natural gas market in Israel including with respect to the rights of the Partnership in the natural gas reservoirs Tamar, Leviathan, Karish and Tanin which took effect on December 17, 2015 upon the grant of an exemption from several provisions of the Economic Competition Law, 5748-1988 (the "**Gas Framework**").

  The Gas Framework grants an exemption to Delek Drilling, Noble and Ratio Oil Exploration (1992), Limited Partnership (jointly below, the "**Parties**"), from the restrictive arrangements pertaining to the Leviathan reservoir. Furthermore, The Gas Framework grants an exemption with respect to specific powers of the Commissioner (power to regulate acts of a monopoly through directives, power to order a holder of a monopoly to sell an asset, and power to order the separation of a monopoly), in connection with Delek Drilling and Noble being holders of a monopoly by virtue of the declaration thereon by the Commissioner in 2012 (the "**Exemption**").[18] The grant of the

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

[17] Taxation of Profits from Natural Resources Legislative Memorandum (Amendment), 5781-2021 – the Government Legislation Website, January 7, 2021.

[18] Declaration on holders of a monopoly under Section 26(a) of the Restrictive Trade Practices Law, 5748-1988: Delek Drilling Limited Partnership together with Avner Oil & Gas Exploration, Limited Partnership, Noble Energy Mediterranean Ltd., Isramco Negev 2, Limited Partnership, and Dor Gas Exploration, Limited Partnership – holders of a monopoly in the supply of natural gas to Israel starting from H2/2013 (November 13, 2012) Restrictive Trade Practices 500249.

Exemption as described above is subject, *inter alia*, to the fulfillment of the following conditions:

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

- The sale of the entire rights of Delek Drilling in Tamar Reservoir to a third party unrelated thereto or to any of the holders of rights in the Leviathan, Karish and Tanin reservoirs as well as restriction of the rights of Noble in the Tamar reservoir to a maximum 25% rate within 72 months. In January 2018 Noble sold Tamar Petroleum Ltd. 7.5% of its rights in the Tamar reservoir, and as a result, it went down to a 25% holding rate in the Tamar reservoir. As of the date of the Paper, the Partnership holds directly 22% of the Tamar reservoir, and indirectly holds Tamar through its holdings in Tamar Petroleum, such that the total direct and indirect holdings amount to approx. 25.7855%.

  On April 26, 2021, the Partnership engaged in a non-binding MOU with a group of foreign investors from Abu Dhabi for the sale of all of its holdings in the Tamar project (22%) in consideration for up to approx. $1.1 billion (including an unconditional consideration in the sum of $1 million, and the balance is conditional subject to the fulfillment of conditions and targets to be agreed upon between the parties). Furthermore, the Partnership engaged with a third party in an agreement for the sale of all of its holdings in Tamar Petroleum (22.6%) in consideration for a sum of ILS 100 million in cash.

- The imposition of restrictions on new agreements to be executed for the supply of gas from the Tamar and Leviathan reservoirs, such as a prohibition on limitations on purchase from other suppliers, in certain cases granting the consumers the right to unilaterally set the period of engagement and granting a unilateral option to the consumers to change the scope of supply in the agreement.

- **Stable regulatory environment** – In the original framework, the Israeli government undertook to maintain "regulatory stability" in the context of natural gas exploration and production for a period of 10 years. In March 2016, HCJ ruled that the issue of the regulatory stability in the Gas Framework in the existing version was illegal. In May 2016, the government re-adopted its resolution on the Gas Framework while setting an alternative arrangement pertaining to a "regulatory stable environment" in order to ensure a regulatory environment which encourages investments in the natural gas exploration and production sector.

- **Price regulation** – In the period between the taking effect of the Gas Framework, and until the date of fulfilment of all of the conditions of the Exemption, the price control in the natural gas sector by virtue of the Restrictive Trade Practices Law will be limited to the imposition of reporting requirements regarding profitability and the gas price, provided that during this period, the holders of the rights in Tamar and Leviathan shall offer potential consumers a price based on the weighted average price of the prices in the agreements that exist in the reservoirs, in several of the price and linkage alternatives published within Government Resolution 476 of August 16, 2015. Starting from Q3/2016, the Natural Gas Authority releases, each quarter, the weighted price of natural gas and the price of natural gas for independent power producers.

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

4.4 Risk factors

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

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

- **Growth of the renewable energy sector** – Recent years have seen a rise in the share of renewable energies in the mix of fuels used to produce electricity in Israel. Renewable energy is defined as energy produced from heat and solar radiation, wind, bio-gas and bio-mass, or any other non-depletable source that is not fossil fuel. Approx. 5.7% of actual power production in the State of Israel in 2020 came from renewable sources, but this figure is expected to rise following the addition of the quotas initiated by the government with the aim of reaching the target of production from renewable sources of approx. 20% of the total demand for energy in 2025, and 30% by 2030.[19] The rates of renewable energies have been gradually reduced by the Authority since 2008 due to the decrease in the construction and financing costs and the holding of competitive processes.

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

These trends indicate that renewable energies may account for a larger share of future power production in Israel.

- **Geopolitical risk** - The security and economic situation in Israel as well as the political situation in the Middle East may affect the willingness of states and foreign bodies, including in the Middle East, to engage in business relations with Israeli bodies and/or international bodies acting in Israel. Therefore, any deterioration in the geopolitical situation in the Middle East and/or deterioration in the relations between Israel and its neighbors, for security and/or political and/or economic reasons, may undermine the ability of the companies in the Israeli gas and oil market to promote their business with such states and bodies and export gas to neighboring states.

- **Competition for gas supply** – Over the past decade, several significant gas reservoirs were discovered in Israeli waters in amounts which significantly exceed the estimates of the Ministry of Energy regarding the needs of the local market. Israel granted exploration licenses in its EEZ, following two competitive processes (in 2017 and 2019), which could lead to further discoveries. In 2017, material production began from the Egyptian Zohr reservoir, which supplies gas to the Egyptian market. In addition, significant reservoirs were discovered in in the economic waters of Cyprus, in respect of which no development decisions have been made yet. Also, further findings may be discovered in the future, both in Israel and in other countries in the Eastern Mediterranean Basin, whose development could lead to the entrance of other competitors on the supply of natural gas to the local market and to neighboring countries, and thus increase the scope of competition in the sector.

- **Restrictions on export** – Limiting the amount of exportable gas may have adverse effects in the form of surplus supply in the domestic market and reduced tariffs which may also adversely affect the prices obtained from the Karish and Tanin reservoirs and the economic merit in the development thereof. In this context, it is noted that, according to the Adiri Committee's draft recommendations of July 2018, the gas export quotas as determined in Government Resolution 442 shall remain unchanged. However, according to the Committee's recommendations, the formula for calculating the export quota shall be changed, such that it will be higher relative to the formula determined by Government Resolution 442, solely for gas reservoirs that have not yet been discovered. On October 25, 2020, the government decided to form a professional team that will periodically examine the recommendations of the committee for the examination of the government's policy regarding the natural gas sector in Israel. The team's interim recommendations are expected to be released in the near future. Considering the government policy on the export of natural gas and the raising of the targets of use of renewable energies, no restriction is expected to reduce the scope of permitted export of natural gas to customers overseas. In such context it is noted that export permits were received in respect of all of the aforementioned export agreements. On January 6, 2019, the government approved the recommendations of the Adiri Committee in Government Resolution 4442.[20]

- **Dependence on the proper working order of the Israeli National Transmission System** – The ability to supply gas which will be produced from the reservoirs to the

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

potential consumers is dependent, *inter alia*, on the proper working order of the Israeli National Transmission System for the supply of gas and of the regional distribution networks.

- **Dependence on contractors and on professional services and equipment providers –** As of the date hereof, there are in Israel no contractors that are performing most of the actions required for the construction and operation of natural gas and oil reservoirs, and therefore there is a dependence of the companies working in the sector on foreign contractors for the performance of such work. Furthermore, the number of facilities that are capable of drilling and performing development activities offshore, in general, and in deep-water, in particular, is relatively small and there is a chance that no suitable facility will be found for performing the aforesaid actions on the dates to be scheduled therefor. Consequently, the aforesaid actions may entail high costs and/or considerable delays may be caused in the schedule determined for the performance of the work.

- **Operational risks and lack of sufficient insurance coverage** – Oil and gas exploration and production activities are exposed to a variety of technical and operational risks, such as loss of control over a drilling or a well and/or a malfunction in subsea facilities or facilities above sea level, which could damage the functioning of the production and transmission system, to the point of short or long-term shutdown. There is also a risk of liability for damage deriving from contamination due to the eruption and/or leakage of liquid and/or a gas leak. Despite the insurance existing in the market, not all of the possible risks are covered or are coverable.

- **Solely estimated costs and timetables and the option of lack of means** – Estimated costs for the performance of exploration and development activities and estimated timetables for the performance thereof are based solely on general estimates and could deviate significantly. The exploration plans could significantly change, *inter alia*, following failures and/or findings which will be obtained during the performance of such actions and lead to significant gaps in the timetables and the estimated costs of such activities. In certain cases, the holder of the lease may waive the performance of certain activities required according to the work plan of the reservoirs and lose the rights therein as a result.

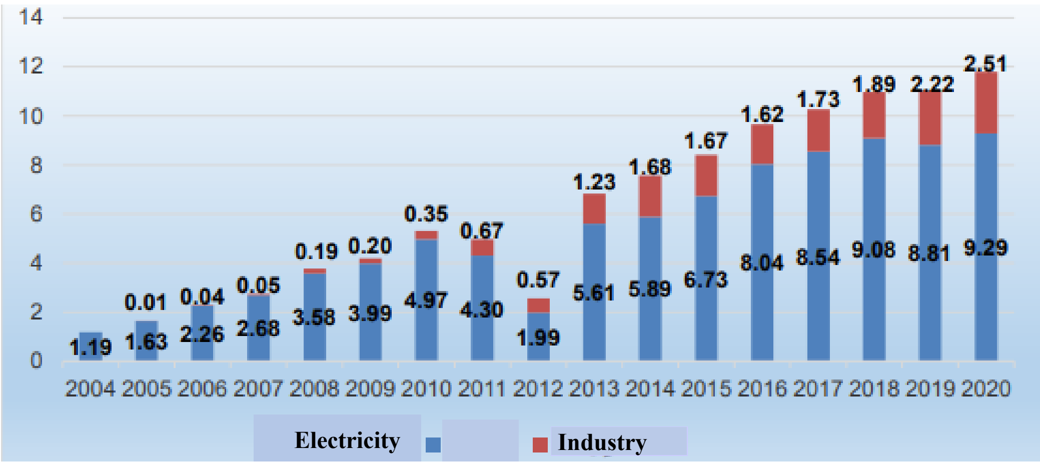
- **Regulatory changes** – The operating segment requires many regulatory approvals, mainly by the entities authorized under the Petroleum Law and the Natural Gas Sector Law, as well as related approvals of the State's authorities (including the Ministry of Energy, the Ministry of Defense, the Ministry of Environmental Protection, the tax authorities, the Competition Authority and the various planning authorities). In recent years several proposals were made for amendments of laws and/or regulations and/or directives relevant to the operating segment and several resolutions, laws and directives were released, the implementation of which could have a negative effect on the companies operating in the field.

- **Applicable environmental regulation** – The companies that operate in the natural gas sector are subject to a range of laws, regulations and directives on the issue of environmental protection, which relate to various matters such as: leaking of oil, natural gas or of other pollutants into the marine environment, the release into the sea of polluting substances and waste of various types (wastewater, residues of drilling equipment, drilling mud, slurry, etc.), chemical substances used at the various work stages, emission of pollutants into the air, light and noise nuisances, construction of piping infrastructures on the seabed and related facilities. In addition, the companies are required, through the operators of the projects, to obtain approvals from entities authorized under the Petroleum Law, the Natural Gas Sector Law and other laws (such as environmental protection laws) for the purpose of their activity.

- **Further risk factors** – There are other factors which contribute to the uncertainty prevailing in the operating segment including difficulties in obtaining financing, information security risks, dependence on material customers, dependence on weather and sea conditions, cancellation or expiration of rights and petroleum assets and more.

4.5 Demand

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



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

<u>Chart 1 – Natural gas consumption in 2004-2020</u>[21]

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

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

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

4.5.1 The electricity sector

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

- In August 2016, the Minister of Energy announced his decision to shut down four coal production units of IEC upon the connection of three gas reservoirs to the shore and the construction of new natural gas operated power plants within up to six years. Following that, in September 2016, emission permits were received by the IEC under the Clean Air Law, 5768-2008 with respect to its coal power plants sites, which included, *inter alia*, an obligation to continue installing emission reduction measures, as well as the shutdown of units 1-4 in the coal power plant at the “Rabin Lights” site, no later than June 1, 2022.

- In November 2017, the Minister of Energy decided of principles of policy on the issue of minimal operation of coal production units, according to which natural gas electricity production shall be granted preference at any time to electricity production with coal, while operating the coal units at a minimal load which allows flexibility and reliability of the supply to the market.

- In March 2018, the Finance Committee of the Knesset and thereafter the Plenum of the Knesset approved the orders, in which it was provided, *inter alia*, that commencing on March 15, 2019 the excise tax on coal will be increased by approx. 125% in view of the government’s policy to gross up external costs of fuels and encourage the expansion of use of natural gas. On February 20, 2019, the Minister of Finance signed an order postponing the expected rise in excise on coal, and it took effect on January 1, 2021. In addition, it was decided that from January 1, 2024, the excise tax on compressed natural gas (CNG) will increase gradually, subject to the existence of no less than 25 CNG fueling stations that shall receive all of the approvals required for operation. It was further determined that from May 1, 2018, the reimbursement of excise on diesel oil, which is used mainly for transportation purposes, will gradually be cancelled.

- In October 2018, the Minister of Energy presented a plan whose purpose is to lead to a reduction in the use of polluting energy, the principle of which is to decrease the use of polluting fuel products by 2030. According to the plan, targets have been set for the following sectors:

  a. The electricity sector – Electricity production using 80% natural gas and 20% renewable energies as of 2030, with a final shutdown of the coal-fired power plants in Hadera and in Ashkelon in 2028.

  b. The industry sector – Production of 95% of the energy and steam required by the industry by means of natural gas as of 2030.

  c. The transportation sector – A gradual transition to electric cars and natural gas trucks and the imposition of an absolute ban on the import of cars that operate on polluting fuels as of 2030.

- In November 2019, the Minister of Energy announced that it is possible to shorten the timetables for the conversion of the coal power plants in Hadera and in Ashkelon to natural gas to 2025. Consequently, in that year, the coal age in the State of Israel is expected to end. The aforesaid decision shortens the timetables that were previously determined, by 4 years.

- On June 8, 2020, a joint notice was released by the Ministry of Energy and the Ministry of Environmental Protection[22] on the Ministers' decision to instruct the IEC to expand the planned shutdown of the polluting coal-fired units 1-4 at the Rabin Lights site in Hadera, commencing from the second half of 2020 until the final shutdown thereof in 2022, thus bringing about another significant reduction of air pollutant emissions.

- On June 24, 2020, the Minister of Energy[23] announced his decision to further reduce approx. 20% of the use of coal in IEC's power plants, as compared with 2019. Therefore, the use of coal in 2020 will not exceed 24.9% (compared with 30% in 2019).

- According to the current forecast of the Electricity Authority, as stated in the annual report of the Electricity Authority for 2019,[24] as released at the end of June 2020, the production of electricity from natural gas is expected to increase significantly, amounting to approx. 83% in 2025.

- On October 25, 2020, a government resolution was adopted on the subject of promotion of renewable energy in the electricity market, a resolution which was based *inter alia* on the policy principles set forth by the Minister of Energy in July 2020, according to which, electricity production from renewable energies in 2030 shall be 30% of the total electricity consumption, and electricity production from natural gas shall be 70% of the total electricity consumption. In addition, the interim goal was updated such that electricity production from renewable energies shall be 20% by the end of 2025. The implementation of such policy may affect the demand for natural gas in the local market.

- On February 8, 2021, it was reported that the Minister of Energy had instructed the IEC to reduce the use of coal such that it shall not exceed 22.5% of the total electricity production in 2021, as part of the policy to end the coal era in Israel by 2025.[25]

- On April 18, 2021, the Ministry of Energy released a Road Map[26] until 2050 for the low carbon energy sector, which continues the program to reduce the use of polluting energy which was presented in 2018. In accordance with the program, the following targets for the sectors were determined:

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

[22] Website of the Ministry of Energy, Spokesman's Notice of June 8, 2020: https://www.gov.il/he/departments/news/press_080620
[23] Website of the Ministry of Energy, Spokesman's Notice of June 24, 2020: https://www.gov.il/he/departments/news/press_240620
[24] https://www.gov.il/he/departments/general/dochmeshek.
[25] https://www.calcalist.co.il/local/articles/0,7340,L-3892470,00.html
[26] https://www.gov.il/he/departments/publications/reports/energy_18042

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

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

4.5.2 Transition to use of natural gas in the industry

- Natural gas is a central component of the industry's energy consumption (approx. 37.5% of the total use of fuels in the Israeli industry in 2019).[27] The enterprises are connected to natural gas through transmission and distribution networks, with the transmission and distribution fees supervised by the Natural Gas Authority.

- According to an activity summary report of the Natural Gas Authority at the Ministry of Energy for 2020, until now, throughout Israel, approx. 554 km of distribution pipelines were laid out (of which, approx. 109 km in 2020) and approx. 800 km of transmission pipelines (of which, approx. 63 km in 2020). An expansion of the layout of the natural gas distribution network may enable the connection to the network, by 2030, of hundreds of potential industrial consumers whose consumption may amount to approx. 0.72 BCM per year, which represent approx. 80% of the light industrial consumption potential.

- According to the Natural Gas Authority's estimations, without additional policy steps, until 2025, approx. 150 consumers with a total consumption of approx. 0.45 BCM, which represents approx. one half of the overall connection potential of the light industry consumers, are expected to connect to the distribution network. Further potential consumption of approx. 0.27 BCM which derives from the connection of approx. 300 additional, smaller, plants, is expected to materialize following the implementation of additional policy steps (such as budgetary support in the layout of the distribution network, encouragement of consumers to use natural gas etc.).

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

- On July 10, 2020, the Ministry of Energy released a legislative memorandum for the amendment of the Natural Gas Sector Law, whereby the Minister of Energy may grant a license for the construction of a particular distribution network to Israel Natural Gas Lines Ltd. ("**INGL**"), should he find that there is an urgent need therefor, and no private-sector body is able and willing to build the system. The purpose of the said legislative

[27] Source: 2019 Israeli Energy Sector Review - the Ministry of Energy
https://www.gov.il/BlobFolder/reports/energy_sector_2019/he/energy_sector_review_2019.pdf

memorandum is to enable the acceleration of the connection of industry enterprises to the natural gas infrastructure.

4.5.3 Export

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

- The Tamar partners signed agreements with NBL Eastern Mediterranean Marketing Limited ("**NBL**") for the purpose of export of natural gas to consumers in Jordan. Simultaneously, NBL signed an agreement with two companies from Jordan, Arab Potash Company and Jordan Bromine Company, whereby they will purchase natural gas from NBL which will be used by them at their plants which are located on the east bank of the Dead Sea in Jordan. The aforesaid agreements are for periods of approx. 15 years and the total quantity of natural gas in such agreements is approx. 3 BCM.

- On September 26, 2016, an agreement was signed between the Leviathan Partnership and the Jordanian electric power company (NEPCO) for the supply of up to approx. 45 BCM of natural gas for a period of approx. 15 years. According to a report of Delek Drilling dated December 31, 2019, flow of natural gas has begun from the Leviathan reservoir to the customers with which gas agreements were signed, and from January 1, 2020 also to NEPCO.

- On February 19, 2018, agreements were signed between Delek Drilling and Noble, and Egyptian Dolphinus, which were assigned on September 26, 2018 to the Tamar partners and the Leviathan partners. On September 26, 2019, amendments were signed to the said export agreements for the supply of natural gas from the Tamar reservoir and the Leviathan reservoir in quantities of approx. 25.3 BCM and approx. 60 BCM, respectively, for a period of approx. 15 years. The Take-or-Pay mechanism in the amended export agreements includes a reduction of the minimal annual consumption commitment to 50% for a calendar year in which the average Brent price is lower than 50 dollars. On January 15, 2020 the Leviathan partners reported the commencement of the flow of gas to Egypt, and gas flow from the Tamar Reservoir to Egypt began in July 2020.

- On November 6, 2019, a transaction was closed for the acquisition of 39% of EMG, which owns a subsea pipeline for the transport of gas between Israel and Egypt, by EMED (a company held by Delek Drilling (25%), Noble Energy (25%) and the East Gas Company (50%)), in the context of which, the capacity and operation rights in connection with the EMG pipeline were transferred in their entirety to the purchaser (EMED), for execution of the agreements with Dolphinus, as described above.

- On March 26, 2020, the Natural Gas Commission released an addendum to the decision dated September 7, 2014 regarding the financing of export projects through the Israeli transmission system, and division of the costs of construction of the integrated Ashdod-Ashkelon segment. The addendum to the decision determines, *inter alia*, that the offshore segment of the transmission system, to be constructed in such a manner as to enable the flow to Egypt of the full quantity of gas as determined in the Dolphinus agreements, shall be financed by the owner of the transmission license (43.5%) and the exporter (56.5%), according to the milestones that will be set under the transmission agreement.

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

4.5.4 Repercussions of the Covid-19 crisis

- During Q1/2020, international markets recorded sharp fluctuations and extremely steep declines in oil and natural gas prices. According to market estimates, the fluctuations may be attributed to the Covid-19 crisis, as well as other causes and factors that affect the demand for and supply of energy products. After correction of the markets for the crude oil production rate, trade in future crude oil contracts reverted to the price of $60 per barrel (as of February 9, 2021).

- According to a report by the Ministry of Energy on the effect of the Covid-19 crisis on the consumption of energy in Israel (in this section: the "**Ministry of Energy Report**"),[28] the consumption of natural gas for the production of electricity in March – April 2020 was lower by approx. 10%, relative to the same period last year. The consumption of natural gas by the large-scale industry in March – April 2020 was lower by approx. 13% relative to the same months in 2019. The consumption of natural gas by small and medium consumers in March – April 2020 was higher by approx. 14% relative to the same months in 2019. The consumption of refined oil products which were examined by the Ministry of Energy Report (diesel, petrol, kerosene and LPG) in March 2020 was lower by approx. 39%, compared with the same period last year, however, the overall electricity consumption in 2020 was similar in scope to electricity consumption in 2019.

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

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

- In a review of the developments in the natural gas sector in Israel in 2020, the Ministry of Energy examined the impact of Covid-19 on the local market by comparing the data from March 2020 until the end of the year compared with the same period last year. It is found that the Israeli market continued to operate and consume natural gas under the restrictions which existed during the crisis, despite the Covid-19 pandemic which erupted at the end of Q1/2020. From an analysis of the data, it transpires that in this comparison, the total consumption of the local market increased by close to 7%, similar to the increase in the annual consumption. The electricity sector recorded an increase of approx. 8.5% in consumption, and the consumption in the industry sector in the same period increased from 1.85 BCM to 2.07 BCM, an increase of approx. 5.11%. In the export sector, fluctuations were recorded throughout 2020 were likely impacted by Covid-19, however, as aforesaid, compared with the consumption in the same period last year, there was an increase in consumption by export consumers. The fluctuations in the quantities of gas for export over the year were likely a result of changes in demand from the importing countries, mainly in Jordan, which is able to import LNG from other channels. Overall, the total natural gas production for the local market from March until the end of the year recorded a year-over-year increase of approx. 43% in the total supply.[29]

According to a forecast of an outside consultant which was prepared for the Partnership, the domestic demand for natural gas in 2021 is expected to amount to approx. 12 BCM and gradually increase to approx. 17.9 BCM in 2025. The increase in the domestic demand between 2020-2025 is expected to derive mainly from the addition of approx. 4.3 BCM as a result of the cessation of use of coal for electricity production, from an addition of approx. 1.4 BCM as a result of a natural increase in the demand for electricity (population growth, improvement in the standard of life and disposable income), and from an addition of approx. 0.6 BCM as a result of completion of the connection of industrial plants and small consumers to the natural gas distribution and transmission system. On the other hand, the demand forecast include a decline in domestic demand due to the impact of the Covid-19 crisis and the penetration of renewable energies to the domestic market, and in reference to the current target of the Ministry of Energy for electricity production from renewable energies to account for 30% of all power consumption in 2030, the outside consultant's forecast assumes partial meeting of this target in practice – at a rate of 25% of the entire power consumption in 2030, with the remaining 75% of power consumption in 2030 being generated using natural gas.

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

4.6 Market developments

4.6.1 The "Tamar and Leviathan" leases

- On December 31, 2019 the Leviathan partners reported the commencement of natural gas flow from the Leviathan reservoir to customers according to the agreements signed with them for the supply of natural gas from the reservoir, including the sale of natural gas to Jordan. Further thereto, it was reported that gas flow from the Leviathan reservoir to Egypt commenced on January 15, 2020.

- On October 2, 2020, Noble, which holds interests in the Tamar and Leviathan reservoirs and is the operator of such reservoirs, reported that the shareholders' meeting had officially approved the acquisition of the company by American company Chevron in consideration for approx. $5 billion. This transaction is a vote of confidence in the domestic gas market and in the economic potential of these assets.

- On August 30, 2020, some of the partners in the Tamar project (Tamar Petroleum Ltd., Isramco Negev 2 – Limited Partnership, Dor Gas Exploration Limited Partnership and Everest Infrastructures Limited Partnership, hereinafter jointly in this section: the "**Sellers**"), reported the signing of agreements for the supply of natural gas from the Tamar reservoir to Oil Refineries Ltd. (in this section: "**ORL**" and ICL Group Ltd. (in this section: "**ICL**"). In the Sellers' estimation, the aggregate revenues from the sale of natural gas to ORL is expected to amount to approx. U.S. $150 million, assuming that ORL uses natural gas under the supply agreement until the end of 2021. The aggregate revenues from the sale of natural gas to ICL is expected to amount to approx. 60% of the expected revenues under the ORL agreement. On October 4, 2020 it was reported that the agreements with ORL and ICL had been approved by all of the parties, including Delek Drilling.

- On September 13, 2020, Delek Group reported that Delek Energy, a wholly owned subsidiary of Delek Group, had entered into an agreement with Essence Royalties, Limited Partnership, for the acquisition of all of Delek Energy's holdings (approx. 39.93% as of such date) for a total consideration of approx. ILS 46 million.

- On September 23, 2020 Delek Drilling reported that the partners in the Leviathan project had signed a natural gas supply agreement with the Ramat Hovav partnership for a total volume of 1.3 BCM for a period of 30 months, or until the date of commercial operation of the Karish and Tanin reservoir, whichever is earlier.

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

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

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

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

- On January 19, 2021, the Partnership and INGL reported that INGL had entered into an agreement with Noble Energy for the provision of transmission services on a firm basis for the purpose of piping natural gas from the Leviathan reservoir and from the Tamar reservoir to EMG's terminal in Ashkelon for export to Egypt. According to the agreement, Noble Energy undertakes to purchase approx. 5.5 BCM of the piping capacity of the transmission system per year, and at least 44 BCM throughout the term of the agreement. Conversely, INGL undertook to transmit no less than the aforesaid gas quantity on a firm basis, while the remaining required quantity will be piped on an interruptible basis. It was further clarified that, in the Partnership's estimation, the transmission system was planned in a manner enabling the piping of the full quantities of gas required under the agreement. In the Partnership's estimation, INGL's expected income under the agreement is expected to total approx. ILS 170 million per year. The transmission agreement will end on the earlier of: (1) the date on which the total quantity piped is 44 BCM; (2) 8 years after the date of commencement of the flow (between July 2022 and April 2023); or (3) upon expiration of the company's transmission license. The report further clarified that the Partnership does not expect any difficulty extending the agreement upon its expiry. On February 15, 2021, INGL reported the fulfillment of the closing conditions determined in the agreement.

- On February 23, 2021, Delek Drilling reported that the partners in the Tamar reservoir had signed an agreement intended to allow each one of them separate marketing of its proportionate share in the natural gas produced from the Tamar reservoir, without derogating from the possibility of joint marketing of the gas produced from the reservoir. The agreement determined mechanisms for compensation in money or in gas in cases where one of the partners chooses to increase the daily gas output over and above its proportionate share in the daily output, on account of its partner which is not using its full proportionate share in the daily output. The agreement's taking effect is subject to approval by the Competition Authority, insofar as required.

4.6.2 "Karish and Tanin" leases

- **Adoption of an investment decision** – On March 27, 2018, Energean notified the Partnership of the adoption of an investment decision for the development of the Karish reservoir, and in March 2018, March 2019, March 2020 and March 2021 it paid the Partnership the first, second, third and fourth payments in the sum of $10.85 million, $15.34 million, $14.84 million and $14.34 million, respectively.

- **Listing of Energean on the Israeli stock exchange** – On October 29, 2018, trading of Energean's parent company, Energean Oil & Gas plc, was launched on the Tel Aviv Stock Exchange as a cross-listed company whose shares are additionally also premium-listed on the London Stock Exchange.

- **Commencement of manufacture of Energean's floating production facility** – On November 27, 2018, Energean announced commencement of manufacture, in China, of the floating platform (FPSO) that is due to be used by the Karish and Tanin reservoirs. The platform is intended to treat the natural gas to be produced at the Karish-Tanin project in Israel's EEZ. The process of production and treatment of gas will be carried out at the wellhead, at a distance of approx. 90 km from the shore.

- **Signing of an agreement for the construction and delivery of the eastern segment of the infrastructure for gas transmission from the leases** – On June 25, 2019, Energean announced that it signed an agreement with INGL, whereby it will build and transfer to INGL the eastern segment of the gas infrastructure, which includes an offshore segment at a distance of approx. 10 km from the shore and an onshore segment. In consideration therefor, INGL will pay Energean approx. ILS 369 million.

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

- **The signing of an MOU between Energean and Greece's gas transmission corporation (DEPA) for the sale of natural gas** – Ahead of the expected signing of the East Med Pipeline agreement by the governments and Energy Ministers of Cyprus, Greece and Israel, on January 2, 2020, Energean signed an MOU with DEPA for the possible sale of up to 2 BCM of natural gas per year from the reservoirs held by the company in Israel, the gas from which will be produced through the FPSO rig.

- **The dispute between Energean and Delek Drilling in connection with the entitlement to receipt of royalties from the reservoirs** – Further to Energean's report of April 9, 2020 regarding an update of the scope of the resources in the "Karish North" well, in

April 2020, Energean and the Partnership exchanged letters in connection with the Partnership's entitlement to receive royalties from the leases. Energean claims, *inter alia*, that its undertaking to pay royalties does not apply with respect to hydrocarbons from the "Karish North" well, and in addition that not all of the hydrocarbon liquids produced from the Karish lease meet the definition of condensate under the agreement for the sale of the Partnership's interests in the leases. It is the Partnership's position, based on legal and professional advice received, that according to the agreement for the sale of the Partnership's interests in the leases, the royalty documents and the registration in the Petroleum Register, Energean's obligation to pay royalties applies with respect to natural gas and condensate produced from the Karish lease, including from the "Karish North" well, and that the hydrocarbon liquids to be produced from the leases constitute condensate, as defined in the agreement.

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

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

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

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

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

- **Update of the volume of the resources attributed to the Karish, Karish North and Tanin reservoirs** – On February 11, 2021, Energean released a resources and reserves report as of December 31, 2020, which was prepared by the consulting firm DeGolyer and MacNaughton, whereby the Karish, Karish North and Tanin reservoirs (in this section: the "**Reservoirs**") have 2P reserves of natural gas and hydrocarbon liquids of approx. 98.4 BCM and approx. 99.6 million barrels, respectively.[30] Energean updated that production from the Karish North reservoir is expected from 2023, and for the first time released its forecasts with respect to the rate of production of the natural gas and hydrocarbon liquids from each one of the Reservoirs, as well as forecasts pertaining to the amounts of the capital investments, royalties, taxes and operating costs of the Reservoirs.

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

- On April 19, 2021, Energean reported that as of March 31, 2021 approx. 95% of the work on building the FPSO; approx. 96% of Energean's onshore work; and approx. 82% of the subsea work was completed. In view of this, Energean estimates that approx. 90% of the Karish project has been completed. Furthermore, it is noted that the work on construction of the FPSO in Singapore, which is being performed by TechnipFMC, is being performed under workforce restrictions due to Covid-19. Thus, Energean provided an update that the date of commencement of production of natural gas from the Karish reservoir is expected in Q1/2022 (in lieu of the last quarter of 2021). It is noted that in the discounted cash flow which Energean released on February 11, 2021, commencement of sales during 2022 was assumed.

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

5. Valuation of Royalties

5.1 Methodology

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

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

i. Consideration in the amount of $108.5 million which will be paid to the Sellers in ten equal annual payments plus interest commencing from the date on which the Purchaser made an FID or the Purchaser invested in the development of the reservoir an aggregate sum exceeding $150 million (the "**Investment Decision**"), whichever is earlier. Therefore, this consideration component is similar in its nature to a financial debt of the Purchaser to the Sellers, which is contingent upon the development of the leases, whether by an FID or the actual performance of the investment (the "**Debt Component**"). On March 27, 2018, as aforesaid, Energean notified the Partnership of the adoption of an Investment Decision for the development of the Karish reservoir, and therefore the Debt Component is defined as deferred consideration.

ii. Royalties from revenues (net of existing royalties[31]) which will be paid to the Sellers at rates of 7.5% before the Levy and 8.25% after the Levy. Therefore, the royalties are also contingent upon the development of the leases and the ability of the Purchaser to produce revenues from natural gas and condensate from the reservoirs (the "**Royalties**").

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

5.2 Working hypotheses

5.2.1 General

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

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

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

5.2.2 Timetable

According to Energean's report of April 19, 2021, the completion rate of the development of the "Karish Center" reservoir is approx. 90% and first gas production is expected in Q1/2022, assuming that no additional restrictions will be imposed on the workforce of TechnipFMC, the company managing the construction of the FPSO in Singapore for Energean, due to Covid-19. It was further reported that the development of "Karish North" reservoir will begin in 2021 and first gas from the reservoir is expected in 2023 and that the production of gas from the Tanin lease shall commence in 2027.

In the context of the valuation, it was assumed that the production of gas from the Karish, Karish North and Tanin reservoirs would commence in Q2/2022, Q1/2023 and Q1/2027, respectively. It was further assumed that the natural gas reserves in the Karish, Karish North and Tanin reservoirs would be depleted in 2035, 2040 and 2036, respectively.

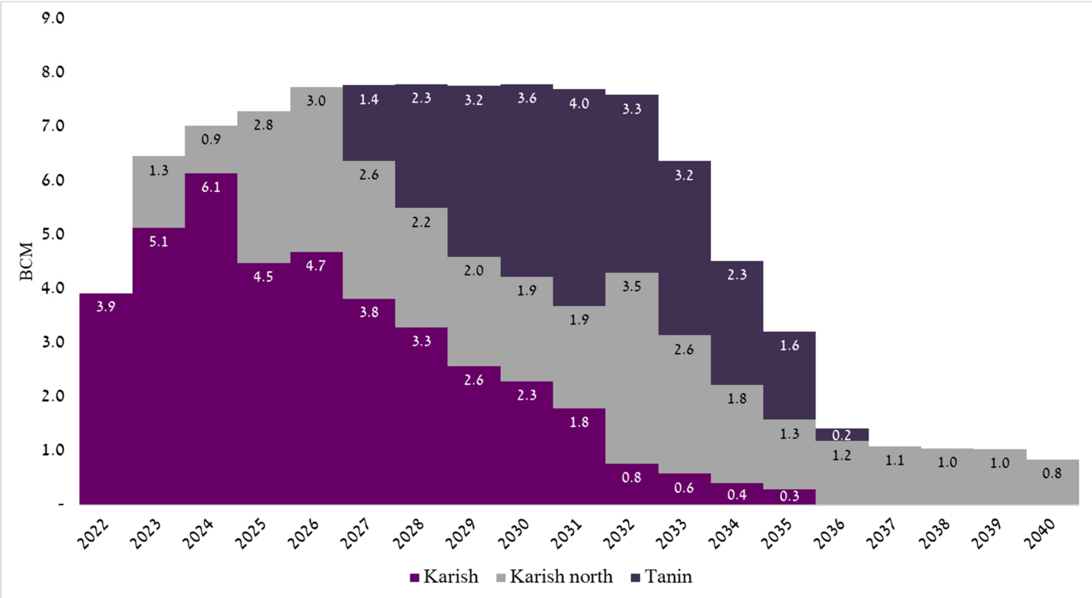
5.2.3 Quantity forecast and annual production rate

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

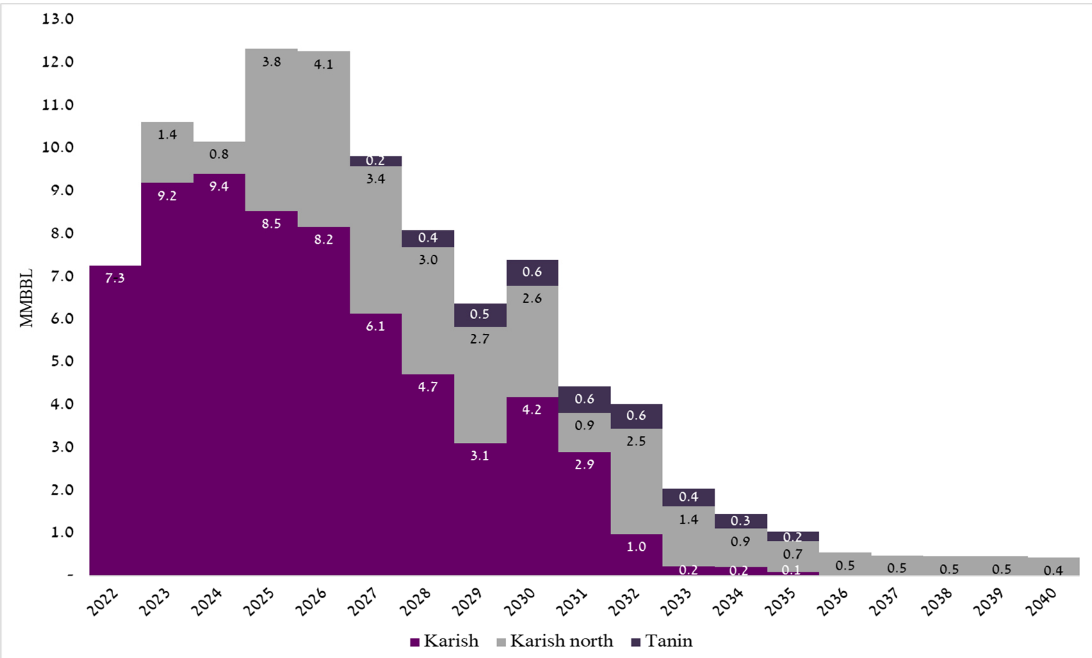
Reservoir	Reserves and Contingent Resources	
	Natural Gas (BCM)	Hydrocarbon Liquids (MMBBL)
	2P	**2P**
Karish Center	40.2	65.1
Karish North	33.1	30.6
Tanin	25.1	3.9
Total	**98.4**	**99.6**

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

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



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



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

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

5.2.4 Natural gas prices forecast

The natural gas prices forecast relied on the following assumptions:

- The base price in the contracts under which the valuation was carried was estimated through the formulas specified in the price mechanism between Energean and ICL and ORL and between Energean and OPC, as well as in consideration of the price of the gas in the contract with Ramat Hovav power station and the parameters specified below:

    i. **The Production Component Tariff**: as of the Valuation Date, the production component tariff is 25.26 Agorot (January 2021). Throughout the other forecast years, it was assumed that the production component tariff would change according to the IEC's expected expenses in respect of electricity production, which are affected, *inter alia*, by the prices of natural gas, coal, changes in exchange rate (ILS/$), conversion of the coal-fired power plants to use of natural gas, the sale of power plants to independent power producers and other production costs. According to our forecasts, the production component tariff is expected to range between approx. 24.78-26.39 Agorot throughout 2021-2037.

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

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

    iv. **Ramat Hovav** – fixed price of U.S. $3.95 per MMBTU.

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

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

5.2.5 Condensate prices forecast

The condensate prices forecast was estimated based on the average of the long-term petroleum prices forecast of the World Bank,[32] the EIA[33] and the forward prices of Brent according to Bloomberg data.

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

5.2.6 The royalties rate

The rate of the royalties to be paid to the State was set, according to the Petroleum Law, at 12.5% of the value of the gas at the wellhead.[34] The actual royalties' rate is lower as a result of deduction of expenses for the transmission systems and the treatment of the gas up to the gas delivery point on shore. According to the Partnership's estimates, it was assumed that the effective royalty rate which will be paid to the State for the gas and condensate is 11.5%. Furthermore, the rate of the existing royalties in the leases, borne by each of the Partnerships were similarly adjusted. We shall note that the actual rate of royalties could change and is not final.

5.2.7 Petroleum profits levy

The Petroleum Profits Levy is a progressive levy which is set according to a mechanism which connects the rate of the levy to the ratio of the net accrued revenues from the petroleum and gas production project and the total accrued investments for the exploration and initial development of the reservoir (the "**Investment Coverage Ratio**"). The minimal levy at a rate of 20% will be charged when the Investment Coverage Ratio will reach 1.5 and rise gradually to a rate of 50% (according to the corporate tax rate[35]) with the Investment Coverage Ratio reaching 2.3. The levy will be calculated and imposed for every reservoir separately.

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

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[32] A World Bank Quarterly Report: Commodity Markets Outlook, April 2021.

[33] U.S Energy Information Administration: Analysis & Projections, April 2021.

[34] On February 9, 2020, the Ministry of Energy released for public comment directives on the method of calculation of the value of the royalty at the wellhead in connection with offshore petroleum rights. For further details see: https://www.gov.il/he/departments/publications/Call_for_bids/os_090220

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

5.2.8 Royalties cap rate

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

- H1/2020 saw steep price drops in the financial markets around the world, including in Israel, as well as steep changes in currency exchange rates, and extreme drops in oil and natural gas prices on the international markets, as a result of the spread of Covid-19 and additional factors that affect the demand and supply of energy products worldwide. In addition, in April 2021, Energean updated the production commencement date to Q1/2022 (versus the last quarter of 2021 in a previous report). In view of these developments and in view of the continued outbreak of the Covid-19 pandemic worldwide, we have added a 1% premium which, in our estimation, reflects the increase in the level of risk compared with the 12/19 Valuation, such that the total cap rate for the overriding royalties is 12%.

5.3 Results of the valuation

According to the assumptions specified in the Paper itself, the value of the Royalties is estimated at approx. $247.9 million. **To clarify, the valuation does not address the disputes, if any, between Energean and the Partnership, and the implications thereof** (for a specification see Section 4.6.2 above).

5.4 Sensitivity analyses

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

Change in Cap Rates (in Base Points)		Change in the Natural Gas Price Vector (U.S. $ per MMBTU)						
		(1.50)	(1.00)	(0.50)	-	0.50	1.00	1.50
	+250 bp	193.2	207.5	215.5	222.1	234.6	239.8	251.5
	+150 bp	201.6	216.5	224.9	231.9	244.9	250.4	262.6
	+50 bp	210.7	226.2	235.0	242.4	255.9	261.8	274.6
	-	215.5	231.4	240.4	**247.9**	261.8	267.9	280.9
	-50 bp	220.4	236.7	246.0	253.7	267.9	274.2	287.5
	-150 bp	230.9	247.9	257.8	265.9	280.8	287.5	301.5
	-250 bp	242.3	260.1	270.5	279.2	294.7	301.9	316.6

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

Change in Cap Rates (in Base Points)		Change in the Annual Production Rate of Natural Gas (BCM)						
		(1.00)	(0.50)	(0.25)	-	0.25	0.50	1.00
	+250 bp	188.9	209.7	218.7	222.1	230.0	235.4	234.3
	+150 bp	198.5	219.6	228.6	231.9	239.7	245.0	243.5
	+50 bp	208.9	230.3	239.3	242.4	250.2	255.3	253.2
	-	214.4	236.0	244.9	**247.9**	255.7	260.7	258.3
	-50 bp	220.2	241.9	250.8	253.7	261.4	266.3	263.6
	-150 bp	232.6	254.6	263.3	265.9	273.4	278.1	274.7
	-250 bp	246.2	268.4	276.9	279.2	286.4	290.8	286.6

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

Change in Cap Rates (in Base Points)		Change in the Condensate Price Vector (U.S. $ per bbl)						
		(30.00)	(20.00)	(10.00)	-	10.00	20.00	30.00
	+250 bp	203.5	211.2	216.9	222.1	233.3	237.5	247.6
	+150 bp	212.6	220.6	226.5	231.9	243.5	247.8	258.3
	+50 bp	222.4	230.6	236.8	242.4	254.4	259.0	269.7
	-	227.5	236.0	242.2	**247.9**	260.2	264.8	275.8
	-50 bp	232.9	241.5	247.9	253.7	266.2	271.0	282.1
	-150 bp	244.3	253.2	259.9	265.9	278.9	283.9	295.5
	-250 bp	256.6	265.9	272.9	279.2	292.6	297.9	309.9

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Annex A – Cash Flow Forecast

Year	Unit	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Production											
*Gas production - Karish**	*bcm/y*	-	*2.79*	*6.13*	*6.67*	*6.93*	*7.35*	*6.06*	*5.22*	*4.37*	*4.01*
Gas production - Tanin	*bcm/y*	-	-	-	-	-	-	*1.32*	*2.18*	*3.00*	*3.39*
*Condensate production - Karish**	*bbl/y m*	-	*5.18*	*10.08*	*9.65*	*11.70*	*11.65*	*9.10*	*7.31*	*5.55*	*6.45*
Condensate production - Tanin	*bbl/y m*	-	-	-	-	-	-	*0.23*	*0.37*	*0.51*	*0.58*
Prices											
Natural gas price	*US$*	-	*3.90*	*3.90*	*3.90*	*3.90*	*3.90*	*3.90*	*3.90*	*3.90*	*3.90*
Condensate Price	*US$*	-	*45.28*	*59.71*	*59.49*	*59.52*	*66.35*	*67.42*	*68.50*	*69.60*	*70.72*
Revenues											
Karish - Revenues											
Natural Gas Revenues	*US$ MM*	-	*405.7*	*888.6*	*966.6*	*1,003.9*	*1,064.6*	*877.3*	*756.5*	*632.9*	*581.6*
Condensate Revenues	*US$ MM*	-	*312.8*	*602.0*	*574.1*	*696.6*	*772.9*	*613.7*	*500.6*	*386.1*	*456.2*
Total Gross Revenues	*US$ MM*	-	*718.5*	*1,490.6*	*1,540.7*	*1,700.5*	*1,837.5*	*1,491.0*	*1,257.1*	*1,019.0*	*1,037.8*
Tanin - Revenues											
Natural Gas Revenues	*US$ MM*	-	-	-	-	-	-	*191.8*	*315.4*	*434.9*	*490.7*
Condensate Revenues	*US$ MM*	-	-	-	-	-	-	*15.2*	*25.4*	*35.6*	*40.8*
Total Gross Revenues	*US$ MM*	-	-	-	-	-	-	*207.1*	*340.9*	*470.5*	*531.6*
K&T - Total Gross Revenues	*US$ MM*	-	*718.5*	*1,490.6*	*1,540.7*	*1,700.5*	*1,837.5*	*1,698.1*	*1,598.0*	*1,489.6*	*1,569.4*
Delek Drilling - Transaction Revenues											
*Transaction ORRI, Net***	*US$ MM*	-	*33.8*	*70.2*	*53.8*	*32.9*	*33.6*	*33.3*	*35.9*	*38.2*	*34.9*
Total Discounted Transaction Revenues	*US$ MM*	**-**	***29.0***	***54.4***	***37.6***	***20.4***	***18.6***	***16.4***	***15.8***	***15.0***	***12.3***

*Including Karish North

**Net of Existing ORRI net of Petroleum Tax

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Year	Unit	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Production												
Gas production - Karish*	bcm/y	3.49	4.09	4.09	4.09	2.11	1.50	1.50	1.12	1.00	0.72	-
Gas production - Tanin	bcm/y	3.82	3.13	3.07	2.18	1.55	1.48	-	-	-	-	-
Condensate production - Karish*	bbl/y m	3.62	3.28	3.28	3.28	1.54	1.54	1.05	0.77	0.45	0.22	-
Condensate production - Tanin	bbl/y m	0.59	0.59	0.54	0.40	0.14	-	-	-	-	-	-
Prices												
Natural gas price	US$	3.90	3.90	3.90	3.90	3.90	3.91	3.93	3.94	3.89	3.89	-
Condensate Price	US$	71.10	71.48	71.86	72.24	72.63	73.02	73.41	73.80	74.19	74.59	-
Revenues												
Karish - Revenues												
Natural Gas Revenues	US$ MM	505.8	591.9	591.9	592.1	306.9	218.1	219.3	164.5	144.0	104.1	-
Condensate Revenues	US$ MM	257.5	234.2	235.4	236.7	112.0	112.6	77.1	56.9	33.7	16.1	-
Total Gross Revenues	US$ MM	763.3	826.1	827.4	828.8	418.9	330.7	296.4	221.4	177.7	120.2	-
Tanin - Revenues												
Natural Gas Revenues	US$ MM	553.5	453.2	444.5	315.7	224.5	215.6	-	-	-	-	-
Condensate Revenues	US$ MM	41.7	41.9	38.6	28.9	10.4	-	-	-	-	-	-
Total Gross Revenues	US$ MM	595.2	495.1	483.2	344.6	234.9	215.6	-	-	-	-	-
K&T - Total Gross Revenues	US$ MM	1,358.5	1,321.2	1,310.5	1,173.4	653.8	546.4	296.4	221.4	177.7	120.2	-
Delek Drilling - Transaction Revenues												
Transaction ORRI, Net**	US$ MM	23.1	22.7	22.0	18.7	10.3	8.6	4.7	3.5	2.8	1.9	-
Total Discounted Transaction Revenues	US$ MM	**7.2**	**6.3**	**5.5**	**4.2**	**2.0**	**1.5**	**0.7**	**0.5**	**0.4**	**0.2**	**-**

*Including Karish North

**Net of Existing ORRI net of Petroleum Tax

Definitions

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