Delek Drilling

# 2020

# INTERIM FINANCIAL STATEMENTS AS OF 31.03.2020

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Delek Drilling

2020

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Delek Drilling

# Partnership Description
# 31.03.2020

***This report is a translation of Delek Drilling - Limited Partnership's Hebrew-language Update to Chapter A (Description of the Partnership's Business) of the 2019 Periodic Report. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in any event of discrepancy, the Hebrew version shall prevail.***

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

# of the 2019 Periodic Report

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

1. **Sections 6.9, 7.2.10(b)6, 7.3.11(a)4, 7.3.11(a)5 and 7.3.11(a)6 of the Periodic Report – the spread of COVID-19 and the possible impact thereof on the Partnership's business**

   a. As specified in the Periodic Report as well as in the Partnership's immediate report of May 13, 2020 (Ref. no.: 2020-01-042940) regarding the outbreak of COVID-19, and the possible impact thereof on the Partnership's business (the "**COVID-19 Crisis**"), in Q1/2020, sharp fluctuations and very sharp declines were recorded in the oil and natural gas prices in the international markets, which the Partnership estimates may be attributed to the COVID-19 Crisis, as well as to additional causes and factors that affect the demand for and supply of energy products.

   b. As a result of the COVID-19 Crisis, in recent months there has been a significant decline in the sales of natural gas produced from the Tamar and Leviathan reservoirs, relative to the Partnership's forecasts, as were presented in the discounted cash flows of the Leviathan and Tamar reservoirs and as of December 31, 2019 (see Sections 7.2.10 and 7.3.11 of the Periodic Report, the "**Cash Flows as of December 31, 2019**").

      In Q1/2020, quantities of natural gas (100%) of approx. 1.6 BCM and approx. 2 BCM were sold from the Leviathan and Tamar reservoirs, respectively. For further details regarding the production data in Q1, see Sections 21 and 22 below. In Q2/2020, the sale quantities of natural gas from the Leviathan and Tamar reservoirs (100%) are expected to total approx. 1.4 BCM from each one of the reservoirs (these data are based on the actual sales from April 1, 2020 until mid-June 2020, and based on the Partnership's estimate with respect to the expected volume of sales in the second half of June 2020).

   c. According to the Partnership's updated estimates as of the date of this report, based on a production profile of 2P (Proved + Probable) reserves, the natural gas sales (100%) in 2020 and 2021 from the Tamar project may total approx. 7.8 BCM and approx. 8.2 BCM, respectively; and from the Leviathan project approx. 7 BCM and approx. 8.8 BCM, respectively; at an average

[1] The update includes material news or changes that occurred in the Partnership's business from the date of release of the 2019 Periodic Report which was released on March 30, 2020 (Ref. No.: 2020-01-032010) (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.

natural gas price for each one of the reservoirs of approx. $5 per MMBTU. With respect to the main assumptions underlying the Partnership's estimate as aforesaid, see the projected cash flow in Section 3(e) of Part One of the Board of Directors' Report attached below.

d. As of the date of this report, the Partnership is continuing to examine the assumptions underlying the Cash Flows as of December 31, 2019, including, *inter alia*, in relation to the levels of demand for natural gas in the domestic market and in the regional markets, the expected sales volumes, the expected natural gas and condensate prices, the expected capital investments and production costs, in order to update the expected cash flows from the Leviathan and Tamar reservoirs. After completion of the examinations that the Partnership is carrying out as aforesaid, the Partnership is expected to release, in the coming weeks, updated resource reports, which include updated discounted cash flow forecasts.

e. For further details, see Section 3(f) of Part One of the Board of Directors' Report and Note 1D to the financial statements attached below.

**Caution regarding forward-looking information – the estimates specified above regarding the Partnership's income from the sales of natural gas produced from the Leviathan and Tamar reservoirs in 2020 and 2021, and regarding the rate of the decline in the total value of the cash flows, constitute forward-looking information, within the meaning thereof in Section 32A of the Securities Law, 5728-1968 (the "Securities Law"). This information is based on a series of assumptions regarding gas quantities that shall be sold in the future, throughout the cash flow period, and the sale prices thereof. The natural gas and condensate quantities that shall actually be produced and sold, and the actual sale prices, may be different, and even materially different, to the assumptions taken into account in the Partnership's calculations, *inter alia* as a result of supply and demand conditions that shall exist in the markets, or commercial conditions that shall emerge in the future or as a result of the actual performance of the reservoirs, or other factors which are beyond the Partnership's control, and in respect of which there is therefore no certainty. Therefore, it should be emphasized that the above information may be updated insofar as additional information is accrued, and as a result of the gamut of factors which are beyond the Partnership's control**.

2. **Section 1.3 of the Periodic Report and Section 21(b)(8) of Chapter D of the Periodic Report – the Partnership's supervisor**

With respect to the outcome of an annual and special general meeting of the holders of the Partnership's participation units held on June 1, 2020, in the framework of which, *inter alia*, Fahn Kanne & Co., CPAs, together with Kedar Supervision & Management, were appointed as the Partnership's supervisor, the salary thereof was approved (from among three proposed candidates), and the engagement with an expert consultant on behalf of the supervisor was approved, see the Partnership's immediate reports of April 27, 2020, May 3, 2020, May 12, 2020 and June 1, 2020 (Ref. No.: 2020-01-042195, 2020-01-038911, 2020-01-047112 and 2020-01-056283, respectively), the information appearing in which is incorporated herein by reference. For details on the amendment of the trust agreement following the results of the general meeting, see the Partnership's immediate report of June 7, 2020 (Ref. No.: 2020-01-058218), the information appearing in which is incorporated herein by reference.

3. **Sections 7.2.4, 7.3.4 and 7.4.6 of the Periodic Report – work plan for reduction of investment and operating budgets**

As part of the strategy for confronting the COVID-19 Crisis, the Tamar partners, the Leviathan partners and the partners in Block 12 in Cyprus have acted for the streamlining and reduction of the operating budgets and for postponing planned investment budgets to later years, and accordingly, the partners in the aforesaid projects approved updated budgets for 2020, such that the total decrease amounted to approx. $131 million (in 100% terms, the Partnership's share is approx. $41 million), as follows: in the Tamar project – a decrease of approx. $63 million (100%, the Partnership's share is approx. $14 million); in the Leviathan project a decrease of approx. $45 million (100%, the Partnership's share is approx. $20 million); and in the Block 12 project in Cyprus, a decrease of approx. $23 million (100%, the Partnership's share is approx. $7 million). The Partnership is continuing to act, together with its other partners in the aforesaid projects, for the expansion of the budget reduction plan for the upcoming years as well.

4. **Sections 7.5, 7.6 and 7.26.11 of the Periodic Report – the 405/New Ofek and 406/New Yahel licenses (the "New Ofek License" and the "New Yahel License", respectively, and collectively: the "Licenses")**

a. On April 5, 2020, the approval of the Petroleum Commissioner at the Ministry of Energy was received for extension of the Licenses until June 20, 2021, and for the update of the work plan in the New Yahel License, as follows:

| **Period** | **Concise Description of the Planned Work Plan in the New Yahel License** |
|---|---|
| 2020 forth | • By January 1, 2021 – submission of a drilling plan for the Commissioner's approval<br>• By June 1, 2021 – commencement of the drilling<br>• Three months from completion of the drilling – submission of a summary report |

b. On June 9, 2020, the approval of the Petroleum Commissioner was received for the update of the work plan in the New Ofek License, as follows:

| **Period** | **Concise Description of the Planned Work Plan in the New Ofek License** |
|---|---|
| 2020 forth | • By June 20, 2020 – ground-breaking date for the purpose of production tests, submission of a signed agreement with a contractor and submission of a final engineering plan[2].<br>• By August 1, 2020 – commencement of performance of production tests<br>• Three months from completion of performance of the production tests – submission of a summary report |

**Caution regarding forward-looking information – The above description regarding the planned actions in the Licenses, including the timetables for performance of the planned actions in the Licenses, is forward-looking information, within the meaning thereof in Section 32A of the Securities Law, which is based on information received by the Partnership's general partner from the operator in the Licenses (SOA). The planned actions in the Licenses and the timetables for performance thereof may be materially different to those specified above, and are contingent, *inter alia*, on adoption of the appropriate decisions by the partners in the Licenses, receipt of the approvals required by law, completion of the detailed planning of the components of the actions, receipt of quotes from contractors, changes in the global raw materials and vendors market, applicable regulation, technical capability and economic merit**.

5. **Section 7.7 of the Periodic Report – the 367/Alon D license (the "Alon D License")**

With respect to an appeal filed by the partners in the Alon D License (the Partnership and Noble Energy Mediterranean Ltd. ("**Noble**")), with the Minister of Energy from the decision of the Petroleum Commissioner not to extend the term of the license or to grant the partners in the license an alternate new license without a competitive process, in which the minister was requested, *inter alia*, to revoke the decision of the Petroleum Commissioner as aforesaid and to order the extension of the Alon D License (in this section: the "**Appeal**"), it is noted that on April 12, 2020, the Minister of Energy denied the Appeal, ruling that the license holders had not met their undertakings to perform an environmental survey, and that therefore the license should not be extended. On June 18, 2020 the partners in the license filed a petition with the Supreme Court, sitting as the High Court of Justice. In the petition, the Court was moved to issue an *order nisi* ordering the Minister and the Petroleum Commissioner to give reasons why the Minister's decision denying the appeal should not be revoked; why the license should not be extended or the license holders not be granted a substitute

[2] It is noted that on June 14, 2020 the operator in the license commenced work in the license area for performance of production tests. Concurrently, on June 18, 2020 the operator in the license submitted an extension application to the Petroleum Commissioner regarding the date of submission of a signed agreement with a contractor and submission of a final engineering plan. As of the date of this report, the Petroleum Commissioner's approval of the said application has not yet been received.

license in its stead; and why the license holders should not be allowed to realize their economic interest in the natural gas from the Karish North reservoir, part of which lies within the license area. A motion was also made for an interim order preventing the expiration of the license, and alternatively prohibiting the launch of a competitive process for a new license for the license area (or part thereof) or the grant of such license to a third party pending a decision on the petition, and a preliminary order pending a decision on the motion for interim order. On the same day, a decision was issued ordering the Minister and the Petroleum Commissioner to file their response to the motion for interim order by June 28, 2020. In the decision, the court denied the motion for a preliminary order, and the license thus expired on June 21, 2020. On June 23, 2020, the Ministry of Energy declared a competitive process for the granting of a license for natural gas and oil exploration for the area over which the Alon D license extended. On June 24, 2020, the partners in the Alon D license filed a notice with the court in which they updated that the Ministry of Energy had launched the competitive process as aforesaid, claiming that the need for an interim order is reinforced thereby, and moving the court to schedule a date for a hearing of the motion.

6. **Section 7.8 of the Periodic Report – agreement for the supply of natural gas from the Leviathan project to Yam Tethys customers**

On May 3, 2020, an agreement was signed between the Partnership, Noble, Delek Group Ltd. and Ratio Oil Exploration (1992), Limited Partnership, for the supply of natural gas, in the context of which the gas to the Yam Tethys customers will be supplied from the Leviathan reservoir. For further details, see Note 4J to the financial statements attached below.

7. **Sections 7.9 and 7.26.12 of the Periodic Report – the I/16 Tanin and I/17 Karish leases (collectively: the "Leases")**

In April 2020, Energean plc ("**Energean**") released an update on the volume of the resources attributed to the "Karish North" reservoir, which is in the area of the I/17 Karish lease, whereby in the "Karish North" reservoir there are resources of natural gas of approx. 1.2 TCF (approx. 33.7 BCM) and of hydrocarbon liquids of 39.4 million barrels, all according to Best Estimate, compared with a previous assessment as specified in Section 7.9.2 of the Periodic Report. In June 2020, Energean also released a notice from which it emerges that the piping of the gas from the Karish reservoir is expected to begin, in its estimation, during Q3/2021. It is further noted that 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" reservoir, 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. The Partnership's position, based on advice received, is 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 Leases, including from the "Karish North" reservoir, and that all of the hydrocarbon liquids to be produced from the Leases constitute condensate, as defined in the agreement.

8. **Section 7.12.4 of the Periodic Report – agreements for the sale of natural gas from the Leviathan project**

During Q1/2020 until close to the release of this report, the Leviathan partners entered into several agreements for the supply of natural gas to the domestic market, including an agreement for the supply of natural gas in a non-material quantity with the operator of a power plant that is due to be built near the seawater desalination facility on the Sorek B site.

9. **Section 7.12.4(a)(4)(u) of the Periodic Report – dispute between the Partnership and Noble and the other Tamar partners**

With respect to the notice of representatives of the Ministry of Energy, the Economic Unit at the Department of Counseling and Legislation at the Ministry of Justice, the Ministry of Finance and the Competition Authority (the "**Regulators**") of April 13, 2020, according to which, *inter alia*, the Tamar partners were allocated a short period of time to amend the arrangements between them in a manner that ensures that the Partnership, Noble and Isramco Negev 2, Limited Partnership will not hold a right to veto decisions on the marketing of natural gas from the Tamar reservoir and regarding the submission of agreed principles for joint marketing from the Tamar reservoir to the Regulators further to their said notice, and to their update in connection with the agreements for the supply of gas to the Israel Electric Corporation Ltd. (the "**IEC**") from the Tamar and Leviathan reservoirs, see the Partnership's immediate reports of April 13, 2020 and May 31, 2020 (Ref. No.: 2020-01-038328 and 2020-01-054651, respectively), the information appearing in which is incorporated herein by reference. As of the date of this report, the said principles have not yet been approved by the Regulators, and the discussions with the IEC in connection with implementation of the said understandings have not yet ended. Therefore, there is no certainty that the principles as aforesaid will be accepted by the Regulators and that the said understandings will evolve into a binding agreement.

10. **Section 7.12.4(b)(2) of the Periodic Report – details regarding the gas supply agreement between the Leviathan partners and the IEC**

Regarding the gas supply agreement between the Leviathan partners and the IEC, it is noted that to the best of the Partnership's knowledge, the IEC purchased several LNG cargoes from an external source which, according to the Leviathan partners, was contrary to and in breach of such agreement. Accordingly, the Leviathan partners notified the IEC of a request to trigger the dispute resolution provisions set forth in the agreement.

In this context, it is noted that on May 31, 2020 the Natural Gas Authority at the Ministry of Energy announced a call for bids for selection of an entity to purchase about 25% of the LNG quantities purchased by the IEC, which could amount up to 3,500,000 MMBTU, for a sum total of approx. ILS 40 million, and sell them to industrial and distribution customers. On June 14, 2020 it was announced that Dor Alon Gas Technologies Ltd. ("**Dor**") was selected to buy the said LNG surpluses, and at the same time the Director of the Natural Gas Authority announced an approval for the IEC and sell and market natural gas to Dor.

11. **Sections 7.12.5(a), 7.12.5(b) and 7.13.2(b)(2)(b) of the Periodic Report – agreements for the export of natural gas from the Tamar and Leviathan projects to Egypt and transmission to Egypt using existing infrastructures**

The operator of the Tamar and Leviathan projects informed the Partnership that the installation of the compressors at the EAPC site in Ashkelon has been completed, a piping permit has been received from the Natural Gas Authority, and the running-in of the compressors has begun, which is expected to increase the transport capacity in the EMG pipeline, through the existing transmission system infrastructure of INGL, to approx. 450,000 MMBTU per day (approx. 4.5 BCM per year).

12. **Section 7.13.2(c) of the Periodic Report - liquefied natural gas (LNG)**

a. In April 2020, quotes were received for the provision of FLNG services from two FLNG service and technology providers with which the Leviathan partners engaged in two separate interim agreements. As of the date of this report, the Leviathan partners are examining the said quotes and holding discussions with these providers for purposes of receiving clarifications for and improving the quotes.

b. In March 2020, the Ministry of Energy published a request for public comment regarding the alternatives proposed by the Ministry of Energy for the construction of a floating liquefied natural gas (FLNG) facility in Israel's EEZ for the export of liquefied natural gas. The Association of Oil and Gas Exploration in Israel, of which the Partnership is a member, submitted its comments on the said document on May 17, 2020.

13. **Section 7.21 of the Periodic Report – financing**

a. Refinancing of the existing loans

Further to Section 7.21.1(c) of the Periodic Report, with regards to examination of possibilities for refinancing the loans that were provided to the Partnership, note that the Partnership has applied to several international rating agencies to obtain an indicative rating in relation to the issuance of bonds to accredited investors overseas and in Israel, at a scope of no less than $2.5 billion, which will be secured by Leviathan project assets, in accordance with several scenarios that were presented to the rating agencies. Pursuant to the results of the examination, as were provided to the Partnership, the indicative rating of such bonds, in the leading scenarios, is in the "BB" rating group (on an international rating scale). To emphasize, in order to obtain a complete and final rating for the actual issuance of the bonds, a full rating process, which includes, *inter alia*, additional examinations by the rating agencies, will be required. Therefore, it is clarified that if and insofar as the Partnership shall decide to perform the aforesaid issuance, there is no certainty that it will be possible to obtain either the above or any other rating for the issuance of the bonds.

b. Bonds issued by Delek & Avner (Tamar Bond) Ltd. ("**Tamar Bond**")

(1) With respect to current rating reports for the bonds issued by Tamar Bond which were published by Midroog and Moody's, which leave in place the bond rating and change the rating outlook from stable to negative, see the Partnership's immediate reports of April 7, 2020, April 17, 2020 and May 4, 2020 (Ref. No.: 2020-01-033091, 2020-01-038931 and 2020-01-039325, respectively), the details appearing in which is incorporated herein by reference.

(2) On Tamar Bond's notice of June 11, 2020 regarding the partial prepayment of the third series of the bonds in the sum of $240 million, see the Partnership's immediate report of June 14, 2020 (Ref. no. 2020-01-061266), the details in which are incorporated herein by reference.

c. The Partnership's Series A bonds

(1) Further to the provisions of Section 7.21.2(a) 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, as stated in Section 7.21.1(g) of the Periodic Report, as specified below:

| Financial covenant | The ratio checked as of March 31, 2020 and as of the report date |
|---|---|
| Economic capital of the Partnership | Approx. 4,008 |
| Economic capital to debt ratio | Approx. 6 |
| Distribution | - |

(2) On a current rating report for the Partnership's Series A bonds, see the Partnership's immediate report of June 5, 2020 (Ref. no. 2020-01-057768), the details in which are incorporated herein by reference.

d. Further to the provisions of Section 7.21.2(b) of the Periodic Report, it is noted that the Partnership has met the financial covenants to which it committed in the context of the financing agreement, as stated in Section 7.21.1(a) of the Periodic Report, as specified below:

| Financial covenant | The ratio checked as of March 31, 2020 | The ratio checked as of April 28, 2020 – the drawdown date[3] | The ratio checked as of the report release date |
|---|---|---|---|
| Required debt coverage ratio | 3.0 | 2.9 | 3.0 |

e. Further to the provisions of Section 7.21.2(c) of the Periodic Report, it is noted that the Partnership has met the financial covenants to which it committed in the context of the financing agreements, as stated in Section 7.21.1(b) of the Periodic Report, as specified below:

| Financial covenant | The ratio checked as of March 31, 2020 | The ratio checked as of the report release date |
|---|---|---|
| A financial ratio that shall be no less than 3.5 to 1 (3.5:1) between the value of the Partnership's assets and the outstanding debt balance* | 4.8 | 4.8 |

* In this regard, the value of the "Partnership's assets" will be calculated based on the discounted cash flow figures of the Partnership's resources, subject to the adjustments specified in the loans, and the amount of the "outstanding debt balance" includes the net outstanding balance in respect of the loans and the Series A bonds of the Partnership.

14. **Section 7.12.5(b)1 of the Periodic Report – engagements for the export of natural gas between the Leviathan partners and Jordan's National Electric Power Company (NEPCO) (the "Export Agreement")**

With respect to the agreement signed on November 9, 2019 between the Leviathan partners (including the Partnership) and NBL Jordan Marketing Limited, which is a subsidiary that is wholly owned by the Leviathan partners (the "**Marketing Company**"), for the endorsement of the amounts to be received by the Marketing Company, its undertakings, risks and costs that are related to the Export Agreement (the "**Endorsement Agreement**"), note that on April 14, 2020 an offtake intercreditor and security trust deed was signed between the Marketing Company, the Leviathan partners and HSBC Corporate Trustee Company (UK) ("**HSBC**"), which is designed to secure the Marketing Company's undertakings vis-à-vis the Leviathan partners under the Endorsement Agreement and pursuant to which HSBC shall act as the trustee for the collateral and undertakings by virtue of the Export Agreement.

[3] According to the provisions of Section 7.21.1(a) of the Periodic Report, compliance with the required debt coverage ratio will be measured, *inter alia*, at the time of each drawdown. From May 17, 2017 until the date of approval of the report, the Partnership has performed 42 such drawdowns, while the last drawdown was performed on April 28, 2020. In each one of the said drawdowns, the Partnership met the required ratio.

15. **Sections 7.2.5 and 7.17.1(a) of the Periodic Report – Phase 1A of the development plan for the Leviathan project**

a. With respect to the gradual ramp-up of the production capacity from the Leviathan project up to approx. 1,200 MMCF per day through the running-in and operation of the turbo expander systems, it is noted that, in the estimation of Noble, the operator in the Leviathan project, the production capacity from the Leviathan project is expected to reach approx. 1,200 MMCF, after the operation of the turbo expander systems in Q3/2020. In this context it is noted that on May 31, 2020, Noble received the instruction of the Petroleum Commissioner whereby all activity in the turbo expander systems must be halted until completion of an examination of the rig systems by the Ministry of Energy and its consultants. In the estimation of the operator, such examination will be completed in the following weeks.

b. In the estimation of the operator in the Leviathan project, construction of the condensate storage facility at the Hagit site will be completed in Q3/2020.

c. During the initial stages of activity of the Leviathan project, operating events were recorded at the Leviathan rig, which the operator is examining with the aim of improving the regularity and continuity of production. As the operator has informed, such operating events had a negligible effect on the ability to meet demand and the environmental data, *inter alia*, from the onshore monitoring systems, indicated that there was no adverse effect on the environment. In accordance with the operator's update, the up time of the Leviathan project is higher than 95% and is on par with or exceeds the performance of similar facilities in the world which are at the same stage as the Leviathan project.

16. **Section 7.23.6(b) and (d) of the Periodic Report – material legal or administrative proceedings in connection with the environment**

a. Further to Section 7.23.6(b) of the Periodic Report regarding the judgment at the District Court denying the petition which was filed by the Zichron Yaakov Local Council, Zalul Environmental Association, the Jisr az-Zarqa Local Council, the Megiddo Regional Council, the Pardes Hanna-Karkur Local Council and the Hefer Valley Regional Council (in this section: the "**Petition**" and the "**Judgment**") against the Head of the Air Quality Division at the Ministry of Environmental Protection and against Noble in a motion moving the court to order the nullity of Leviathan's emission permit, and to rule that no activity entailing the emission of gases shall be carried out on the Leviathan rig, it is noted that on June 22, 2020, an appeal was filed from the Judgment with the Supreme Court (in this section: the "**Appeal**"). The Appeal seeks amendment of the emission permit and an order that monitoring of the pollutants emitted from the rig shall not be performed by Noble or an entity with which it has engaged, but rather by the Head of the Air Quality Division at the Ministry of Environmental Protection or an entity chosen by him; as well as amendment of the emission permit such that all of the instructions pertaining to maintenance, environmental management, environmental protection and identification and handling of leaks shall be determined in the emission permit itself and not in an external plan. As of the date of this report, the Appeal is pending before the Supreme Court.

b. On April 27, 2020, the operator in the Leviathan project received notice from the Ministry of Environmental Protection of an intention to impose a financial penalty due to alleged breaches of the Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988 and the sea discharge permit which was granted to the Leviathan rig, while some of the alleged breaches are in relation to the running-in period. The operator in the Leviathan project also received, on May 20, 2020, a notice from the Ministry of Environmental Protection of an intention to impose a financial penalty due to alleged breaches of the emission permit that was granted to the Leviathan rig as well as of the Clean Air Law, 5768-2008, and the Commissioner's instruction which was issued by virtue thereof in connection with the continuous monitoring systems on the Leviathan rig. It is noted that the two penalties are in non-material amounts and that the operator intends to file its claims in relation to the said penalties to the Ministry of Environmental Protection.

17. **<u>Section 7.24.2(b)(3) of the Periodic Report - restrictive trade practices and economic competition law – the Tamar project</u>**

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, canceling 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.

18. **<u>Section 7.24.3(b) of the Periodic Report – directives on the method of calculation of the royalty value at the wellhead</u>**

In June 2020, the Director of Natural Resources at the Ministry of Energy released the final language of the "Directives on the method of calculation of the royalty value at the wellhead according to Section 32(b) of the Petroleum Law, 5712-1952 (the "**Directives**").

a. The Directives state that the value of the royalty at the wellhead shall be equal to 12.5% of the price of sale to customers at the point of sale, net of costs deemed essential by the Petroleum Commissioner for treatment, processing and transportation of the petroleum, actually incurred by the lease holder between the wellhead and the point of sale. According to the Directives, such deductible costs include: (1) capex: costs for the treatment and processing of the petroleum and petroleum transportation costs; and (2) operating expenses arising directly from the types of capital expenditures. The Directives further prescribe that the Commissioner shall from time to time determine, for each lease holder, specific directives for each lease, listing the deductible expenses for purposes of calculation of the royalty, according to the specific characteristics of the lease.

b. Expenses for assets shall be recognized such that the depreciation rate of the fixed assets shall be calculated according to the depletion method, starting from the date of commencement of operation of the fixed asset (i.e., only when the fixed asset shall have reached the location and condition that are required for its operation, and operation commenced). The total depreciation expenses to be recognized shall not exceed the cost of the fixed asset. The depreciation expenses shall be recognized for the fixed asset such that at the end of the "lifetime of the asset" the value of the asset shall be zero. The depreciation expenses shall be calculated by multiplying the depreciated cost at the beginning of the year of the recognized part of the fixed asset that was determined in the specific directives, by the depreciation rate that was determined according to the depletion method.

c. In the event of signing of an agreement that gives third parties a right of ownership in the fixed asset or a right of use of the fixed asset, either for or without consideration, or signing of an agreement which includes receipt of payment from third parties for petroleum transportation or processing, an amendment shall be made to the valuation of the fixed asset in the year in which an economic value was created for the asset over and above the depreciated cost of the relevant fixed asset as the same will be determined, in consideration of the depreciation expenses that were deducted for purposes of calculation of the royalty value at the wellhead.

   The valuation amendment shall be made in the year in which the transaction in the relevant asset was made, according to the "disposition principle", and the lease holder may be required to pay royalties to the State for such value, even if it generates no revenue in that year.

   The economic value with regard to the amendment of the valuation shall be limited to the amount which was recognized and depreciated for royalty purposes, due to the fixed asset that was sold or in which the rights of use were transferred.

   It is noted that the Tamar and Leviathan partners have not yet been provided with specific instructions on the deductible expenses for purposes of calculation of the royalty, in accordance with the specific characteristics of the reservoirs.

19. **<u>Section 7.24.5(d), (f) and (g) of the Periodic Report – additional regulatory restrictions</u>**

a. Further to Section 7.24.5(d) of the Periodic Report, regarding the addendum to the decision in respect of the financing of projects for export via the Israeli transmission system, and division of the construction costs of the Ashdod-Ashkelon combined segment, it is noted that on June 23, 2020, the Director

General of the Natural Gas Authority announced that he is ruling that the cost of the segment will be estimated at the sum total of approx. ILS 738 million (out of which the Partnership's share is estimated at approx. ILS 159 million), and shall be updated in accordance with a mechanism on update and accounting between the parties which shall be incorporated in the transmission agreement and will be presented for his approval. Accordingly, the Partnership is required to provide a guarantee in the sum of approx. $40 million.

b. Further to Section 7.24.5(f) of the Periodic Report, regarding the Minister of Energy's notice with respect to conversion of the coal-fired power plants in Hadera and in Ashkelon to natural gas by 2025, it is noted that on June 8, 2020, a joint notice was released by the Ministry of Energy and the Ministry of Environmental Protection[4] on the Ministers' decision to instruct the IEC to expand the planned shutdown of the polluting coal-fired units 1-4 at the Orot Rabin 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. The Association of Oil and Gas Exploration Industries in Israel, of which the Partnership is a member, is negotiating with the relevant regulators to expand the policy on shutdown of coal-fired production units, with a transition to seasonal operation thereof. On June 24, 2020, the Minister of Energy announced that he had decided to reduce around another 20% of the rate of use of coal at the IEC's power plants relative to 2019, and therefore, the use of coal in 2020 shall not exceed 24.9% (compared with 30% in 2019). The Minister of Energy instructed the IEC to take the necessary measures with the aim of meeting the new target, while maintaining the survivability of the electricity production system[5].

c. Further to Section 7.24.5(f) of the Periodic Report, regarding the Electricity Authority's notice with respect to exploration of the possibility of increasing the target for the production of electricity from renewable energy to 30% by 2030, through an interim target of 17%-20% in 2025. According to the forecast in the Electricity Authority's said report, the rate of electricity production from natural gas, which in 2019 was approx. 64%, is expected to increase in 2025 to approx. 76%, and to decrease to approx. 70% in 2030. It is noted that the Electricity Sector Status Report for 2019 of the Electricity Authority[6], as released on June 25, 2020, states that electricity production from natural gas is expected to increase significantly to approx. 83% in 2025, based on the existing target for the production of electricity from renewable energy at the rate of 17% in 2030.

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

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

[6] Website of the Ministry of Energy: https://www.gov.il/BlobFolder/generalpage/dochmeshek/he/Files_doch_meshek_hashmal_doch_meshek_2019.pdf

20. **<u>Section 7.27 of the Periodic Report – legal proceedings</u>**

a. Further to Section 7.27.1 of the Periodic Report on a motion for class certification filed by an IEC customer against the Tamar partners on June 18, 2014 with the Tel Aviv District Court, it is noted that an oral hearing was held on June 1, 2020 for the parties' closing statements.

b. Further to the provisions of Section 7.27.2 of the Periodic Report regarding a claim filed by the Partnership and Noble (in this section: the "**Plaintiffs**") against the State of Israel, through its representatives from the Ministry of Energy (in this section: the "**Defendant**"), which mainly includes the restitution of royalties overpaid by the Plaintiffs, and under protest, to the Defendant, in respect of revenues deriving from gas supply agreements which were signed between third-party customers and the Yam Tethys partners, it is noted that the date of the trial hearing was held on June 21, 2020 (instead of April 26, 2020), such that the trial hearing stage has been completed. In accordance with the court's oral decision at the end of the trial hearing, the Plaintiffs were required to file the main summations on their behalf by September 30, 2020, the Defendant is required to file responding summations on its behalf by January 10, 2021, while the Plaintiffs will be entitled to file summations on their behalf in response to the Defendant's summations by January 30, 2021.

c. Further to the provisions of Section 7.27.5 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 Ltd. ("**Tamar Petroleum**") and the Public Representatives Association, against the Partnership, Tamar Petroleum, officers thereof and against Leader Issues (1993) Ltd., in connection with the offering of shares of Tamar Petroleum in July 2017, it is noted that a preliminary hearing of the Certification Motion has been scheduled for July 21, 2020.

d. Further to the provisions of Section 7.27.6 of the Periodic Report regarding a class action and a motion for certification thereof, which was filed with the Tel Aviv District Court by a consumer of the IEC (in this section: the "**Petitioner**" and the "**Certification Motion**") 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 the other holders of the Tamar project, with no involvement on the part of the Partnership and Noble (for details see Section 7.12.4(a)4.t of the Periodic Report). The Petitioner alleges that the acts of the Partnership and Noble have caused and are expected to cause damage to the classes he seeks to represent in the sum of approx. ILS 1.16 billion, which he is requesting be awarded in favor of the IEC consumers, and according to which the court is moved to award compensation and fees. An additional remedy that is sought in the said class action is the court's ruling that the Partnership and Noble are not entitled to prevent the other holders of the Tamar project from signing the amendment to the Tamar agreement. The Partnership is required to file its response to the Certification Motion by August 9, 2020. A pretrial hearing was scheduled for February 3, 2021.

e. Further to the provisions of Section 7.27.7(b) 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.) (the "**Supervisor's Claim**") 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 May 20, 2020, the preliminary proceedings in the above claims were completed. With respect to an urgent motion for provisional remedies that was filed by the supervisor (in this section: the "**Motion**"), according to which the court is moved to order the Partnership and the Partnership's general partner to cease and desist the transfer of the increased overriding royalty[7] to the royalty interest owners, or alternatively, to order them to transfer the increased overriding royalty to an escrow account held by the Partnership at least until the Supervisor's Claim is decided, see the Partnership's immediate report of May 12, 2020 (Ref. No.: 2020-01-047133), the information appearing in which is incorporated herein by reference. It is noted that on May 19, 2020, the responses of the Partnership, the Partnership's general partner and the royalty interest owners to the Motion were filed. In the response of the Partnership and the Partnership's general partner, it was asserted that the Motion should be dismissed, *inter alia*, because if any of the royalty interest owners were to enter insolvency, the Partnership has a setoff right pursuant to insolvency law, which secures any amount that shall be awarded in favor thereof in the Supervisor's Claim. On May 27, 2020, the supervisor's reply to the said responses was filed. The court ruled that a hearing of the motion will be held on June 24, 2020. On June 23, 2020, the supervisor filed with the court a motion and notice in agreement with the royalty interest owners, whereby an agreement has been reached between the supervisors and the royalty interest owners which, for the time being, obviates the need to decide the matters in dispute between the parties in the Motion. On the very same day, the court approved the agreement as aforesaid, canceled the scheduled hearing, and ordered the parties to give notice, within 10 days, as to whether they have reached a comprehensive agreement and in what manner they wish to move forward with the hearing of the supervisor's claim. For details, see the Partnership's immediate report of June 24,

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[7] It is noted that from June 1, 2018 and December 1, 2019, the Partnership pays the increased overriding royalty to Delek Royalties (2012) Ltd. (in lieu of Delek Energy Systems Ltd.) and to Study Funds for Teachers and Kindergarten Teachers – Managing Company Ltd. and to Study Funds for High School Teachers, Seminary Teachers and Supervisors – Managing Company Ltd. (in lieu of Delek Group Ltd.), respectively.

2020 (Ref. no.: 2020-01-057484), the information appearing in which is incorporated herein by reference.

f. Further to the provisions of Section 7.27.8 of the Periodic Report regarding an appeal that was filed by some of the Tamar partners (in this section: the "**Appellants**") with the Supreme Court from the judgment of the Tel Aviv District Court dismissing the administrative petition that they filed against the IEC and the Leviathan partners in connection with the election of the Leviathan partners' bid as the winner of the competitive process for the supply of natural gas to the IEC (in this section: the "**Appeal**"), it is noted that on April 23, 2020, the IEC and the Leviathan partners filed a summary of their claims, whereby the Appeal should be denied, first and foremost because in the competitive process documents the IEC retained the right to consider the overall advantages of each bid over and above the price. On May 7, 2020, the Appellants filed responding summations on their behalf. On May 21, 2020, a hearing of the Appeal was held, at which the parties notified the court that advanced negotiations were being conducted between them for a settlement, and at the parties' request, the court decided to grant an extension for the reaching of agreements, ruling that insofar as the parties shall fail to reach an agreement, a judgment will be issued thereby.

g. Further to the provisions of Section 7.27.9 of the Periodic Report regarding an administrative appeal that was filed by Lobby 99 Ltd. (CIC) and Hatzlacha (R.A.) (collectively in this section: the "**Administrative Appellants**") against the Competition Commissioner (the "**Commissioner**") (as a respondent) and against EMED Pipeline B.V. ("**EMED**") and EMG (as formal respondents), with the Competition Court at the Jerusalem District Court, from the Commissioner's decision to conditionally approve the merger between EMG and EMED, it is noted that on April 8, 2020, a decision was issued on a motion for discovery that was filed by the Administrative Appellants, whereby discovery of the materials that were used by the Competition Authority to make the decision regarding approval of the merger was permitted in a format whereby the Administrative Appellants will be exposed thereto in a data room and subject to the signing of NDAs.

h. With respect to 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 "**Certification Motion**" and the "**Respondents**", respectively), with the Economic Department of the Tel Aviv District Court, in which it was claimed 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, see the Partnership's immediate report of April 26, 2020 (Ref. No.: 2020-01-041778), the information appearing in which is incorporated herein by reference. It is noted that according to the court's decision of June 23, 2020, the Respondents are required to file a response to the Certification Motion by October 1, 2020, and the Petitioner is required to file a reply to the response two months later.

21. **Below is a table that includes natural gas and condensate production data in Q1/2020 in the Tamar project:**[8] [9]

| | | Natural Gas | Condensate |
|---|---|---|---|
| Total output (attributed to the holders of the equity interests of the Partnership) in the period (in MMCF for natural gas and in thousands of barrels for condensate) | | 15,651 | 20.4 |
| Average price per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel) | | 5.28 | 33.93 |
| 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 | 0.61 | 3.88 |
| | Third Parties | 0.18 | 1.11 |
| | Interested Parties | 0.31 | 1.96 |
| Average production costs per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)[10] | | 0.34 | 1.89 |
| Average net proceeds per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel) | | 3.84 | 25.01 |

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

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

[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.

22. **<u>Below is a table that includes natural gas and condensate production data in Q1/2020 in the Leviathan project:</u>**[11][12]

| | | **Natural Gas** |
|---|---|---|
| Total output (attributed to the holders of the equity interests of the Partnership) in the period (in MMCF for natural gas and in thousands of barrels for condensate) | | 26,058 |
| Average price per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel) | | 5.43 |
| 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 | 0.60 |
| | Third Parties | 0.07 |
| | Interested Parties | 0.14 |
| Average production costs per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)[13] | | 0.66 |
| Average net proceeds per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel) | | 3.96 |

Date: June 25, 2020

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

[11] See Footnote 8 above.

[12] During Q1/2020, the Leviathan partners sold approx. 34 thousand barrels of condensate (the Partnership's share is approx. 18 thousand barrels of condensate) to an international trading company in the field of fuels in consideration for approx. $748 thousand (the Partnership's share is approx. $339 thousand). For details, see Section 7.12.6(c) of the Periodic Report. The Leviathan partners also supplied approx. 86 thousand barrels of condensate (the Partnership's share is approx. 39 thousand barrels of condensate) to Oil Refineries Ltd., for no consideration. For details, see Section 7.12.6(b) of the Periodic Report. Since the sum of the costs entailed by production of the condensate during Q1/2020 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, net, in the sum of approx. $0.5 million, were attributed to the production of the natural gas.

[13] 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.

Delek Drilling

# Board of Directors Report on the State of the Partnership's Affairs


2020

***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.***

**June 25, 2020**

# Delek Drilling Limited Partnership

## Report of the Board of Directors of the General Partner for the Period Ended March 31, 2020

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, 2020 (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 2019 (the "**Periodic Report**"), and the condensed interim financial statements as of March 31, 2020 (the "**Condensed Interim Financial Statements**"), which are attached below.

### 2. Results of operations

#### A. General

On December 31, 2019, the piping of natural gas from the Leviathan reservoir to the domestic market began, and on January 1, 2020 and January 15, 2020, the piping of natural gas began to Jordan and to Egypt respectively.

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, with the aim of increasing the volume of natural gas sales from the Partnership's assets. At the same time, the Partnership explores business opportunities in the exploration, development and production of natural gas and oil in the Mediterranean Basin. According to the provisions of the Gas Framework (see Note 12L1 to the financial statements as of December 31, 2019), the Partnership is required to transfer, by December 2021, all of its interests in the Tamar I/12 and Dalit I/13 leases (collectively: "**Tamar and Dalit**"). Therefore, as of the date of approval of the financial statements, the Partnership is examining and promoting several alternatives, including the sale of its holdings in the Tamar and Dalit leases to a third party, or a possible split of the Partnership's assets, such that the assets and liabilities attributed to the Tamar and Dalit leases or all of the Partnership's assets and liabilities that are not attributed to the Tamar and Dalit leases, shall be transferred to a public corporation, either Israeli or foreign, whose shares will be distributed to the holders of the participation units. For details regarding a possible outline for a split of the Partnership's assets, which is being examined by the Partnership (see Note 1F to the financial statements as of December 31, 2019).

The Partnership's net profit in the Report Period amounted to approx. $84.3 million, compared with approx. $40 million in the same period last year.

The increase in profit in the Report Period, relative to the same period last year, mainly derived from commencement of the production of gas from the Leviathan reservoir. In addition, in the same period last year, expenses were recorded in connection with adjustment of the value of the investment in a company accounted for at equity to the market value thereof, in the sum of approx. $36.6 million.

## B. Analysis of statements of comprehensive income

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

| | /1-32020 | /1-32019 | 2019 |
|---|---|---|---|
| **Revenues:** | | | |
| From natural gas and condensate sales | 225,189 | 117,739 | 453,344 |
| Net of royalties | 38,510 | 23,380 | 94,318 |
| Revenues, net | **186,679** | **94,359** | **359,026** |
| **Expenses and costs:** | | | |
| Cost of gas and condensate production | 23,858 | 9,980 | 40,731 |
| Depreciation, depletion and amortization expenses | 24,574 | 10,953 | 67,581 |
| Oil and gas exploration expenses, and other direct expenses | 1,315 | 3,344 | 14,298 |
| G&A expenses | 2,641 | 2,517 | 11,130 |
| **Total expenses and costs** | **52,388** | **26,794** | **133,740** |
| Other expenses, net | - | (474) | (474) |
| Partnership's share of earnings (losses) of company accounted for at equity, net | 5 | (36,640) | (36,645) |
| **Operating income** | **134,296** | **30,451** | **188,167** |
| Financial expenses | (52,602) | (11,037) | (47,487) |
| Financial income | 2,573 | 21,500 | 78,390 |
| Financial income (expenses), net | (50,029) | 10,463 | 30,903 |
| **Profit before levy** | **84,267** | **40,914** | **219,070** |
| Oil and gas profit levy | - | (922) | 4,620 |
| **Net profit** | **84,267** | **39,992** | **223,690** |
| **Other comprehensive loss:** | | | |
| **Amounts which may subsequently be reclassified to profit or loss:** | | | |
| Loss from cash flow hedging transactions | (6,486) | (1,641) | (5,150) |
| Carried to profit or loss in respect of cash flow hedging transactions | (42) | (594) | (1,830) |
| **Amounts which will not be subsequently reclassified to profit or loss**: | | | |
| Loss from investment in equity instruments designated for measurement at fair value through other comprehensive income | (35,975) | (3,249) | (41,256) |
| **Total other comprehensive loss for the period** | (42,503) | (5,484) | (48,236) |
| **Total comprehensive income** | **41,764** | **34,508** | **175,454** |
| **Gas sales in BCM**[1] | **3.6** | **2.7** | **10.5** |
| **Condensate sales in thousands of barrels**[2] | **213** | **120** | **482** |

[1] The figures refer to natural gas sales (100%) from the Tamar and Leviathan projects (previous year Tamar and Yam Tethys), rounded off to one tenth of the BCM.

[2] The figures refer to condensate sales (100%) from the Tamar and Leviathan projects, rounded off to thousands of barrels.

**Net revenues** in the Report Period amounted to approx. $186.7 million, compared with approx. $94.4 million in the same period last year, an increase of approx. 98%. The increase derives primarily from commencement of the production from the Leviathan reservoir as aforesaid. The Partnership's net revenues from the Leviathan reservoir in the Report Period amounted to approx. $120.6 million, reflecting a sales volume of around 1.6 BCM. The Partnership's net revenues from the Tamar reservoir in the Report Period amounted to approx. $66.1 million, reflecting a sales volume of around 2.0 BCM, compared with net revenues from the Tamar reservoir in the same period last year of approx. $92.1 million, reflecting a sales volume of around 2.6 BCM. The decrease in the revenues from the Tamar reservoir in the period mainly derived from the commencement of the production and sales from the Leviathan reservoir.

For production figures of natural gas and condensate from the reservoirs, see Sections 19-20 of Chapter A attached above.

**The cost of production of gas and condensate** mainly includes management and operating expenses in the Tamar and Leviathan projects which include, *inter alia*, expenses of haulage and transport, salaries, consulting, maintenance and insurance. The cost of production of gas and condensate in the Report Period amounted to approx. $23.9 million, compared with approx. $10 million in the same period last year.

The increase in the Report Period mainly derives from expenses in the sum of approx. $18 million in respect of the cost of production from the Leviathan reservoir which began this quarter. Conversely, the decrease in the cost of production from the Tamar project in the Report Period compared with the same period last year, which mainly derived from a decrease in the expenses of upgrading equipment on the Tamar platform that was performed in the same period last year.

**Depreciation, depletion and amortization expenses** in the Report Period amounted to approx. $24.6 million, compared with approx. $11 million in the same period last year. The depreciation expenses in the Report Period include depletion depreciation in the Tamar, Leviathan and Yam Tethys projects. The increase derives primarily from the recording for the first time of depletion depreciation in the Leviathan project and from the update of the costs of abandonment of the Yam Tethys project. For details regarding the effect of the change in the estimate of impairment of the reservoirs, see Note 2A to the financial statements attached below.

**Oil and gas exploration expenses and other direct expenses** in the Report Period amounted to approx. $1.3 million, compared with approx. $3.3 million in the same period last year. Oil and gas exploration expenses include, *inter alia*, expenses of geologists, engineers and consulting, as well as G&A expenses of various projects. The decrease in the Report Period derives primarily from inclusion of administrative expenses attributed to the Leviathan project under the "cost of production of gas and condensate" item following the commencement of the production from the Leviathan reservoir.

**G&A expenses** in the Report Period amounted to approx. $2.6 million, compared with approx. $2.5 million in the same period last year, and include, *inter alia,* expenses for professional services and payroll expenses and management fees to the General Partner. Furthermore, G&A expenses include expenses in the amount of approx. $0.6 million (in the same period last year: approx. $0.2 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.

**Other expenses** in the same period last year of approx. $0.5 million derived from the update of other long-term assets.

**The Partnership's share in the profits (losses) of a company accounted for at equity, net**, in the Report Period amounted to a profit of approx. $5 thousand, compared with a loss of approx. $36.6 million in the same period last year. The profit in the period derived from the company accounted for at equity EMED Pipeline B.V. ("**EMED**"). The loss in the same period last year mainly derived from adjustment of the value of the investment in Tamar Petroleum to the market value thereof until the last date of treatment of the investment according to the equity method, as specified in Note 6A to the financial statements as of December 31, 2019.

**Financial expenses** in the Report Period amounted to approx. $52.6 million, compared with approx. $11 million in the same period last year. Most of the financial expenses derived from interest in respect of bonds and liabilities to banking corporations in the sum of approx. $17.3 million and approx. $31.7 million, respectively. In the same period last year, the financial expenses mainly derived from interest in respect of bonds in the sum of approx. $17.3 million, out of which the Partnership capitalized to the Leviathan project approx. $7.7 million. In addition, in the same period last year, the Partnership capitalized financial expenses in respect of credit from banking corporations, which was directly designated for the Leviathan project, in the sum of approx. $32.8 million. The increase in the financial expenses in the Report Period compared with the same period last year derives mainly from discontinuation of capitalization of the credit costs for the Leviathan project upon completion of the construction phase and commencement of production of gas from the project.

**Financial income** in the Report Period amounted to approx. $2.6 million, compared with approx. $21.5 million in the same period last year. The decrease in the financial income mainly derives from a decrease in income from revaluation of royalties receivable from the Karish and Tanin leases and from revaluation of annual payments receivable that derived from the sale of the Partnership’s interests in the Karish and Tanin leases. In the Report Period, a revaluation was recorded in the sum of approx. $0.1 million, net, compared with a revaluation in the sum of approx. $17.8 million in the same period last year, which mainly derived from an update of the quantity of the resources. For further details, see Note 4I to the financial statements attached below.

**Oil and gas profit levy** – in the Report Period no gas was produced from the Yam Tethys reservoir and therefore no levy expenses were recorded. In the same period last year, the Partnership recorded expenses in respect of the oil and gas profit levy in the sum of approx. $0.9 million, deriving from the Partnership's revenues from the Yam Tethys project.

## 3. Financial position, liquidity and financing sources

### A. Financial position

Below is a specification of the main changes in the condensed interim statement of financial position as of March 31, 2020, compared with the statement of financial position as of December 31, 2019:

**Total condensed statement of financial position** as of March 31, 2020 amounts to approx. $4,567 million, compared with approx. $4,503.1 million as of December 31, 2019.

**Current assets** of the Partnership as of March 31, 2020 amount to approx. $444.4 million, compared with approx. $368.2 million as of December 31, 2019, as specified below:

1) **Cash and cash equivalents** as of March 31, 2020 total approx. $95.9 million, compared with approx. $171 million as of December 31, 2019. The decrease during the Report Period derived primarily from the Partnership's investments in the Leviathan project and from tax and balancing payments as specified in Note 13D to the financial statements as of December 31, 2019.

2) **Short-term investments** as of March 31, 2020 total approx. $176 million, compared with approx. $63.5 million as of December 31, 2019, and primarily include a deposit serving as a safety cushion for the bonds of Tamar Bond and a deposit serving as a safety cushion for repayment of the loan for the financing of the Leviathan project. The increase in such deposits mainly derived from income in respect of the Tamar and Leviathan projects.

3) **Trade receivables item** as of March 31, 2020 totals approx. $110.9 million, compared with approx. $46.9 million as of December 31, 2019. The increase derived from the higher trade receivables balance of the Leviathan project following commencement of production of the gas from the project.

4) **Trade and other receivables item** as of March 31, 2020 totals approx. $61.5 million, compared with approx. $86.9 million as of December 31, 2019. The decrease derives primarily from a decrease in the balance of the operator of the joint ventures in the Leviathan project.

**Non-current assets** as of March 31, 2020 amount to approx. $4,122.6 million, compared with approx. $4,134.8 million on December 31, 2019, as specified below:

1) **Investments in oil and gas assets** as of March 31, 2020 total approx. $3,467.9 million, compared with approx. $3,429.2 million as of December 31, 2019. The increase mainly derives from investments in the Leviathan and Tamar projects in the sum of approx. $55.4 million. Conversely, the Partnership recorded depreciation, depletion and amortization expenses in the Tamar and Leviathan projects in the sum of approx. $20.1 million. See also Note 2A to the financial statements attached below regarding the change in the method of impairment of the reservoirs.

2) **Investment in a company accounted for at equity** as of March 31, 2020 totaled approx. $75 million similarly to the balance thereof as of December 31, 2019, and included the investment in shares of EMED. See Note 6B to the financial statements as of December 31, 2019.

3) **Long-term bank deposits** as of March 31, 2020 amount to approx. $103.3 million, compared with approx. $102.9 million as of December 31, 2019, which mainly serve as a safety cushion for the bonds of Tamar Bond.

4) **Other long-term assets** as of March 31, 2020 totaled approx. $476.4 million, compared with approx. $527.7 million as of December 31, 2019. The decrease mainly derived from a decline in the share price of a financial asset at fair value through other comprehensive income in the sum of approx. $35.9 million and from classification to current maturities of a financial asset in the sum of approx. $14 million. Conversely, there was an increase in receivables from a company accounted for at equity in the sum of approx. $9 million.

**Current liabilities** as of March 31, 2020 amount to approx. $2,454.8 million, compared with approx. $824.7 million as of December 31, 2019, as specified below:

1) **Bonds** – Current maturities of bonds of Tamar Bond which are due in December 2020, in the sum of approx. $319.6 million (net of issue expenses) compared with approx. $319.4 million (net of issue expenses) as of December 31, 2019. See also Section C below.

2) **Liabilities to banking corporations** – Current maturities in the sum of approx. $1,986.5 million (net of debt-raising costs) compared with approx. $296.9 million (net of debt-raising costs) as of December 31, 2019, in connection with loans taken by the Partnership mainly for the financing of its share in the Leviathan project, where the sum of approx. $298 million and the sum of approx. $1,689 million are due in December 2020 and February 2021, respectively. For further details, see Note 10 to the financial statements as of December 31, 2019.

3) **Trade and other payables** as of March 31, 2020 amounted to approx. $148.7 million, compared with approx. $174.7 million as of December 31, 2019. The decrease derives primarily from a decrease in the payables item in the context of the joint ventures mainly in respect of the Leviathan and Tamar projects in the sum of approx. $50 million. Conversely, an increase was recorded in interest payable in respect of liabilities to banking corporations and an increase in a financial derivative due to LIBOR interest hedging in the sum of approx. $20 million.

4) **Provision for tax and balancing payments** as of December 31, 2019 totaled approx. $33.7 million, which was paid in January 2020.

**Non-current liabilities** as of March 31, 2020 amount to approx. $1,256.6 million, compared with approx. $2,864.9 million as of December 31, 2019, as specified below:

1) **Bonds** – in the sum of approx. $1,032.1 million include Series A bonds in the sum of approx. $397.6 million (net of issue expenses) and bonds of Tamar Bond in the sum of approx. $634.5 million (net of issue expenses) (see Part Four below).

2) **Long-term liabilities to banking corporations** as of December 31, 2019 totaled approx. $1,630.4 million (net of debt-raising costs) in relation to the financing of the Leviathan project (see Note 10C to the financial statements as of December 31, 2019). On the Report Date, these liabilities were included in the current liabilities, as specified above.

3) **Other long-term liabilities** as of March 31, 2020 total approx. $224.6 million, compared with approx. $203.1 million as of December 31, 2019. The increase mainly derives from an update of the gas and oil asset retirement obligations in the Yam Tethys, Tamar and Leviathan projects, in the sum of approx. $22.5 million.

**The capital of the limited partnership** as of March 31, 2020 totals approx. $855.6 million, compared with approx. $813.5 million as of December 31, 2019. The increase in capital mainly derives from the profit in the Report Period in the sum of approx. $84.3 million. Conversely, a loss was recorded from an investment in an equity instrument designated for measurement at fair value through other comprehensive income and from cash flow hedging transactions in the sum of approx. $42.5 million, and a minimal distribution was performed to the trustee in the sum of approx. $0.3 million.

**B. <u>Cash flow</u>**

The cash flows generated by the Partnership from operating activities amounted in the Report Period to approx. $69.6 million, compared with approx. $70.7 million in the same period last year.

The cash flows used for investment activities amounted in the Report Period to approx. $171.9 million, compared with the sum of approx. $203.6 million in the same period last year. In the Report Period, the Partnership invested approx. $88.8 million, mainly in the Leviathan and Tamar projects, and approx. $112.6 million in short-term deposits that serve as a safety cushion for Tamar Bond and for a loan for the financing of the Leviathan project. Conversely, there was a decrease in the other receivables of operator of the joint ventures of approx. $25 million, and approx. $14.8 million was received for repayment on account of a loan in the context of the transaction for the sale of the Karish and Tanin leases.

The cash flows deriving from financing activities in the Report Period total approx. $27.2 million, compared with approx. $82.3 million deriving from financing activities in the same period last year. The cash flows from the financing activities in the Report Period mainly derived from receipt of loans from banking corporations for the financing of the Leviathan project in the sum of approx. $61.8 million. Conversely, in the Report Period the Partnership performed tax and balancing payments and a distribution to the limited partner in the sum of approx. $33.8 million.

## C. <u>Financing</u>

1) On June 14, 2020 Delek & Avner (Tamar Bond) Ltd. (a company wholly owned by the Partnership) gave notice to the bondholders of its intention to make, on July 15, 2020, a partial prepayment of the third series of the Tamar Bond bonds, in the sum total of $240 million (the "**Principal Amount**"), whose original maturity date was December 30, 2020. The prepayment amount includes the Principal Amount, plus accrued interest in the sum total of approx. $0.4 million, plus a prepayment fee, estimated as of the date of its notice at approx. $4.1 million (the "**Prepayment Fee**"). It is noted that the Prepayment Fee amount is lower than the balance of the interest Delek & Avner (Tamar Bond) Ltd. would have paid, had the third series of the Tamar Bond bonds been paid at its original maturity. See also the Fourth Part below.

2) Pursuant to the provisions of Section 7.21.1(c) of Chapter A of the periodic report for 2019, with regard to the examination of possibilities for refinancing of loans that were provided to the Partnership, note that the Partnership has applied to several international rating agencies to obtain an indicative rating in relation to the issuance of bonds to accredited investors overseas and in Israel, in the scope of no less than $2.5 billion, which will be secured by Leviathan project assets, in accordance with several scenarios that were presented to the rating agencies. Pursuant to the results of the examination as the same were provided to the Partnership, the indicative rating of such bonds, in the scope of $2.5 billion, in the leading scenarios, is in the "BB" rating group (on an international rating scale). To emphasize, in order to obtain a complete and final rating for the actual issuance of the bonds, a full rating process which includes, *inter alia*, additional examinations by the rating agencies will be required. Therefore, it is clarified that if and insofar as the Partnership will decide to perform the aforesaid issuance, there is no certainty that it will be possible to obtain either the aforesaid, or any other rating for the issuance of the bonds.

3) Note that in order to meet its obligations in the 12 months subsequently to the release of the financial statements, the Partnership is required to raise no less than approx. $2,050 million.

**D. Balancing payments and tax payments and a distribution to the limited partner**

On January 9, 2020, the Partnership made a payment of approx. ILS 116.3 million (ILS 0.09909 per participation unit), which was approved by the board of directors of the General Partner and the trustee on December 12, 2019. The said payment includes tax payments to entitled individual holders and balancing payments to holders that are not individuals.

On February 12, 2020, the General Partner's board of directors approved a distribution to the limited partner in the sum of ILS 1 million, which distribution will be used for payment of the supervisor's fees and the trustee's fees and expenses, in accordance with the provisions of the trust agreement.

**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 on projected cash flow.

The following warning signs exist in the financial statements as of March 31, 2020: (1) the opinion of the auditors as of the date of the statements, which, *inter alia*, draws attention to the provisions of Note 1D3 to the financial statements in relation to the effect of the crisis in the financial markets and the significant drop in the oil prices and the possible ramifications thereof on the Partnership; (2) a working capital deficit for a twelve-month period.

The Partnership's management presented to the board of directors of the General Partner all of the sources that may be used by the Partnership in order to comply with its obligations in the coming years, including the Partnership's projected revenues from the Tamar and Leviathan projects, expected cash flow from royalties and the loan repayment from the sale of the I/16 Tanin and I/17 Karish leases, the cash balance and short-term and long-term deposits in the sum of approx. $374 million, which have accrued in the Partnership's coffers as of the date of the Condensed Interim Financial Statements, which are designated for the operating activities and payment of its liabilities, a plan for obtaining funds in significant amounts by means of a bond offering and/or by means of a loan from financial corporations, in the context of the refinancing of the Leviathan project, which is based on discussions with rating agencies and potential lenders, the Partnership's plans to sell its direct and indirect holdings in the Tamar project in accordance with the provisions of the Gas Framework, and the option available to the Partnership to obtain capital by way of a rights offering in a sum of up to $300 million[3].

[3] On May 17, 2018, the meeting of the holders of the Partnership's participation units approved the performance of an offering of participation units and/or securities convertible into participation units by way of a rights offering to the existing holders of the participation units, during a period from the date

The impression of the board of directors of the Partnership's General Partner, after examining the estimated sources and uses report presented thereto by the Partnership's management, under various scenarios, was, based on past experience, on the Partnership's proven ability to raise money in recent years, and on the Partnership's assets, that the assumptions underlying the report are reasonable. The board of directors of the Partnership's General Partner also believes that the Partnership will be able to find possible sources of financing for the purpose of repayment of its liabilities and/or to reach agreements with the existing lenders with respect to extension of the timeframe for repayment of the loans before their final maturity date.

See also Section F below and Note 1D to the financial statements attached below regarding the COVID-19 crisis and its possible impact on the Partnership's business.

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of the meeting's approval as aforesaid until May 6, 2021, at a scope and under conditions to be determined according to a resolution of the General Partner for the purpose of raising amounts that will be required, in the opinion of the General Partner, for the financing of the Partnership's operating activity, including the making of investments in the Partnership's petroleum assets and repayment of its existing liabilities, and authorized the General Partner to determine the structure, scope and timing of the offering, at its sole and absolute discretion, subject to the sum total of the proceeds of the offering (or offerings) in the said period not exceeding an amount in ILS equal to $300 million. Performance of such offerings may be carried out at any time in the framework of one or more prospectuses and/or one or more shelf offering reports, as shall be determined by the General Partner.

## 1. Projected cash flow (U.S. $ in millions)

| | For the period | | | |
|---|---|---|---|---|
| | From April 1, 2020 until Dec. 31, 2020 | From Jan. 1, 2021 until Dec. 31, 2021 | From Jan. 1, 2022 until March 31, 2022 | Specification |
| **Sources:** | | | | |
| Cash, cash equivalents and bank deposits, beginning of period | 374 | 653 | 725 | 2A |
| Revenues from the sale of gas and condensate, net of royalties | 535 | 657 | 131 | 2B |
| Revenues from royalties and repayment of a loan from Energean | - | 14 | 22 | 2C |
| Withdrawal of funds from a loan for financing the Leviathan project | 42 | - | - | 2D |
| Proceeds from the sale of oil and gas assets | - | 1,114 | - | 2E |
| Leviathan reservoir-based debt raising | 2,475 | - | - | 2F |
| **Total sources** | **3,426** | **2,438** | **878** | |
| **Expected uses**: | | | | |
| **Expected uses for operating activities and investment:** | | | | |
| Ordinary expenses | 9 | 12 | 3 | 2G |
| Production expenses and investments in gas and oil assets | 184 | 180 | 57 | 2H |
| Oil and gas levy, tax and balancing payments | 32 | 307 | 26 | 2I |
| **Total uses for operating activities and investment** | **225** | **499** | **86** | |
| **Total expected uses for financing activity:** | | | | |
| Payments of principal and interest of loans from financial corporations | 2,163 | 157 | - | 2J1B, 2J1C 2J3 |
| Series A bond principal and interest payments | 18 | 409 | - | 2J2B, 2J3 |
| Tamar Bond principal and interest payments | 367 | 648 | - | 2J1A, 2J2A, 2J3 |
| **Total uses for financing activity** | **2,548** | **1,214** | **-** | |
| **Closing balance**[4] | **653** | **725** | **792** | |

[4] Cash available for debt service, profit distributions and/or for the making of investments in the Partnership's assets, according to the provisions of the Partnership Agreement and subject to any law, out of which, at the end of 2020, approx. $100 million are pledged in service of a Leviathan reservoir-based debt and approx. $29 million are pledged for the repayment of the principal of the bonds of Tamar Bond, at the end of 2021, approx. $264 million are pledged for the repayment of the principal of a Leviathan reservoir-based debt, and on March 31, 2020, approx. $209 million are pledged in service of a Leviathan reservoir-based debt.

2. **<u>Below are additional details and the assumptions used in the preparation of the projected cash flow</u>:**

**A. Cash, cash equivalents, and bank deposits:**

The balances as of March 31, 2020 include cash in the Partnership's coffers in the sum of approx. $96 million and pledged deposits according to the terms of the bonds of Tamar Bond in the sum of approx. $234 million and to a loan agreement for financing the Partnership's share in the development costs of the Leviathan project in the sum of approx. $44 million, which are designated for use in the period of the projected cash flow for operating activities in the Tamar and Leviathan projects, for repayment (principal and interest) of the bonds of Tamar Bond and for the financing of the Leviathan project (see Section J below and Note 10 to the annual financial statements).

**B. Revenues from the sale of gas and condensate, net of royalties:**

1. The projected cash flow is based on the Partnership's forecast of sales of natural gas and condensate from the Tamar and Leviathan reservoirs in accordance with the following main assumptions:

   a. Projected revenues from the sale of natural gas to the regional markets (export) and to the local market from Tamar and Leviathan, according to the Partnership's estimation of natural gas sales in the projected cash flow period, based on existing agreements as well as on the demand for natural gas in the local market according to a report prepared for the Partnership by an external consultant. See Annex B of the Board of Directors' Report regarding the Partnership's intention to publish, in the following weeks, updated resource reports which include updated discounted cash flow forecasts.

      In total, an assumption was made of sales of approx. 7.8 BCM and approx. 8.2 BCM from the Tamar project in 2020 and 2021, respectively (see Section 2 below) and of sales of approx. 7.0 BCM, approx. 8.8 BCM, and approx. 9.6 BCM from the Leviathan project in 2020, 2021 and 2022, respectively[5], at an average price of approx. $5 per mmbtu for each of the reservoirs[6].

[5] It is noted that, assuming a Brent barrel price of $25 throughout the projected cash flow period, there will be, in the Partnership's estimation, an immaterial decrease (relative to the table above) in the Partnership's net revenues (after operating expenses, taxes, production, capital investments and royalties) from the Tamar and Leviathan reservoirs.

[6] It is noted that, in its estimations the Partnership relied, *inter alia,* on the in-principle understandings between the Tamar partners and the Leviathan partners in relation tot the issues that were in dispute

b. An assumption was made of an average of projected Brent barrel prices for 2020, 2021 and 2022, of approx. $37, approx. $44 and approx. $55, respectively, based on current forecasts of Brent barrel prices and the TAOZ, which the Partnership obtained from an outside expert.

c. In view of the assumption of an average daily Brent price lower than $50 per barrel in 2020 and 2021, an assumption was made of reduction of the annual quantity sold to Dolphinus, to 50% of the annual contract quantity in such years.

d. It is noted that the projected revenues were recorded on a cash basis, i.e. the projected revenues were recorded according to payment dates, in accordance with the different gas sale agreements.

e. See Note 4G to the financial statements attached below regarding the rate of advance payments on account of the State royalties that was used as a basis for the projected cash flow assumptions.

2. Projected revenues from the Tamar reservoir were included based on a production profile from proved + probable reserves (2P). The revenues in 2021 are in respect of projected sales until the estimated date of sale of the Partnership's holdings in the reservoir, as specified in Section E below.

3. Projected revenues from the Leviathan reservoir were included based on a production profile from proved + probable reserves (2P).

4. It is noted that the making of withdrawals from the pledged deposits, as aforesaid in Section A, is subject to the Partnership's compliance with certain tests, as specified in Note 10 to the annual financial statements.

**C.** Proceeds receivable in respect of an agreement for the sale of the interests of the Partnership in the Karish and Tanin leases to Ocean Energean Oil and Gas. See Note 8B to the annual financial statements.

**D.** Withdrawal of the balance of a loan for financing the Partnership's share in the development costs of the Leviathan project. See Note 10C to the annual financial statements.

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between them in relation to the agreements for the sale of gas to the Israel Electric Corporation Ltd., as specified in the immediate report released by the Partnership on May 31, 2020 (Ref. No. 2020-01-048373).

**E. Proceeds from the sale of oil and gas assets:**

Estimated proceeds from the sale of the Partnership's holdings in the Tamar and Dalit leases in Q1/2021 and the Partnership's shares in Tamar Petroleum Ltd., according to the provisions of the Gas Framework, as stated in Notes 1B and 12L1 to the annual financial statements[7].

**F. Leviathan reservoir-based debt raising:**

Debt raising by means of a bond offering and/or by means of a loan from financial corporations, net of the debt-raising costs, in the context of the refinancing of the Leviathan project. See Notes 10F and 10G to the annual financial statements[8].

**G.** G&A expenses and professional service expenses.

**H. Production expenses and investments in gas and oil assets:**

Production and operation expenses and capital investments in the Partnership's gas and oil assets based on approved budgets and in accordance with the estimates of the project operators and on discounted cash flows of the Tamar and Leviathan projects, net of the effect of streamlining processes, as set forth in Section G below.

**I.** According to the Partnership's estimations as to the expected tax advance payments, balancing payments and oil and gas profit levy based on the various assumptions underlying the projected cash flow, see Section 7.22 of the Periodic Report as of December 31, 2019 and Note 20 to the annual financial statements. As specified in Note 20A to the annual financial statements, as of the date of approval of the report, there is uncertainty as to the balancing arrangement which the Partnership is required to implement in connection with Section 19, including with respect to the making of balancing payments due to past periods (tax years 2015-2016) and due to assessment differences that may transpire in the future. The Partnership intends to apply to the court to receive instructions

[7] The value of the proceeds from the sale of the Partnership's direct holdings in the Tamar project was determined based on a current valuation and sensitivity analyses for projected cash flows from the Partnership's gas and oil assets performed by an independent external assessor who assessed the recoverable amount of the Partnership's (direct) holdings in the Tamar project as of March 31, 2020 through discounting the cash flow (see Annex B to the Board of Directors' Report), adjusted to the date of sale of the project. Note that the Partnership is exploring other options for the transfer of its interests in the project in accordance with the Gas Framework, as specified in Note 1B to the annual financial statements.

[8] As of the date of approval of the statements, the Partnership is acting to raise a sum of between approx. $2,050 million and approx. $2,500 million, according to the market conditions on the date of the debt raising. It is noted that in order to meet its obligations in the 12-month period after the release of the financial statements, the Partnership is required to raise an amount of no less than approx. $2,050 million.

with regards to the said uncertainty. Therefore, the projected cash flow did not take into account any balancing payments due to past periods and due to assessment differences.

**J. Expected uses for financing activity:**

Principal payments of bonds and liabilities to financial corporations according to the terms of the bonds and the financing agreements, as specified in Note 10 to the financial statements attached below, and Part Five of the Board of Directors' Report below, and subject to the following:

1. In 2020:

    a. Repayment of the principal of Tamar Bond's Series 2020 bonds in the sum of $320 million and interest in respect of all of the Tamar Bond series.

    b. Repayment of the principal and interest of a loan in the sum of $300 million (see Note 10E to the annual financial statements) in the context of the refinancing which is based on the Leviathan reservoir, as provided in Section 6 above. Note that the final date for repayment of the loan is in December 2020.

    c. Repayment of the principal and interest of a loan in the sum of $1,750 thousand that was provided to the Partnership in the context of an agreement for the financing of the Partnership's share in the development costs of the Leviathan project (see Note 10C to the annual financial statements) in the context of the refinancing which is based on the Leviathan reservoir, as provided in Section F above. Note that the final date for repayment of the loan is in February 2021.

2. In 2021:

    a. Repayment of the balance of the principal and interest of Tamar Bond's 2023 and 2025 bond series on the date of the sale of the Partnership's share in the Tamar and Dalit leases, as provided in Section E above. Note that the final date for repayment of the said bond series is in December 2023 and December 2025.

    b. Repayment according to the terms of the Partnership's Series A bonds. One half of the bonds on the date of the sale of the Partnership's holdings in the Tamar and Dalit leases, as provided in Section E above, according to the terms of the bonds, and one half in December 2021.

3. Interest payments of bonds and liabilities to banking corporations, according to the terms of the bonds and the financing agreements, and payments in respect of LIBOR interest hedging transactions performed by the Partnership during 2019 (see also Note 22F2 to the annual financial statements).

**Caution regarding forward-looking information:**
**The projected cash flow included in this report and its underlying assumptions, constitute forward-looking information, as defined in the Securities Law, 5728-1968. The said information is based, *inter alia*, on estimates and forecasts, *inter alia* with respect to the Partnership's income in the cash flow period, the work plans in the projects and the activity budgets, the plan for the disposition of all of the Partnership's direct and indirect holdings in the Tamar project, the plan for the raising of Leviathan reservoir-based debt for the refinancing of loans in an amount no less than approx. $2.1 billion, various assumptions with regards to the mandatory payments that shall apply to the Partnership and various estimates. The assumptions, estimates and plans on which the projected cash flow is based are dependent on many factors, a material portion of which are beyond the Partnership's control, especially against the backdrop of the exceptional uncertainty on the date of approval of the report, as a result of the COVID-19 crisis. In such conditions, it may transpire that the main assumptions underlying the projected cash flow, with regards to the raising of the debt which the Partnership requires and the disposition of the Partnership's holdings in the Tamar project, as well as the other forecasts underlying the cash flow, will be unable to materialize or will materialize in a materially different manner than that expected on the date of approval of the report, certainly if the COVID-19 crisis and its harsh impact on the global economy continues and worsens. The Partnership's forecasts and the assumptions underlying the cash flow are affected by the state of the Israeli and global economy, and are dependent on external factors that are beyond the Partnership's control, such as: the condition of the energy market, the Partnership's ability to obtain additional financing, and as a result of the materialization of any of the risk factors that characterize the Partnership's operations, as specified in Chapter A of the Partnership's periodic report for 2019, including, and primarily, COVID-19.**

**K. The spread of COVID-19 and its possible impact on the Partnership's business**

Further to Note 1G to the annual financial statements regarding the spread of COVID-19, and the possible impact thereof on the Partnership's business, in Q1/2020 sharp fluctuations and very sharp declines were recorded in the oil and natural gas prices in the international markets, which the Partnership estimates may be attributed to the COVID-19 crisis, as well as additional causes and factors that affect the demand for and supply of energy products.

Note that in April-June 2020, the sale volumes from the Tamar and Leviathan reservoirs amounted to approx. 1.4 BCM from each of the reservoirs (based on actual sales starting from April 1, 2020 and until mid-June 2020 and based on the Partnership's estimation with regard to the second half of June 2020). See Note 1D to the financial statements attached below regarding the effect of the crisis on the Israeli market and regarding possible repercussions on the financial condition of the Partnership.

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

**L. Work plan for decreasing operating and investment budgets**

As part of the strategy for confronting the COVID-19 crisis, the Tamar partners, the Leviathan partners and the partners in Block 12 in Cyprus have acted for the streamlining and decreasing of the operating budgets and for postponing planned investment budgets to later years, and accordingly, the partners in the aforesaid projects approved updated budgets for 2020, such that the total decrease amounted to approx. $131 million (in terms of 100%, the Partnership's share is approx. $41 million), as follows: in the Tamar project – a decrease of approx. $63 million (100%, the Partnership's share approx. $14 million); in the Leviathan project a decrease of approx. $45 million (100%, the Partnership's share approx. $20 million); and in the Block 12 project in Cyprus, a decrease of approx. $23 million (100%, the Partnership's share approx. $7 million). The Partnership is continuing to act, together with its other partners in the aforesaid projects, for the expansion of the budgetary decrease plan for the upcoming years as well.

## 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 2019, except as stated below:

### 1. Report on linkage bases in Dollars in thousands, as of March 31, 2020

| | Financial Balances | | | | |
|---|---|---|---|---|---|
| | In dollars or dollar-linked | In non-linked ILS | Non-linked | Non-financial balances | Total |
| **Assets** | | | | | |
| Cash and cash equivalents | 75,146 | 20,731 | - | - | 95,877 |
| Short-term investments | 175,841 | 181 | - | - | 176,022 |
| Trade receivables | 110,956 | - | - | - | 110,956 |
| Other receivables | 54,698 | - | - | 6,840 | 61,538 |
| Investments in oil and gas assets | - | - | - | 3,467,858 | 3,467,858 |
| Investment in company accounted for at equity | - | - | - | 75,000 | 75,000 |
| Long-term deposits | 103,345 | - | - | - | 103,345 |
| Other long-term assets | 260,401 | - | 10,379 | 205,653 | 476,433 |
| **Total assets** | **780,387** | **20,912** | **10,379** | **3,755,351** | **4,567,029** |
| **Liabilities** | | | | | |
| Trade and other payables | 133,248 | 568 | - | 14,901 | 148,717 |
| Bonds | 1,351,644 | - | - | - | 1,351,644 |
| Liabilities to banking corporations | 1,986,511 | - | - | - | 1,986,511 |
| Other long-term liabilities | - | - | - | 224,556 | 224,556 |
| **Total liabilities** | **3,471,403** | **568** | **-** | **239,457** | **3,711,428** |
| **Total net balance sheet balance** | **(2,691,016)** | **20,344** | **10,379** | **3,515,894** | **855,601** |

## 2. Report on linkage bases in Dollars in thousands, as of December 31, 2019

| | Financial Balances | | | | |
|---|---|---|---|---|---|
| | In dollars or dollar-linked | In non-linked ILS | Non-linked | Non-financial balances | Total |
| **Assets** | | | | | |
| Cash and cash equivalents | 147,806 | 23,240 | - | - | 171,046 |
| Short-term investments | 63,271 | 188 | - | - | 63,459 |
| Trade receivables | 46,862 | - | - | - | 46,862 |
| Other receivables | 78,586 | - | - | 8,295 | 86,881 |
| Investments in oil and gas assets | - | - | - | 3,429,178 | 3,429,178 |
| Investment in company accounted for at equity | - | - | - | 74,995 | 74,995 |
| Long-term deposits | 102,919 | - | | - | 102,919 |
| Other long-term assets | 265,874 | - | 46,354 | 215,505 | 527,733 |
| **Total assets** | **705,318** | **23,428** | **46,354** | **3,727,973** | **4,503,073** |
| **Liabilities** | | | | | |
| Trade and other payables | 160,440 | 655 | - | 13,643 | 174,738 |
| Provision for tax and balancing payments | - | - | - | 33,657 | 33,657 |
| Bonds | 1,350,831 | - | - | - | 1,350,831 |
| Liabilities to banking corporations | 1,927,271 | - | - | - | 1,927,271 |
| Other long-term liabilities | - | - | - | 203,069 | 203,069 |
| **Total liabilities** | **3,438,542** | **655** | **-** | **250,369** | **3,689,466** |
| **Total net balance sheet balance** | **(2,733,224)** | **22,773** | **46,354** | **3,477,604** | **813,507** |

## 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”.

<u>Description of parameters, assumptions and models:</u>

Parameters:

| Parameter | Source/Treatment Method |
|---|---|
| ILS/Dollar exchange rate | Representative rate as of March 31, 2020 |
| 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 | (18,209) | (9,539) | 162,500 | 10,526 | 22,179 |
| Loan to Energean as part of the sale of the Karish and Tanin leases | (4,380) | (2,247) | 69,400 | 2,369 | 4,868 |
| **Total** | **(22,589)** | **(11,786)** | **231,900** | **12,895** | **27,047** |

**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 E. of Part One and Note 1D to the financial statements attached below 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 | 23,289 | 13,823 | 7,125 | 5,435 | 162,500 | (2,190) | (4,510) | (13,168) | (19,716) |

| 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 | 8,520 | 8,224 | 4,129 | 2,069 | 162,500 | 1,244 | (891) | (4,917) | (6,511) |

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

| Sensitive Instrument | Profit/(Loss) from the Changes | | Fair Value | Profit/(Loss) from the Changes | |
|---|---|---|---|---|---|
| | 10% | 5% | | -5% | -10% |
| | **3.922** | **3.743** | **3.565** | **3.387** | **3.209** |
| Cash and cash equivalents | (2,073) | (1,037) | 20,731 | 1,037 | 2,073 |
| Bank deposits | (18) | (9) | 181 | 9 | 18 |
| Trade and other payables | 57 | 28 | (568) | (28) | (57) |
| **Total** | **(2,034)** | **(1,018)** | **20,344** | **1,018** | **2,034** |

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

| Dollar Interest | Profit/(Loss) from the Changes | | Fair Value | Profit/(Loss) from the Changes | |
|---|---|---|---|---|---|
| | 10% | 5% | | -5% | -10% |
| Financial derivative in respect of transactions for hedging against the LIBOR interest | 414 | 207 | (12,185) | (207) | (414) |
| Liability to banking corporations | (976) | (488) | (1,913,517) | 488 | 976 |
| Total | **(562)** | **(281)** | **(1,925,702)** | **281** | **976** |

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

## 1. <u>Subsequent events</u>

For material events after the date of the condensed statement of financial position, see Note 6 to the financial statements as of March 31, 2020, which are attached below.

## 2. <u>Critical accounting estimates</u>

No material change occurred in the Report Period compared with the report for 2019, except as stated in Note 2 to the financial statements attached below in connection with the update to the estimate used for the determination of the rate of impairment of the reservoirs of the Partnership.

## Part Four – Details of bonds issued by Delek & Avner (Tamar Bond) Ltd.[9] (in Dollars in thousands) and the issue of bonds by the Partnership (in ILS in thousands)

| **Bond Series**[10] | **2020**[11] | **2023** | **2025** |
|---|---|---|---|
| **Par value on issue date** | 400,000 | 400,000 | 400,000 |
| **Issue date** | May 19, 2014 | May 19, 2014 | May 19, 2014 |
| **Par value as of March 31, 2020** | 320,000 | 320,000 | 320,000 |
| **Linked par value as of March 31, 2020** | 320,000 | 320,000 | 320,000 |
| **Value in the Partnership's books as of March 31, 2020** | 316,017 | 313,759 | 312,334 |
| **Market cap as of March 31, 2020**[12] | 322,886 | 331,202 | 340,243 |
| **Fixed annual interest rate** | 4.435% | 5.082% | 5.412% |
| **Principal payment date** | December 30, 2020 | December 30, 2023 | December 30, 2025 |
| **Interest payment dates** | Semiannual interest payable on every June 30th and every December 30th from the issue date in 2014-2020 | 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**[13] | None | | |
| **Conversion right** | None | | |
| **Right to prepayment or mandatory conversion**[14] | Right to prepayment | | |

[9] A company wholly-owned by the Partnership.
[10] $80 million was 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.
[11] On June 14, 2020 Delek & Avner (Tamar Bond) Ltd. gave notice of its intention to make, on July 15, 2020, a partial prepayment of the third series of the Tamar Bond bonds in the sum total of $240 million. (See Section C of the First Part below).
[12] The bonds are traded in Israel on "TACT-Institutional" on TASE.
[13] The principal and interest of the bonds are in dollars.

| | |
|---|---|
| **Guarantee for payment of the liability** | See Note 10B to the financial statements attached below |
| **Name of the trustee** | HSBC BANK USA, NATIONAL ASSOCIATION |
| **Name of person in charge at the trust company** | Susie Mox |
| **Trustee's address and e-mail** | HSBC Bank USA, National Association, as TRUSTEE<br>452 5th Avenue, 8E6<br>New York, NY 10018<br>CTLANYDealManagement@us.hsbc.com |
| **Rating as of the issue date**[15] | Moody's: Baa3 Stable<br>S&P: BBB-<br>Midroog Ltd: Aa2 Stable<br>Standard & Poor's Maalot: ilAA |
| **Rating as of the report date**[16] | Moody's: Baa3 Negative<br>S&P: BBB-<br>Midroog Ltd: Aa2 Negative<br>Standard & Poor's Maalot: ilAA |
| **Has the company fulfilled, by March 31, 2020 and during the report year, all of the conditions and obligations under the indenture** | Yes |
| **Is the bond series material**[17] | 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. |

[14] 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.

[15] 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.

[16] See the Partnership's immediate reports of April 7, 2020 (Ref. No.: 2020-01-033091), of April 17, 2020 (Ref. No.: 2020-01-038931) and of May 4, 2020 (Ref. No.: 2020-01-039325), the information included in which is incorporated herein by reference.

[17] The 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, 2020 in ILS** | 1,528,533 |
| **Linked par value as of March 31, 2020 in ILS in thousands** | 1,426,871 |
| **Value in the Partnership's books as of March 31, 2020 in ILS in thousands** | 1,420,976 |
| **Market cap as of March 31, 2020 in ILS in thousands** | 1,220,839 |
| **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[18]** | Right to prepayment |
| **Guarantee for payment of the liability** | See Note 10D to the annual financial statements. |
| **Name of the trustee** | Reznik Paz Nevo Trusts Ltd. |
| **Name of person in charge at the trust company** | Adv. Michal Avtalion-Rishony |
| **Trustee's address and e-mail** | 14 Yad Harutzim St., Tel Aviv |
| **Rating as of the issue date[19]** | Midroog Ltd.: A1 stable |
| **Rating as of the report date[20]** | Midroog Ltd.: A2 (Credit Watch negative) |
| **Has the Partnership fulfilled, by March 31, 2020 and during the report year, all of the conditions and obligations under the indenture** | Yes |
| **Have any conditions establishing cause for acceleration of the bonds been fulfilled** | No |
| **Pledges to secure the bonds** | See Note 10D to the financial statements attached below. |
| **The Partnership's financial equity as of March 31, 2020, as defined in the indenture[21]** | Approx. $4,008 thousand |
| **The financial equity to debt ratio as of March 31, 2020, as defined in the indenture[13]** | Approx. 6 |
| **Is it material[22]** | Yes |

[18] 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.
[19] 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.
[20] For an updated rating report, see the Partnership's immediate report of June 5, 2020 (Ref. No.: 2019-01-057768), the information included in which is incorporated herein by reference.
[21] Included in accordance with the Partnership's undertaking on the date of the issue of the bonds – for further details, see Note 10D to the annual financial statements. The ratio was calculated, *inter alia*, based on the discounted cash flows of the Tamar project and of the Leviathan project as of December 31, 2019 that are included in Chapter A (Description of the Partnership's Business) of the annual reports.
[22] The 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.

## 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 2019 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)**

| | 31.3.2020 | 31.3.2019 | 31.12.2019 |
|---|---|---|---|
| | **Unaudited** | **Unaudited** | **Audited** |
| Assets: | | | |
| Current Assets: | | | |
| Short term Bank deposits | 131,783 | 68,541 | 63,249 |
| Interest receivable | 11,943 | 11,943 | - |
| Loans to Shareholders | 319,736 | - | 319,614 |
| | 463,462 | 80,484 | 382,863 |
| Noncurrent Assets: | | | |
| Loans to shareholders | 639,306 | 958,845 | 639,227 |
| Long term bank deposits | 102,845 | 100,682 | 102,419 |
| | 742,151 | 1,059,527 | 741,646 |
| | 1,205,613 | 1,140,011 | 1,124,509 |
| Liabilities and Equity: | | | |
| Current Liabilities: | | | |
| Interest Payable | 11,943 | 11,943 | - |
| Related parties | 134,628 | 69,223 | 65,667 |
| Bonds | 320,000 | - | 320,000 |
| | 466,571 | 81,166 | 385,667 |
| Noncurrent Liabilities: | | | |
| Bonds | 640,000 | 960,000 | 640,000 |
| Loans from shareholders | 100,000 | 100,000 | 100,000 |
| | 740,000 | 1,060,000 | 740,000 |
| Equity (Deficit) | (958) | (1,155) | (1,158) |
| | 1,205,613 | 1,140,011 | 1,124,509 |

**Statements of Comprehensive Income (Expressed in US$ Thousands)**

| | For the Three Month Ended 31.3.2019 | For the Three Month Ended 31.3.2019 | For the Period Ended 31.12.2019 |
|---|---|---|---|
| | **Unaudited** | **Unaudited** | **Audited** |
| Financial expenses | 12,666 | 12,760 | 51,005 |
| Financial income | (12,866) | (12,783) | (51,025) |
| Total comprehensive income | (200) | (23) | (20) |

## SPONSOR FINANCIAL DATA REPORT[23]
## Cash flow for the period from January 1, 2020 – March 31, 2020

| | | Delek Drilling LP |
|---|---|---|
| | Item | Quantity/Actual Amount (In thousands) |
| A. | Total Offtake (BCM) (100%)[24] | 2.0 |
| B. | Tamar Revenues (100%)[24] | 381,859 |
| C. | Loss Proceeds, if any, paid to Revenue Accounts | - |
| D. | Sponsor Deposits, if any, into Revenue Accounts | - |
| E. | Gross Revenues (before Royalties) | 102,711 |
| F. | Overriding Royalties | |
| | (a) Statutory Royalties | (11,849) |
| | (b) Third Party Royalties | (10,311) |
| G. | Net Revenues | 80,551 |
| H. | Costs and Expenses: | |
| | (a) Fees Under the Financing Documents – (Interest Income) | 308 |
| | (b) Taxes | - |
| | (c) Operation and Maintenance Expenses | (5,774) |
| | (d) Capital Expenditures | (6,536) |
| | (e) Payments under the Tamar FUA | - |
| | (f) Insurance | - |
| I. | Total Costs and Expenses (sum of Items H(a), (b), (c), (d), (e) and (f)) | (12,002) |
| J. | Total Cash Flows Available for Debt Service (Item G minus Item H) | 68,549 |
| K. | Total Debt Service (Interest Expense) | - |

[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 Tamar project relative to the amounts required for the debt service in such period.
[24] Sections A and B are based on 100% of Tamar partners.

# Annex B to the Board of Directors' Report

# Summary of Data on Testing for Impairment of Oil and Gas Assets

Further to Notes 1D and 3B6 to the financial statements attached below (the "**Notes**") regarding the spread of COVID-19 and its possible impact on the Partnership's business, the Partnership assessed the recoverable amount of its oil and gas assets (either separately or as a group of assets constituting a single cash-generating unit). The assessment of the recoverable amount was conducted by means of current value estimation and analyses of sensitivity to projected cash flows from the Partnership's oil and gas assets. The assessment was conducted by an independent outside appraiser, who assessed the recoverable amount as of March 31, 2020 by means of discounting the cash flow, based on the forecasts of cash flows from 2P reserves (proved reserves + probable reserves) from the Tamar reservoir as of December 31, 2019 and based on the forecasts of cash flows from 2P + 2C reserves (best estimate contingent resources including 2P reserves) from the Leviathan reservoir as of December 31, 2019, which the Partnership published on January 10, 2020 and January 13, 2020, respectively (the "**Cash Flow Forecasts**"), while applying adjustments that were defined by the outside appraiser with respect to the figures and assumptions taken in the Cash Flow Forecasts, further to the information provided in the Notes.

In accordance with such examination, the recoverable amount of the Partnership's petroleum assets is significantly higher (more than 25%) than the balance of the investment therein in the Partnership's books as of March 31, 2020, and accordingly, no provision for impairment is required.

It is noted that the Partnership examines the assumptions underlying the Cash Flow Forecasts, including the demand for natural gas in the local market and regional markets, the expected sales, the production costs and capital investments and the prices of natural gas and condensate, which as of the approval date of the report are not yet known, and is expected to publish updated resource reports which include updated discounted cash flow forecasts.

It is further clarified, that the assessment of the current value of the cash flows for the Tamar and Leviathan projects was performed solely with the aim of calculating the recoverable amount of the investment therein, according to GAAP, for the purpose of testing for impairment of the assets. Thus, there may be differences between the estimations specified in Sections 1 and 2 below and the estimations of the discounted cash flow forecasts which are expected to be published in the following weeks, which derive, *inter alia*, from the discounted cash flows also reflecting events and forecasts that materialized in the period subsequent to March 31, 2020.

**1. Details regarding the assessment of the current value of cash flows - for the Tamar project:**

| | |
|---|---|
| Identification of the object of the valuation: | Testing for impairment of oil and gas assets |
| Timing of the valuation: | March 31, 2020 |
| Value of the object of the valuation shortly before the date of the valuation, if GAAP, including depreciation and amortization, did | Not applicable |

| | |
|---|---|
| not warrant a change in its value according to the valuation: | |
| Value of the object of the valuation determined according to the valuation: | U.S. $1,311 million [25] [26] |
| 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. (the "**Valuator**") is a subsidiary of Giza Singer Even Ltd., which is a financial consulting firm with experience spanning 25 years of activity in the Israeli market.<br><br>The work was performed by a team headed by CPA Eitan Cohen, managing partner, who has more than 13 years of experience in economic and business consulting, company valuations and financial instruments. He formerly served as head of an economic department at KPMG (Somekh Chaikin). Eitan Cohen is an accountant holding a B.A. in Economics and Business Administration from Ben Gurion University and an M.A. in Financial Mathematics from Bar Ilan University.<br><br>The Valuator has no personal interest in and/or dependence on the Partnership, other than the fact that it received a fee for the testing for impairment, which is not contingent on the results of the work.<br><br>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 valuation, the Partnership shall pay the Valuator the amount charged to the Valuator net of the total consideration for the performance of the valuation |

[25] Following are the main sensitivity tests performed for the value of the object of the assessment: 1) a 1.5% rise in the discounting rate will reduce the value by approx. $154 million; 2) a 10% decrease in the annual production rate will reduce the value by approx. $119 million; and 3) a 10% decrease in the prices of natural gas will reduce the value by approx. $145 million.

[26] For the Partnership's direct holdings in the reservoir – at a rate of 22.00%.

| | |
|---|---|
| | multiplied by 3. |
| The valuation model applied by the Valuator: | Discounting of cash flows |
| The assumptions based on which the Valuator prepared the valuation according to the valuation model: | Application of adjustments and sensitivities to the projected cash flow as of December 31, 2019, according to market developments in Q1/2020. For details regarding main adjustments see Note 3B6 to the financial statements. |

**2. Details of the assessment of the current value of cash flows - for the Leviathan project:**

| | |
|---|---|
| Identification of the object of the valuation: | Testing for impairment of oil and gas assets |
| Timing of the valuation: | March 31, 2020 |
| 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: | U.S. $3,909 million[27] |
| 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: | As detailed in the table in Section 1 above |

[27] Following are the main sensitivity tests performed for the value of the object of the assessment: 1) a 1.5% rise of the discounting rate will reduce the value by approx. $411 million; 2) a 10% decrease in the annual production rate will reduce the value by approx. $307 million; and 3) a 10% decrease in the prices of natural gas will reduce the value by approx. $358 million.

| | |
|---|---|
| The valuation model applied by the Valuator: | Discounting of cash flows |
| The assumptions based on which the Valuator prepared the valuation according to the valuation model: | Application of adjustments and sensitivities to the projected cash flow as of December 31, 2019, according to market developments in Q1/2020. For details regarding main adjustments see Note 3B6 to the financial statements. |

Delek Drilling

# Condensed Interim financial statements 31.03.2020

**June 25, 2020**

**To**

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

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

**Dear Sir/Madam,**

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

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

Review report of June 25, 2020 on condensed financial information of the Partnership as of March 31, 2020, and for the three-month period then ended.

| | |
|---|---|
| Kost Forer Gabbay & Kasierer<br>Certified Public Accountants | Ziv Haft<br>Certified Public Accountants |

# Delek Drilling – Limited Partnership

# Condensed Interim Financial Statements as of March 31, 2020

# 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, 2020. 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, 2020**

# **in U.S. Dollars in Thousands**

# **Unaudited**

## **Contents**

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

*Introduction*

We have reviewed the accompanying financial information of Delek Drilling – Limited Partnership (the "**Partnership**") which includes the Condensed Statement of Financial Position as of March 31, 2020 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.

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.

*Highlight paragraph (drawing of attention)*

Without qualifying our aforementioned review, we draw attention to the provisions of Note 1D3 to the Condensed Interim Financial Statements in connection with the impact of the crisis on the financial markets and the significant decrease in the oil prices and its possible effect on the Partnership.

Tel Aviv, June 25, 2020

| | |
|---|---|
| **Kost Forer Gabbay & Kasierer**<br>**Certified Public Accountants** | **Ziv Haft**<br>**Certified Public Accountants** |

## Delek Drilling – Limited Partnership

## Condensed Interim Statements of Financial Position (Dollars in thousands)

| | 31.3.2020 | 31.3.2019 | 31.12.2019 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| **Assets:** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | 95,877 | 93,273 | 171,046 |
| Short-term investments | 176,022 | 204,707 | 63,459 |
| Trade receivables | 110,956 | 51,997 | 46,862 |
| Trade and other receivables | 61,538 | 74,266 | 86,881 |
| | 444,393 | 424,243 | 368,248 |
| **Non-current assets:** | | | |
| Investments in oil and gas assets | 3,467,859 | 2,964,045 | 3,429,178 |
| Investment in a company accounted for at equity | 75,000 | - | 74,995 |
| Long-term deposits in banks | 103,345 | 100,682 | 102,919 |
| Other long-term assets | 476,433 | 390,836 | 527,733 |
| | 4,122,637 | 3,455,563 | 4,134,825 |
| | 4,567,030 | 3,879,806 | 4,503,073 |
| **Liabilities and equity:** | | | |
| **Current liabilities:** | | | |
| Bonds | 319,565 | - | 319,421 |
| Liabilities to banking corporations | 1,986,511 | - | 296,867 |
| Provision for tax and balancing payments | - | - | 33,657 |
| Trade and other payables | 148,717 | 152,425 | 174,738 |
| | 2,454,793 | 152,425 | 824,683 |
| **Non-current liabilities:** | | | |
| Bonds | 1,032,079 | 1,348,388 | 1,031,410 |
| Long-term liabilities to banking corporations | - | 1,349,276 | 1,630,404 |
| Other long-term liabilities | 224,556 | 133,523 | 203,069 |
| | 1,256,635 | 2,831,187 | 2,864,883 |
| **Equity:** | | | |
| Partnership's equity | 154,791 | 154,791 | 154,791 |
| Capital reserves | (66,728) | 15,742 | (24,851) |
| Retained earnings | 767,539 | 725,661 | 683,567 |
| | 855,602 | 896,194 | 813,507 |
| | 4,567,030 | 3,879,806 | 4,503,073 |

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

| June 25, 2020 | | | |
|---|---|---|---|
| Date of approval of the financial statements | Gabi Last<br>Chairman of the Board<br>Delek Drilling Management (1993) Ltd.<br>General Partner | Yossi Abu<br>CEO<br>Delek Drilling Management (1993) Ltd.<br>General Partner | Yossi Gvura<br>Deputy CEO<br>Delek Drilling Management (1993) Ltd.<br>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 |
|---|---|---|---|
| | 31.3.2020 | 31.3.2019 | 31.12.2019 |
| | Unaudited | Unaudited | Audited |
| **Revenues:** | | | |
| From natural gas and condensate sales | 225,189 | 117,739 | 453,344 |
| Net of royalties | 38,510 | 23,380 | 94,318 |
| | 186,679 | 94,359 | 359,026 |
| **Expenses and costs:** | | | |
| Cost of production of natural gas and condensate | ,23858 | 9,980 | 40,731 |
| Depreciation, depletion and amortization expenses | 24,574 | 10,953 | 67,581 |
| Petroleum and gas exploration expenses and other direct expenses | 1,315 | 3,344 | 14,298 |
| G&A | 2,641 | 2,517 | 11,130 |
| **Total expenses and costs** | 52,388 | 26,794 | 133,740 |
| Other expenses | - | (474) | (474) |
| Partnership's share of earnings (losses) of company accounted for at equity, net | 5 | (36,640) | (36,645) |
| **Operating income** | 134,296 | 30,451 | 188,167 |
| Financial expenses | (52,602) | (11,037) | (47,487) |
| Financial income | 2,573 | 21,500 | 78,390 |
| Financial income (expenses), net | (50,029) | 10,463 | 30,903 |
| **Profit before levy** | 84,267 | 40,914 | 219,070 |
| Petroleum and gas profit levy | - | (922) | 4,620 |
| **Net profit** | 84,267 | 39,992 | 223,690 |
| **Other comprehensive loss:** | | | |
| **Amounts which may subsequently be reclassified to profit or loss:** | | | |
| Loss from cash flow hedging transactions | (6,486) | (1,641) | (5,150) |
| Carried to profit or loss for cash flow hedging transactions | (42) | (594) | (1,830) |
| | (6,528) | (2,235) | (6,980) |
| **Amounts which shall not subsequently be reclassified to profit or loss:** | | | |
| Loss from investment in equity instruments designated for measurement at fair value through other comprehensive income | (35,975) | (3,249) | (41,256) |
| **Total other comprehensive loss** | (42,503) | (5,484) | (48,236) |
| **Total comprehensive income** | 41,764 | 34,508 | 175,454 |
| Basic and diluted profit per participation unit (in dollars) | 0.072 | 0.034 | 0.191 |
| 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.**

**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 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 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, 2019:** | | | | | | |
| **Balance as of January 1, 2019 (audited)** | 154,791 | 1,631 | 15,002 | 4,377 | 679,303 | 855,104 |
| Net profit | - | - | - | - | 39,992 | 39,992 |
| Other comprehensive loss | - | - | - | (5,484) | - | (5,484) |
| Total comprehensive income (loss) | - | - | - | (5,484) | 39,992 | 34,508 |
| Profits distributed | - | - | - | - | (4) | (4) |
| Refund of advance tax payments on account of the tax owed by the participation unit holders | - | - | - | - | 6,370 | 6,370 |
| Capital reserve for benefits from a control holder | - | - | 216 | - | - | 216 |
| **Balance as of March 31, 2019** | 154,791 | 1,631 | 15,218 | (1,107) | 725,661 | 896,194 |

**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, 2019:** | | | | | | |
| **Balance as of January 1, 2019** | 154,791 | 1,631 | 15,002 | 4,377 | 679,303 | 855,104 |
| Net profit | - | - | - | - | 223,690 | 223,690 |
| Other comprehensive loss | - | - | - | (48,236) | - | (48,236) |
| Total comprehensive income (loss) | - | - | - | (48,236) | 223,690 | 175,454 |
| Profits distributed | - | - | - | - | (150,354) | (150,354) |
| Tax payments and balancing payments declared | - | - | - | - | (33,502) | (33,502) |
| Provision for balancing payments in respect of previous years | - | - | - | - | (12,300) | (12,300) |
| Advance tax payments on account of the tax owed by the participation unit holders | - | - | - | - | (23,270) | (23,270) |
| Capital reserve for benefits from a control holder | - | - | 2,375 | - | - | 2,375 |
| **Balance as of December 31, 2019** | 154,791 | 1,631 | 17,377 | (43,859) | 683,567 | 813,507 |

**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 |
|---|---|---|---|
| | 31.3.2020 | 31.3.2019 | 31.12.2019 |
| | Unaudited | | Audited |
| **Cash flows – operating activities:** | | | |
| Profit for the period | 84,267 | 39,992 | 223,690 |
| Adjustments for: | | | |
| Depreciation, depletion and amortization | 26,370 | 11,406 | 69,719 |
| Change in the fair value of financial derivatives, net | 176 | 37 | 373 |
| Update of asset retirement obligations | 2,270 | 729 | 4,637 |
| Revaluation of short-term and long-term investments and deposits | (426) | (1,655) | (2,666) |
| Expenses (income) due to revaluation of share-based payment | (23) | 227 | (154) |
| Benefit from control holder included in expenses against a capital reserve | 626 | 216 | 2,375 |
| Revaluation of other long-term assets | (143) | (17,858) | (57,458) |
| Partnership's share of losses (earnings) of company accounted for at equity, net | (5) | 36,640 | 36,645 |
| **Changes in assets and liabilities items:** | | | |
| Increase in trade receivables | (64,094) | (6,516) | (1,381) |
| Decrease (increase) in trade and other receivables | 171 | (1,062) | 337 |
| Decrease (increase) in other long-term assets | (990) | 2,149 | (4,552) |
| Increase (decrease) in trade and other payables | 22,402 | 6,502 | (14,943) |
| Decrease in other long-term liabilities | (1,037) | (125) | (2,604) |
| | (14,703) | 30,690 | 30,328 |
| **Net cash deriving from operating activities** | 69,564 | 70,682 | 254,018 |
| **Cash flows - investment activity:** | | | |
| Investment in oil and gas assets | (88,795) | (185,655) | (609,926) |
| Investment in other long-term assets | (10,379) | (9,628) | (140,523) |
| Repayment of a loan given | 14,843 | 15,342 | 15,342 |
| Investment in a company accounted for at equity | - | - | (75,000) |
| Decrease (increase) in short-term investments, net | (112,563) | (17,500) | 124,150 |
| Deposit in long-term deposits in banks | - | (39,800) | (41,428) |
| Change in respect of operator of joint ventures | 24,981 | 33,651 | 23,843 |
| **Net cash used for investment activity** | (171,913) | (203,590) | (703,542) |
| **Cash flows - financing activity:** | | | |
| Receipt of loans from banking corporations (net of raising expenses) | 61,782 | 110,615 | 688,136 |
| Profit, tax and balancing payments distributed | (33,825) | (34,689) | (185,902) |
| Payments on account of the tax owed by participation unit holders | - | - | (31,919) |
| Refunds received from Income Tax for previous years, net | - | 6,370 | 6,370 |
| Decrease in long-term liabilities | (777) | - | - |
| **Net cash deriving from financing activity** | 27,180 | 82,296 | 476,685 |
| **Increase (decrease) in cash and cash equivalents** | (75,169) | (50,612) | 27,161 |
| **Balance of cash and cash equivalents as of beginning of period** | 171,046 | 143,885 | 143,885 |
| **Balance of cash and cash equivalents as of end of period** | 95,877 | 93,273 | 171,046 |
| **Annex A – Non-cash flow financing and investment activity:** | | | |
| Investments in oil and gas assets against liabilities | 45,483 | 78,236 | 150,156 |
| Balancing payments and advance tax payments on account of the participation unit holders | - | - | 33,502 |
| Provision for balancing payments in respect of previous years | - | - | 12,300 |
| **Annex B – Additional information on cash flows:** | | | |
| Interest paid (including capitalized interest) | 34,280 | 21,231 | 166,291 |
| Interest received | 1,405 | 2,141 | 8,857 |
| Dividend received | - | - | 9,040 |

**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., Accountants, and Adv. Uri Keidar on behalf of Keidar Supervision and Management (jointly: the "**Supervisor**") (also see Note 4N below).

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

**B.** On December 31, 2019, the piping of natural gas from the Leviathan reservoir to the domestic market began, and on January 1, 2020 and January 15, 2020, the piping of natural gas began to Jordan and to Egypt, respectively.

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, aiming to increase the sales volume of natural gas from the Partnership's assets. Concurrently, the Partnership is examining business opportunities in the field of exploration, development and production of natural gas and oil in the Mediterranean Basin. According to the provisions of the Gas Framework (see Note 12L1 to the financial statements as of December 31, 2019 (the "**Annual Financial Statements**"), the Partnership is required to transfer by December 2021 all of its interests in the Tamar I/12 and Dalit I/13 leases (jointly: the "**Tamar and Dalit Leases**"). Therefore, as of the date of approval of the Condensed Interim Financial Statements, the Partnership is examining and promoting several alternatives, including the sale of its holdings in the Tamar and Dalit Leases to a third party, or a possible split of the Partnership's assets, such that the assets and the liabilities attributed to the Tamar and Dalit Leases or all of the Partnership's assets and liabilities that are not attributed to the Tamar and Dalit Leases, shall be transferred to a public corporation, either Israeli or foreign, whose shares will be distributed to the holders of the participation units. For details regarding a possible outline for a split of the Partnership's assets, which is being examined by the Partnership, see Note 1F to the Annual Financial Statements.

**C.** The Partnership's Condensed Interim Financial Statements should be read together with the Annual Financial Statements. Accordingly, notes regarding updates that are insignificant relatively to information already reported in the notes to the Annual Financial Statements were not included in these Condensed Interim Financial Statements.

## Note 1 – General (Cont.):

### D. The spread of COVID-19 and the possible effect thereof on the Partnership's business:

1. General

   Further to Note 1G to the Annual Financial Statements regarding the spread of COVID-19 and its possible impact on the Partnership's business, during Q1/2020 the international markets have recorded steep drops in the prices of oil and natural gas, which, in the Partnership's estimation, are attributable to the COVID-19 crisis, as well as additional causes and factors that affect the demand for and supply of energy products. Insofar as the COVID-19 crisis endures and the slowdown in the global economy continues, it is expected to continue to adversely affect the level of demand for and prices of energy products.

2. Impact on the Israeli market

   From mid-March 2020 to the date of approval of the Condensed Interim Financial Statements, a drop in demand has been recorded with a corresponding decrease in the sales of natural gas produced from the Leviathan and Tamar reservoirs (the "**Reservoirs**"), relative to previous forecasts of the Partnership. As of the date of approval of the Condensed Interim Financial Statements, the scope and duration of the COVID-19 crisis cannot be estimated, and it is therefore difficult at this stage to assess its impact on the demand and the sales from the Reservoirs in the coming years.

   Insofar as the COVID-19 crisis endures, it may have an adverse effect on the Partnership and harm various aspects of its business, and *inter alia*, cause a decrease in the demand for energy products and a decrease in the prices of oil and natural gas in the international and domestic markets, reduce the demand for natural gas in the markets relevant to the Partnership and negatively affect the Partnership's revenues from the Reservoirs, as well as negatively affect the financial soundness of the Partnership's customers and partners and Delek Group, the control holder of the Partnership.

   It is noted that, as of the date of approval of the Condensed Interim Financial Statements, the operation of the reservoirs and the implementation of the gradual ramp-up of the Leviathan reservoir production capacity have not been adversely affected. It is further noted that both Noble and the Partnership are defined as enterprises listed in the excluded industries under the Emergency Regulations (Restriction of the number of Workers at the Workplace to Reduce the Spread of Novel Coronavirus), 5780-2020.

   On the testing for impairment of the Partnership's oil and gas assets, see Note 3B6 below.

**Note 1 – General (Cont.):**

**D. The spread of COVID-19 and the possible effect thereof on the Partnership's business (Cont.):**

3. Possible effects on the Partnership's financial condition

The Partnership has liabilities to banking corporations and bondholders (principal and interest) in the 12-month period following the date of release of the financial statements which amount to approx. $2.4 billion. The continuation of the COVID-19 crisis and the economic crisis may, *inter alia*, impair the Partnership's ability to raise funds for refinancing of the debt; cause default events which will establish for lenders grounds for acceleration of the Partnership's loans, adversely affect the Partnership's ability to repay its liabilities, and more. Furthermore, as of the date of the Condensed Interim Financial Statements, the Partnership has a working capital deficit of approx. $2,010.4 million, which primarily derives from current maturities of liabilities to banking corporations and the bonds of Tamar Bond in a total scope of approx. $2.3 billion. It is noted that as of date of the date[sic] of the Condensed Interim Financial Statements, the Partnership has security cushions to secure the repayments of the bonds of Tamar Bond and Leviathan Financing in the sum of approx. $234 million and approx. $44 million, respectively.

Against the backdrop of the COVID-19 crisis and the sharp declines in energy prices worldwide and in the prices of the securities of the Delek Group and corporations held thereby, including the Partnership's participation units, Delek Group reported in the past months that events have occurred in credit facilities and loans provided to Delek Group and the HQ companies thereof, which provide lenders, *inter alia*, with grounds for acceleration of the loans, which has caused, *inter alia*, the acceleration of a debt to a foreign banking corporation, following which approx. 4.99% of the participation unit capital that had been pledged to secure such debt were liquidated by way of sale of the units to a third party. Following such disposition, the holding rate of Delek Group in the Partnership's issued unit capital decreased and is approx. 54.7% as of the date of approval of the Condensed Interim Financial Statements.

To the best of the Partnership's knowledge and pursuant to the reports of Delek Group, as of the date of approval of the Condensed Interim Financial Statements, most of Delek Group's participation unit holdings are pledged in favor of banks to secure loans and loan facilities.

It is further noted that the auditors' opinion on the 2019 financial statements of Delek Group, as released on May 3, 2020, included a 'going concern' note.

**Note 1 – General (Cont.):**

**D. The spread of COVID-19 and the possible effect thereof on the Partnership's business (Cont.):**

According to the reports of Delek Group, aiming to prevent the acceleration of its debts and the institution of proceedings under the Insolvency and Financial Recovery Law, 5778-2018, Delek Group conducted negotiations with its creditors and reported in June 2020 that it had reached understandings with the holders of the bonds issued thereby with respect to an amendment to the indentures of the bonds, whereby Delek Group has undertaken, *inter alia*, to raise capital and to provide collateral in favor of the bondholders, including a pledge of the Partnership's participation units. Concurrently with such amendment of the indentures, Delek Group further reported, *inter alia*, that understandings had been reached with respect to a standstill with various banks that had provided credit and loans to Delek Group and its subsidiaries, whereby Delek Group has undertaken, *inter alia*, to provide the banks with a pledge of its shareholdings in "Delek" the Israeli Fuel Company Ltd. and act to sell such shares for the purpose of repaying the debt to the banks.

It is clarified that the understandings reached between Delek Group and its creditors as set forth above include material obligations by Delek Group, in the event of breach of any of which the creditors or any of them may have grounds to accelerate the debts and enforce the collateral provided to secure the same, which may have a material adverse effect on the Partnership and its business.

It is noted in this context that the Partnership's financing agreements list events that grant the lenders the right to accelerate the loans, including an event where the rate of Delek Group's (direct and indirect) holdings of the Partnership's participation units falls below 45%. For further details, see also Note 10 to the Annual Financial Statements.

The Partnership's management has presented to the board of the General Partner all of the sources that may be used by the Partnership in order to comply with its liabilities in the coming years, including the Partnership's projected revenues from the Tamar and Leviathan projects, the projected cash flow from royalties and loan repayment from the sale of the I/16 Tanin and I/17 Karish leases, the balance of cash and short-term and long-term deposits in the sum of approx. $374 million accrued in the Partnership's coffers as of the date of the Condensed Interim Financial Statements, which are designated for operating activities and for the repayment of its liabilities, a plan for obtaining funds in significant amounts by means of issuing bonds and/or by means of a loan from financial corporations, in the context of refinancing of the Leviathan project, which is based on discussions with rating agencies and prospective lenders, the Partnership's plans for sale of its direct and indirect holdings in the Tamar project in accordance with the provisions of the Gas Framework, as well as the possible course available to the Partnership of capital raising by way of a rights offering in a sum of up to $300 million.

**Note 1 – General (Cont.):**

**D. The spread of COVID-19 and the possible effect thereof on the Partnership's business (Cont.):**

The board of the General Partner of the Partnership, having examined the projected sources and uses report (the "**Projected Report**") presented thereto by the Partnership's management, under various scenarios, which report is based, *inter alia*, on assumptions, assessments, estimates and forecasts with respect to the Partnership's projected revenues, projected investments in the various projects and the budgets of the operations, a plan for the disposition of all of the Partnership's holdings in the Tamar project, as well as a plan for raising debt based on the Leviathan reservoir, gained the impression that based, *inter alia*, on past experience, the Partnership's proven abilities in raising money in the past years and the Partnership's assets, the underlying assumptions of the Projected Report are reasonable. The board of the General Partner of the Partnership also believes that the Partnership will be able to find possible financing sources for the purpose of repaying its liabilities and/or to reach understandings with preexisting lenders on the extension of the repayment dates of the loans before the final due date thereof.

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

**F.** 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. Change of estimate – oil and gas exploration, development of proven reservoirs and investment in oil and gas assets**:

In Q1/2020, the Partnership made a change in the estimate of the reserves used as a basis for the depreciation of oil and gas assets.

As noted in Note 2N1E to the Annual Financial Statements, up to and including December 31, 2019, the Partnership depreciated its oil and gas assets as follows: The cost of drilling was depreciated according to the production unit method based on proved and developed reserves, and the costs of the additional components (such as the platform, pipelines and production facilities) were depreciated according to the production unit method based on proved reserves.

In Q1/2020, *inter alia* in view of the experience accumulated by the Partnership over the years of operation of the Tamar reservoir, and the accepted practice in the world with respect to the depreciation of oil and gas assets, the Partnership examined the basis of the depreciated reserves and reached the conclusion that the depreciation of assets according to the production unit method and based on proved + probable reserves ("**2P**") in lieu of proved reserves only, will better reflect the pattern of projected use of the asset.

**Note 2 - Significant Accounting Policies (Cont.):**

**A. Change of estimate – oil and gas exploration, development of proven reservoirs and investment in oil and gas assets (Cont.):**

In the Partnership's estimation, depreciation of the oil and gas assets based on proved and probable reserves (2P) enhances the comparativeness between the Partnership's results and the results of similar companies in Israel and the world (*inter alia*, the Partnership's benchmark companies), fairly presents the management's assessments in relation to the use of the asset, is consistent with the information the Partnership provides to the various investors and is also consistent with the accounting treatment in other transactions that are related to oil and gas assets, such as valuations, value impairment examinations and directives designated for the oil and gas industry.

In accordance with the depreciation based on proved and probable reserves, the estimate of future investments (in non-discounted values) required to produce such reserves is added to the book value (only for the purpose of calculating the depreciation costs), with the 2P reserves estimate taken into account in the denominator. This sum is multiplied by the amount of gas produced during the period.

The estimate change was made for all of the Partnership's oil and gas assets and implemented henceforth. The effect of the estimate change on the financial statements for 2020 is expected to lead to a decrease in depreciation expenses of approx. $12.8 million, of which approx. $7.6 million are attributed to the Leviathan reservoir, which commenced commercial production in Q1/2020.

**B. Initial application of amendments to existing accounting standards:**

Amendments to IFRS 7, IFRS 9 and IAS 39

In September 2019, the IASB published amendments to IFRS 9 Financial Instruments, to IFRS 7 Financial Instruments: Disclosures, and to IAS 39 Financial Instruments: Recognition and Measurement (the "**Amendment**").

The Amendment provides temporary relief for companies that apply hedge accounting based on the IBORs and are affected by the uncertainty surrounding the expected reform in the benchmark interest rates. This reform in interest rates is leading to uncertainty with respect to dates and amounts that are relevant to future cash flows relating to both hedging instruments and hedged items.

The Amendment had no impact on the Partnership's financial statements as of January 1, 2020, since, as of the report date, it performs hedging transactions that are based on the IBORs interest rate, which are not affected by the timing of the reform.

**Notes to the Condensed Interim Financial Statements as of March 31, 2020 (Dollars in thousands)**

**Note 3 – Investments in Oil and Gas Assets:**

**A. Composition**:

| | 31.3.2020 | 31.3.2019 | 31.12.2019 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| **Oil and gas assets:** | | | |
| Michal-Matan (Tamar project) | 853,872 | 862,104 | 849,733 |
| Ratio-Yam (Leviathan project) | 2,492,925 | 1,986,201 | 2,461,826 |
| Yam Tethys | - | 571 | - |
| | 3,346,797 | 2,848,876 | 3,311,559 |
| **Evaluation and exploration assets:** | | | |
| Block 12 Cyprus | 116,879 | 115,169 | 116,435 |
| New Ofek | 3,670 | - | 671 |
| New Yahel | 513 | - | 513 |
| | 121,062 | 115,169 | 117,619 |
| **Total** | 3,467,859 | 2,964,045 | 3,429,178 |

**B. Developments in investments in oil and gas assets**:

1. Further to Note 7C2D to the Annual Financial Statements, with respect to the gradual ramp-up of the production capacity from the Leviathan project up to approx. 1,200 MMCF per day by means of running-in and operating the turbo expander systems, it is noted that, in the estimation of Noble Energy Mediterranean Ltd. ("**Noble**"), the operator of the Leviathan project, the production capacity from the Leviathan project is expected to reach approx. 1,200 MMCF, after the operation of the turbo expander systems in Q3/2020. In this context it is noted that on May 31, 2020, Noble received an order from the Petroleum Commissioner whereby all activity in the turbo expander systems must be halted until completion of an examination of the rig systems by the Ministry of Energy and its consultants. In the estimation of the operator, such examination will be completed in the following weeks.

2. In the estimation of the operator in the Leviathan project, construction of the condensate storage facility at the Hagit site will be completed in Q3/2020.

3. During the initial stages of activity of the Leviathan project, operating events were recorded at the Leviathan rig, which the operator is examining with the aim of improving the regularity and continuity of production. As the operator has informed, such operating events had a negligible effect on the ability to meet demand, and the environmental data, *inter alia*, from the onshore monitoring systems, indicated that there was no adverse effect on the environment. In accordance with the operator's update, the up time of the Leviathan project is higher than 95% and is on par with or exceeds the performance of similar facilities in the world which are at the same stage as the Leviathan project.

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

### B. Developments in investments in oil and gas assets (Cont.):

4. Further to Note 7C6 to the Annual Financial Statements in relation to the submission of an appeal to the Minister of Energy from the Petroleum Commissioner's decision not to extend the term of the Alon D license, it is noted that on April 12, 2020, the Minister of Energy denied the appeal and determined that the license holders had not complied with their obligations to conduct an environmental survey and the license should therefore not be extended. On June 18, 2020 the partners in the license filed a petition with the Supreme Court, seated as the High Court of Justice. In the petition, the Court was moved to issue an *order nisi* ordering the Minister and the Petroleum Commissioner to give reasons why the Minister's decision denying the appeal should not be revoked; why the license should not be extended or the license holders not be granted a substitute license in its stead; and why the license holders should not be allowed to realize their economic interest in the natural gas from the Karish North reservoir, part of which lies within the license area. A motion was also made for an interim order preventing the expiration of the license, and alternatively prohibiting the launch of a competitive process for a new license for the license area (or part thereof) or the grant of such license to a third party pending a decision on the petition, and a preliminary order pending a decision on the motion for interim order. On the same day, a decision was issued ordering the Minister and the Petroleum Commissioner to file their response to the motion for interim order by June 28, 2020.

   In this decision, the court denied the motion for a preliminary order, and the license thus expired on June 21, 2020. On June 23, 2020, the Ministry of Energy declared a competitive process for the granting of a license for natural gas and oil exploration for the area over which the Alon D license extends. On June 24, 2020, the partners in the Alon-D license filed a notice with the court in which they updated that the Ministry of Energy had launched the competitive process as aforesaid, claiming that the need for an interim order is reinforced thereby, and moving the court to schedule a date for a hearing of the motion.

5. Further to Note 7C7 to the Annual Financial Statements in connection with the submission of an application by the partners in the licenses to the Petroleum Commissioner (the "**Commissioner**") for extension of the licenses, on April 5, 2020 (after the date of the Condensed Interim Financial Statements), approval was received from the Commissioner for extension of the New Ofek/405 and New Yahel/406 licenses until June 20, 2021.

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

**B. Developments in investments in oil and gas assets (Cont.)**:

6. Further to Note 1D above (the "**Note**") regarding the spread of COVID-19 and its possible impact on the Partnership's business, the Partnership assessed the recoverable amount of its oil and gas assets (either separately or as a group of assets constituting a single cash-generating unit). The assessment of the recoverable amount was conducted by means of current value estimation and analyses of sensitivity to projected cash flows from the Partnership's oil and gas assets. The assessment was conducted by an independent outside appraiser, who assessed the recoverable amount as of March 31, 2020 by means of discounting the cash flow, based on the forecasts of cash flows from 2P reserves (proved reserves + probable reserves) from the Tamar reservoir as of December 31, 2019 and based on the forecasts of cash flows from 2P + 2C reserves (best estimate contingent resources including 2P reserves) from the Leviathan reservoir as of December 31, 2019, which the Partnership published on January 10, 2020 and January 13, 2020, respectively (the "**Cash Flow Forecasts**"), while applying adjustments with respect to the figures and assumptions taken in the Cash Flow Forecasts.

   The principal adjustments included, *inter alia*:

   a. An update of the condensate and gas price forecast, *inter alia*, in view of: (i) an update of the Brent barrel price forecast according to an average of the Brent price of third parties, including the World Bank, the U.S. Department of Energy, and the consulting company Global Insight IHS ,which were published in proximity to the date of the report, for the years 2020-2030, and increase thereof by 2% per year starting from 2030; (ii) an update of the Electricity Production Tariff based, *inter alia*, on the ILS-$ exchange rate and on the fuel cost forecast which is based on the price of gas to Israel Electric Corp.; (iii) up-to-date domestic market natural gas demand forecasts, based on a third party's domestic market natural gas demand forecast.

   b. Reduction of the annual sale quantities, as described below, based on:

      - An up-to-date domestic market demand forecast in proximity to the date of the aforesaid examination;

      - A reduction of the sale quantities under the Dolphinus agreements (see Note 12C1C and Note 12C2F to the Annual Financial Statements) to 50% of the annual contractual quantity in years in which the updated forecast of the average daily price of a Brent barrel is lower than $50;

   c. Adjustment of depreciation expenses for tax purposes to be used by a prospective buyer;

   d. Use of a weighted cap rate (WACC) (after tax) of approx. 10.2% in the reservoir and Tamar[sic] and 11.2% in the Leviathan reservoir.

   In accordance with such examination conducted for the Tamar reservoir and the Leviathan reservoir, the recoverable amount of the Partnership's petroleum assets is significantly higher (more than 25%) than the balance of the investment therein in the Partnership's books as of March 31, 2020, and accordingly, no provision for impairment is required.

## Note 4 – Additional Information:

**A.** Further to Note 12K7 to the Annual Financial Statements with respect to an appeal filed with the Supreme Court by some of the Tamar partners (in this section: the "**Appellants**") from the judgment of the Tel Aviv District Court that rejected the administrative petition they had filed against the IEC and the Leviathan partners in relation to the bid of the Leviathan partners being chosen as the winning bid in the competitive process for the supply of natural gas to the IEC (in this section: the "**Appeal**"), it is noted that on April 23, 2020, the IEC and the Leviathan partners filed their summations, whereby the Appeal should be denied, first and foremost because, in the documents of the competitive process, the IEC had reserved the right to consider the gamut of the advantages of every bid beyond the price. On May 7, 2020 the Appellants filed the reply summations on their behalf. On May 21, 2020, a hearing of the Appeal was held, at which the parties notified the court that advanced negotiations are being conducted between them for a settlement, and at the parties' request, the court decided to grant an extension for the reaching of agreements, ruling that insofar as the parties fail to reach an agreement, a judgment will be issued thereby.

**B.** Further to Note 12C1B9 to the Annual Financial Statements regarding amendments to the agreement with Israel Electric Corp. Ltd. (the "**IEC**"), which were proposed in the course of 2019 by the Partnership and some of the Tamar partners, on April 13, 2020 (after the date of the Condensed Interim Financial Statements), a notice was released by representatives of the Ministry of Energy, the Economic Unit at the Department of Counseling and Legislation at the Ministry of Justice, the Ministry of Finance and the Competition Authority (the "**Regulators**"), whereby, *inter alia*, the Tamar partners have been given a short period of time to amend the arrangements that apply between them in a manner which shall ensure that the Partnership, Noble and Isramco Negev 2 - Limited Partnership do not hold a right to veto decisions on the marketing of natural gas from the Tamar reservoir.

On May 27, 2020, the partners in the Tamar project submitted for the Regulators' approval agreed principles for joint marketing from the Tamar reservoir (the "**Marketing Arrangement**"), which determines that the partners in the Tamar reservoir will continue the joint marketing of natural gas from the Tamar reservoir. The Marketing Arrangement includes various arrangements and mechanisms in connection with securing the parties' interests and improvement of the competitive position of the Tamar reservoir in the marketing of natural gas to customers in the domestic market. Such arrangements and mechanisms determine, *inter alia*, the manner of and parameters for the conduct of negotiations with customers in the domestic market on certain commercial matters pertaining to price, price linkage and Take or Pay levels standard in the domestic market, with no participation on the part of the partners in the reservoir that hold other producing petroleum assets, as well as the parameters and conditions for engagements with customers in the domestic market in agreements for the sale of natural gas.

The partners in the Tamar reservoir also informed the Regulators that they have reached in-principle understandings between them and with the Leviathan partners in connection with the issues that were in dispute between them in connection with the agreements for the sale of natural gas to the IEC, and that advanced discussions are being held with the IEC in connection with the implementation of the said understandings.

**Note 4 – Additional Information (Contd.):**

**B. (Contd.):**

As of the date of approval of the Condensed Interim Financial Statements, the said principles have not yet been approved by the Regulators, and the discussions with the IEC in connection with implementation of the said understandings have not yet ended. Therefore, there is no certainty that the principles as aforesaid will be accepted by the Regulators and that the said understandings will evolve into a binding agreement.

**C.** On May 24, 2020 (after the date of the Condensed Interim Financial Statements), 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 the exemption from approval of a restrictive arrangement for arrangements between the Tamar partners and their customers, canceling 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.

**D.** In March 2020, draft regulations on behalf of the Ministry of Finance regarding advance payments in respect of the petroleum profit levy were released for public comment, which include, *inter alia*, the duty to pay a petroleum profit levy on any lease with commercial production, unless the Tax Assessing Officer is convinced that no liability will apply in the tax year. As of the date of approval of the Condensed Interim Financial Statements, the final regulations have not yet been released.

**E.** On April 23, 2020 (after the date of the Condensed Interim Financial Statements), a class action and a motion for the certification thereof as a class action suit (the "**Certification Motion**") were filed with the Economic Department of the District Court of Tel Aviv by a person claiming to hold participation units of the Partnership (the "**Petitioner**"). The action and the Certification Motion were filed against the Partnership, Delek Drilling Management (1993) Ltd. (the "**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 (the "**Respondents**").

It is claimed in the Certification Motion that the Respondents refrained from disclosing in the Partnership's reports the existence of a stipulation in the agreements for the sale of natural gas from the Leviathan and Tamar reservoirs to Dolphinus Holdings Limited (the "**Sale Agreements**" and the "**Buyer**", respectively), whereby in a year in which the average daily price of a Brent Barrel (as defined in the Sale Agreements) falls below $50 dollars per barrel, the Buyer may reduce the minimum annual quantity which is bought under the Sale Agreements to 50% of the annual contractual quantity (for details about the Sale Agreements, see Notes 12C1C and 12C2F to the Annual Financial Statements). According to the Petitioner, the alleged disclosure failure in the Partnership's reports gives rise to causes of action under various sections of the Securities Law, 5728-1968, the tort of breach of statutory duty and the tort of negligence.

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

### E. (Contd.):

The main remedy sought by the Certification Motion is compensation of the class the Petitioner intends to represent for the alleged damage caused thereto, which is estimated, according to an opinion attached to the Certification Motion, at approx. ILS 55.5 million. Furthermore, the Petitioner petitions for the Court to award the class any other remedy deemed fit thereby in the circumstances of the case. It is noted that according to the Court's decision of June 23, 2020, the Respondents are required to file a response to the Certification Motion by October 1, 2020, and the Petitioner is required to file a reply to the Respondents' response two months later. In the Partnership's estimation, based on the opinion of its legal counsel, chances of the Certification Motion being granted are less than 50%.

**F.** In Q1/2020 and up to a date proximate to the date of approval of the Condensed Interim Financial Statements, the Leviathan partners entered into several agreements for the supply of natural gas to the domestic market, including an agreement for the supply of natural gas in a non-material quantity with the operator of a power plant to be built near the seawater desalination facility on the Sorek B site.

**G.** As of the date on which gas supply from the Leviathan reservoir commenced, the Leviathan partners are paying the State advance payments on account of the State's royalties for revenues from the Leviathan project at a rate of 11.26% according to a demand letter received from the Ministry of Energy in January 2020.

**H.** Further to Note 12L4 to the Annual Financial Statements regarding the publication for public comment of draft directives on the method for calculation of the royalty value at the wellhead, in May 2020 (after the date of the Condensed Interim Financial Statements), a discussion, attended by the representatives of the Ministry of Energy, the Leviathan partners and the Tamar partners, was held in relation to comments that partners had submitted to the language of such draft directives. In June 2020 the Director of Natural Resources at the Ministry of Energy published the final version of such directives. The directives further prescribe that the Commissioner shall, from time to time, issue every lease holder with specific orders for every lease, which will specify the tax-deductible expenses, for the purpose of calculating the royalty, in accordance with the specific characteristics of the lease. As of the date of approval of the Condensed Interim Financial Statements, such specific directives were not yet published.

**I.** Further to Note 8B to the Annual Financial Statements regarding an agreement for the sale of rights in the I/17 Karish and I/16 Tanin leases (collectively: the "**Leases**"), in April 2020, Energean released an update pertaining to the volume of the resources attributed to the "Karish North" reservoir, which is in the area of the I/17 Karish lease, whereby in the "Karish North" well there are resources of natural gas of approx. 33.7 BCM and of hydrocarbon liquids of approx. 39.4 million barrels, all according to Best Estimate.

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

### I. (Contd.):

It is further noted that in April 2020 (after the date of the Condensed Interim Financial Statements), 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" reservoir, 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 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 to be produced from the Leases, including the "Karish North" reservoir, and that all of the hydrocarbon liquids to be produced from the Leases constitute condensate, as defined in the agreement. The financial items in the report period include income in the sum of approx. $0.6 million, which derives from a revaluation of the royalties from the Leases and an expense of approx. $0.5 million from a revaluation of the annual payments. Such update derives mainly from the net effect of changes in the cap rate, update of contingent resources and hydrocarbon liquids and a price forecast update and the postponement of the commencement of production from the Karish lease to Q1/2022. The primary parameters in the valuations used for measurement of the royalties and the receivables were as follows: The cap rate for receivables was estimated at 7.25%; the cap rate for the royalties component was estimated at 12%; the total amount of contingent resources of natural gas and of hydrocarbon liquids used in the valuation for measurement of the royalties was estimated at approx. 98.5 BCM and approx. 82 MMBBL, respectively, and a production rate forecast.

**J.** On May 3, 2020 (after the date of the Condensed Interim Financial Statements), an agreement for the supply of natural gas was signed between the Partnership, Noble, Delek Group Ltd. and Ratio (the "**Agreement**"), under which the supply of gas to customers that had signed earlier agreements with each of the Yam Tethys partners will be carried out from the Leviathan reservoir. Accordingly, the Yam Tethys partners that are Leviathan partners (i.e., the Partnership and Noble) will take from the gas available to them (according to the rate of their holdings in Yam Tethys) and the remainder of the gas required to be supplied by each of the Yam Tethys partners will be purchased from Ratio according to the consideration determined in such Agreement, which is the average monthly price determined in the agreements signed between the Leviathan partners and their customers in the domestic market.

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

**K.** Further to Note 12L2 to the Annual Financial Statements regarding the Ministry of Environmental Protection's intention to impose a financial penalty on the operator of the Leviathan project for alleged noncompliance with the conditions of the rig's sea discharge permit, on April 27, 2020 (after the date of the Condensed Interim Financial Statements), the operator of the Leviathan project received notice from the Ministry of Environmental Protection of the intention to impose a financial penalty for alleged violations of the Prevention of Sea Pollution from Land-Based Sources, 5748-1988 and the sea discharge permit granted to the Leviathan rig, with some of the alleged violations relating to the trial run period. Furthermore, on May 20, 2020 (after the date of the Condensed Interim Financial Statements), the operator of the Leviathan project received notice from the Ministry of Environmental Protection of the intention to impose a financial penalty for alleged violations of the emission permit granted to the Leviathan rig and the Clean Air Law, 5768-2008 and the Commissioner's order issued thereunder in relation to the ongoing monitoring systems on the Leviathan rig. It is noted that both penalties are in immaterial amounts, and that the Operator intends to submit its arguments with respect to such penalties to the Ministry of Environmental Protection.

**L.** Further to Note 12K5B to the Annual Financial Statements regarding the date of recovery of the investment in the Tamar project, on May 12, 2020 (after the date of the Condensed Interim Financial Statements), the supervisors filed an urgent motion for provisional remedies (the "**Motion**"), whereby the District Court (Economic Department) in Tel Aviv-Jaffa was moved to order the Partnership and the General Partner of the Partnership to refrain and desist from transferring the increased overriding royalty[1] to the royalty interest owners (which include Delek Group, Delek Energy, and Delek Royalties (2012) Ltd., collectively: the "**Royalty Interest Owners**"), or alternatively, order them to transfer the increased overriding royalty to a trust account owned by the Partnership, at the very least until a decision on the principal claim the supervisors have filed against the Partnership, the General Partner of the Partnership and the Royalty Interest Owners, wherein it is alleged, *inter alia*, that the date of recovery of the investment in the Tamar project occurred later than the date determined by the Partnership. According to the supervisors' claim, the Motion is filed in view of an extreme and dramatic change of circumstances that has brought the Royalty Interest Holders to the brink of insolvency. The supervisors moved the Court to schedule an urgent hearing on the Motion in order to avoid and save the need for the issuance of an interim order until the hearing in the parties' presence. The Court has denied the Motion. It is noted that the responses of the Partnership, the General Partner of the Partnership and the Royalty Interest Owners to the Motion were filed on May 19, 2020. In the response of the Partnership and the General Partner of the Partnership it is argued that the Motion should be denied, *inter alia*, because in a situation where any of the Royalty Interest Owners becomes insolvent, the Partnership has a set-off right under the law of insolvency, which secures any amount ruled in its favor in the supervisors' claim.

[1] It is noted that as of the dates June 1, 2018 and December 1, 2019, the Partnership is paying the increased overriding royalty to Delek Royalties (2012) Ltd. (*in lieu* of Delek Energy) and to Study Funds for Teachers and Kindergarten Teachers – Managing Company Ltd., and to Study Funds for High School Teachers, Seminary Teachers and Supervisors – Managing Company Ltd. (*in lieu* of Delek Group), respectively.

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

**L. (Contd.):**

On May 27, 2020, the supervisors' reply to such responses was filed. The Court ruled that a hearing on the Motion would take place on June 24, 2020. On June 23, 2020, the supervisor filed with the court a motion and notice in agreement with the Royalty Interest Owners, whereby an agreement has been reached between the supervisors and the Royalty Interest Owners which, for the time being, obviates the need to decide the matters in dispute between the parties in the Motion. On the very same day, the court approved the agreement as aforesaid, canceled the scheduled hearing, and ordered the parties to give notice, within 10 days, as to whether they have reached a comprehensive agreement and in what manner they wish to move forward with the hearing of the supervisor's claim.

**M.** Further to Note 12K9 to the Annual Financial Statements regarding a class action and a motion for the certification thereof as a class action suit against the Partnership and against 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 the other holders of the Tamar project, with no involvement on the part of the Partnership and Noble. It is noted that the Partnership is required to file its response to the certification motion by September 24, 2020. A pretrial hearing was scheduled for February 3, 2021.

In the Partnership's estimation, based on the opinion of its legal counsel, chances of the certification motion being granted are less than 50%.

**N.** On June 1, 2020 (after the date of the Condensed Interim Financial Statements), the annual and special general meeting approved, *inter alia*, the re-appointment of the Supervisor for a three-year period, the terms of his office and his employment.

**O.** On June 14, 2020 (after the date of the Condensed Interim Financial Statements), the Partnership gave notice of its intention to partially prepay, on July 15, 2020, the third bond series of Tamar Bond in its sum total of $240 million (the "**Amount of the Principal**"), the original maturity date of which is December 30, 2020. The amount of the prepayment includes the Amount of the Principal, plus accrued interest in the sum total of approx. $0.4 million, plus a prepayment fee estimated as of the date of its notice at approx. $4.1 million (the "**Prepayment Fee**"). It is noted that the amount of the Prepayment Fee is lower than the balance of the interest that the issuer of the bonds, Delek & Avner (Tamar Bond) Ltd., would pay, if the third bond series of Tamar Bond were repaid on the original maturity date.

**P.** Further to Note 12C2B regarding the gas supply agreement between the Leviathan partners and Israel Electric Corp. Ltd. ("**IEC**"), it is noted that to the best of the Partnership's knowledge, IEC purchased several cargos of liquefied natural gas (LNG) from an external source, which, according to the Leviathan partners' claim, is contrary to and in breach of the aforesaid agreement. On June 3, 2020, the Leviathan partners sent IEC a demand to trigger the dispute resolution provisions set forth in the agreement.

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

**Q.** The operator of the Tamar and Leviathan projects informed the Partnership that the installation of the compressors at the EAPC site in Ashkelon has been completed, a piping permit has been received from the Natural Gas Authority, and the running-in of the compressors has begun, which is expected to increase the transport capacity in the EMG pipeline, through the existing transmission system infrastructure of INGL, to approx. 450,000 MMBTU per day (approx. 4.5 BCM per year).

**R. Refinancing of the existing loans:**

Pursuant to Note 10F to the Annual Financial Statements, with regard to the examination of possibilities for refinancing of loans that were provided to the Partnership, note that the Partnership has applied to several international rating agencies to obtain an indicative rating in relation to the issuance of bonds to accredited investors overseas and in Israel, in the scope of no less than $2.5 billion, which will be secured by Leviathan project assets, in accordance with several scenarios that were presented to the rating agencies. Pursuant to the results of the examination, as the same were provided to the Partnership, the indicative rating of such bonds, in the leading scenarios, is in the “BB” rating group (on an international rating scale). To emphasize, in order to obtain a complete and final rating for the actual issuance of the bonds, a full rating process which includes, *inter alia*, additional examinations by the rating agencies will be required. Therefore, it is clarified that if and insofar as the Partnership will decide to perform the aforesaid issuance, there is no certainty that it will be possible to obtain either the aforesaid, or any other rating for the issuance of the bonds.

**S.** Further to Note 12K8 to the Annual Financial Statements, regarding the judgment at the District Court denying the petition which was filed by the Zichron Yaakov Local Council, Zalul Environmental Association, the Jisr az-Zarqa Local Council, the Megiddo Regional Council, the Pardes Hanna-Karkur Local Council and the Hefer Valley Regional Council (in this section: the “**Petition**” and the “**Judgment**”) against the Head of the Air Quality Division at the Ministry of Environmental Protection and against Noble in a motion moving the court to order the nullity of Leviathan’s emission permit, and to rule that no activity entailing the emission of gases shall be carried out on the Leviathan rig. It is noted that on June 22, 2020, an appeal was filed from the Judgment with the Supreme Court (in this section: the “**Appeal**”). The Appeal seeks amendment of the emission permit and an order that monitoring of the pollutants emitted from the rig shall not be performed by Noble or an entity with which it has engaged, but rather by the Head of the Air Quality Division at the Ministry of Environmental Protection or an entity chosen by him; as well as amendment of the emission permit such that all of the instructions pertaining to maintenance, environmental management, environmental protection and identification and handling of leaks shall be determined in the emission permit itself and not in an external plan. As of the date of approval of the Condensed Interim Financial Statements, the Appeal is pending before the Supreme Court.

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

**T.** Further to Note 12K1 to the Annual Financial Statements, regarding a claim filed by the Partnership and Noble (in this section: the "**Plaintiffs**") against the State of Israel, through its representatives from the Ministry of Energy (in this section: the "**Defendant**"), which mainly includes the restitution of royalties overpaid by the Plaintiffs, and under protest, to the Defendant, in respect of revenues deriving from gas supply agreements which were signed between third-party customers and the Yam Tethys partners, it is noted that the date of the trial hearing was held on June 21, 2020 (instead of April 26, 2020), such that the trial hearing stage has been completed. In accordance with the court's oral decision at the end of the trial hearing, the Plaintiffs were required to file the main summations on their behalf by September 30, 2020, the Defendant is required to file responding summations on its behalf by January 10, 2021, while the Plaintiffs will be entitled to file summations on their behalf in response to the Defendant's summations by January 30, 2021.

**U.** Further to Note 12L5 to the Annual Financial Statements, regarding the financing of projects for export via the Israeli transmission system, and division of the construction costs of the Ashdod-Ashkelon combined segment, it is noted that on June 23, 2020 (after the date of the Condensed Interim Financial Statements), the Director General of the Natural Gas Authority announced that he is ruling that the cost of the segment will be estimated at the sum total of approx. ILS 738 million (out of which the Partnership's share is estimated at approx. ILS 159 million), and shall be updated in accordance with a mechanism on update and accounting between the parties which shall be incorporated in the transmission agreement and will be presented for his approval. Accordingly, the Partnership is required to provide a guarantee in the sum of approx. $40 million.

**Notes to the Condensed Interim Financial Statements as of March 31, 2020 (Dollars in thousands)**

## Note 5 – Financial Instruments:

### Fair value of financial instruments:

**A.** The fair value of the financial instruments presented in the Condensed Interim Financial Statements is at or around their book value, with the exception of issued bonds whose fair value as of March 31, 2020 is approx. $1,336.8 million (as of December 31, 2019: approx. $1,390 million; as of March 31, 2019: approx. $1,397.1 million), and whose book value is approx. $1,368.1 million (as of December 31, 2018: approx. $1,351 million; as of March 31, 2019: approx. $1,364.8 million).

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

| | 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, 2020 (Dollars in thousands)**

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

| | March 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | Unaudited | | | |
| **Financial assets at fair value through profit or loss:** | | | | |
| - Bonds | 72,655 | - | - | 72,655 |
| - Structured deposits | 25,687 | - | 4,974 | 30,661 |
| - Royalties receivable from the Karish and Tanin leases | - | - | 129,200 | 129,200 |
| - Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements) | - | 77,800 | - | 77,800 |
| - ETFs | 28,523 | - | - | 28,523 |
| **Total financial assets at fair value through profit or loss** | 126,865 | 77,800 | 134,174 | 338,839 |
| **Financial assets at fair value through other comprehensive income:** | | | | |
| - Investments in equity instruments designated for measurement at fair value through other comprehensive income | 84,361 | - | - | 84,361 |
| **Total financial assets** | 211,226 | 77,800 | 134,174 | 423,200 |
| **Financial liabilities at fair value through other comprehensive income:** | | | | |
| - Cash flow hedging transactions in connection with financing interest for the Leviathan project | - | - | 1,719 | 1,719 |
| **Total financial liabilities** | - | - | 1,719 | 1,719 |

**Notes to the Condensed Interim Financial Statements as of March 31, 2020 (Dollars in thousands)**

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

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | Audited | | | |
| **Financial assets at fair value through profit or loss:** | | | | |
| - Royalties receivable from the Karish and Tanin leases (see Note 8B to the Annual Financial Statements) | - | - | 161,900 | 161,900 |
| - Loan to Energean from the sale of the Karish and Tanin leases (see Note 8B to the Annual Financial Statements) | - | 84,700 | - | 84,700 |
| **Total financial assets at fair value through profit or loss** | - | 84,700 | 161,900 | 246,600 |
| **Financial assets at fair value through other comprehensive income:** | | | | |
| - Investments in equity instruments designated for measurement at fair value through other comprehensive income | 46,354 | - | - | 46,354 |
| **Total financial assets** | 46,354 | 84,700 | 161,900 | 292,954 |
| **Financial liabilities at fair value through other comprehensive income:** | | | | |
| - Cash flow hedging transactions in connection with financing interest for the Leviathan project | - | - | 5,523 | 5,523 |
| **Total financial liabilities** | - | - | 5,523 | 5,523 |

**Notes to the Condensed Interim Financial Statements as of March 31, 2020 (Dollars in thousands)**

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

**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, 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 |
| Re-measurement recognized in profit or loss | 600 | (175) | 425 |
| Re-measurement recognized in other comprehensive income | - | (6,486) | (6,486) |
| **Balance as of March 31, 2020** | 162,500 | (12,184) | 150,316 |

| | For the three-month period ended March 31, 2019 | | | |
|---|---|---|---|---|
| | Structured Deposits | Royalties based on Future Production | Cash Flow Hedging Transactions | Total |
| | | Unaudited | | |
| **Balance as of January 1, 2019 (audited)** | 4,974 | 113,100 | - | 118,074 |
| Re-measurement recognized in profit or loss | - | 16,100 | 203 | 16,303 |
| Re-measurement recognized in other comprehensive income | - | - | (1,922) | (1,922) |
| **Balance as of March 31, 2019** | 4,974 | 129,200 | (1,719) | 132,455 |

**Notes to the Condensed Interim Financial Statements as of March 31, 2020 (Dollars in thousands)**

**Note 5 – Financial Instruments (Cont.):**
**Fair value of financial instruments (Cont.):**
**B. (Cont.):**
**Adjustment in respect of fair value measurements classified as Level 3 in the fair value hierarchy of financial instruments: (Cont.):**

| | For the Year ended December 31, 2019 | | | |
|---|---|---|---|---|
| | Structured Deposits | Royalties based on Future Production | Cash Flow Hedging Transactions | Total |
| | Audited | | | |
| **Balance as of January 1, 2019** | 4,974 | 113,100 | - | 118,074 |
| Re-measurement recognized in profit or loss | 26 | 48,800 | (373) | 48,453 |
| Dispositions/proceeds | (5,000) | - | - | (5,000) |
| Re-measurement recognized in other comprehensive income | - | - | (5,150) | (5,150) |
| **Balance as of December 31, 2019** | - | 161,900 | (5,523) | 156,377 |

**C. Natural gas and condensate prices risk:**

The prices paid by consumers for the natural gas in the reservoirs in which the Partnership is a partner are derived, *inter alia,* from the electricity production tariff to which the gas agreements for private electricity customers are linked, from the U.S. CPI, and from the Brent barrel price (the "**Indices**"). For details on the various linkages in the natural gas price formulas, see Notes 12C1 and 12C2 to the Annual Financial Statements. In connection with the electricity production tariff, it is noted that the frequent methodological changes made by the PUA-E to the method of calculation thereof make its predictability difficult, and may lead to disputes between gas suppliers and customers in connection with the method of calculation thereof.

**Note 5 – Financial Instruments (Cont.):**
**Fair value of financial instruments (Cont.):**
**C. Natural gas and condensate prices risk (Cont.):**

A decline in the electricity production tariff (*inter alia*, as a result of an adjustment to be sought by the IEC, if sought, to the price in accordance with the mechanism set forth in the agreement signed therewith as stated in Note 12C1B to the Annual Financial Statements) and/or the Brent prices and/or the U.S. CPI and/or an increase in the ILS/$ exchange rate (a depreciation of the ILS to the dollar) may have an adverse effect on the Partnership's income from the existing and future gas sale agreements. With respect to the fixing of the IEC price, see Note 12C1B9 to the Annual Financial Statements as well as Note 4L below in connection with the decision of the Competition Commissioner. In addition, a material change in the prices of other energy sources (including coal and other gas substitutes), the reforms and the decisions related to the electricity market, including changes in the environmental laws, may cause a change in the consumption model of the IEC and of other larger customers, which may reduce the demand for natural gas and lead to a decline in the prices of natural gas in the market.

**D. Cash flow hedging transactions:**

Further to Note 22F2 to the Annual Financial Statements, as of the date of the Condensed Interim Statement of Financial Position, the Partnership has 4 interest rate swap (IRS) agreements in the sum total of approx. $743.9 million, according to which the Partnership receives variable interest and pays fixed interest at the rate determined in the agreement. The swap transaction is used to hedge the exposure to changes in the cash flow of a variable interest loan used to finance the construction of the Leviathan project.

The increase in the fair value of the swap transaction liability in the sum of approx. $6,486 thousand (2019: approx. $5,150 thousand, for the three-month period ended March 31, 2019: approx. $1,922 thousand) was recognized against a capital reserve as part of the other comprehensive income. The ineffective amount of approx. $175 thousands was recognized in profit or loss (2019: approx. $373 thousand, for the three-month period ended March 31, 2019: income of approx. $203 thousand).

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

**A.** For details regarding the expiration of the Alon D license, see Note 3B4.

**B.** For details regarding the Petroleum Commissioner's approval of the extension of the New Ofek/405 and New Yahel/406 licenses, see Note 3B5.

**C.** For details regarding the Regulators' notice with respect to arrangements between the Tamar partners, see Note 4B.

**D.** For details regarding the decision of the Competition Commissioner with respect to the amendment of conditions for the grant of the exemption from approval of a restrictive arrangement, see Note 4C.

**E.** For details regarding the submission of a class action suit and a motion for certification thereof as a class action suit, see Note 4E.

**Note 6 – Events Subsequent to the Date of the Condensed Interim Statements of Financial Position (Contd.):**

**F.** For details regarding the publication of general directives on the method of calculation of the royalty value at the wellhead, see Note 4H.

**G.** For details regarding the exchange of letters between Energean and the Partnership in connection with the Partnership's entitlement to royalties from the Leases, see Note 4I.

**H.** For details regarding an agreement signed between the Leviathan partners and the Yam Tethys partners for the supply of natural gas, see Note 4J.

**I.** For details regarding the receipt of notices from the Ministry of Environmental Protection with respect to the intention to impose financial penalties in respect of the Leviathan project, see Notes 4K.

**J.** For details regarding the filing of an urgent motion for provisional remedies by the supervisors in relation to the investment recovery date, see Note 4L.

**K.** For details regarding the results of the annual and special general meeting, see Note 4N.

**L.** For details regarding the partial prepayment of the third bond series of Tamar Bond, see Note 4O.

**M.** For details regarding determining the costs of the Ashdod-Ashkelon combined segment, see Note 4U.

Delek Drilling

# Report on the Effectiveness of Internal Controls for Financial Reporting and Disclosure

2020

***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;
4. Yaniv Friedman, Deputy CEO.

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

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

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

In the 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, 2019 (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, 2020, 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 Q1/2020 (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, 2019) 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.

| | |
|---|---|
| June 25, 2020 | 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 Q1/2020 (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, 2019) 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.

| | |
|---|---|
| June 25, 2020 | Yossi Gvura, CPA<br>Deputy CEO |