

Delek Drilling – Limited Partnership
(the “Partnership”)

September 2, 2021

To
Israel Securities Authority
Via Magna

To
Tel Aviv Stock Exchange Ltd.
Via Magna

Dear Sir/Madam,

Re: **Entrance into Conditional Agreement for the Sale of the Partnership's Rights in the 1/12 "Tamar" and 1/13 "Dalit" Petroleum Leases**

Further to the Partnership's immediate report of April 26, 2021 (Ref. No. 2021-01-070344) and to the update in Section 1 of the Partnership's Report for the Second Quarter of 2021 (Ref. No. 2021-01-0131760, the "**2021 Second Quarter Report**"), included in this report by way of reference, regarding for the sale of the Partnership's 22% participating interest right in the 1/12 "Tamar" and 1/13 "Dalit" petroleum leases (together the "**Leases**"), the Partnership hereby respectfully notifies that on September 2, 2021 the Partnership entered into a binding, conditional agreement (the "**Agreement**") for the sale of all of its rights in the Tamar Project to Tamar Investment 1 RSC Ltd. and Tamar Investment 2 RSC Ltd. (together, the "**Buyers**") as described in this report (the "**Agreement**").

For details regarding the Tamar Project see Section 7.3 in Chapter A of the Partnership's Periodic Report for 2020 as published on March 17, 2021 (Ref. No. 2021-01-036588), included in this report by reference (the "**Annual Report**"). As described in sections 7.23, 7.27 and 7.29.1 of the Annual Report, in accordance with the instructions of Government Resolution No. 476 regarding the Gas Framework, the Partnership is required to transfer by December 17, 2021 all of its rights in the Tamar Project (the "**Gas Framework**").

A. Below is a brief description of the main terms of the Agreement:

1. Subject to the satisfaction of the conditions precedent as detailed below, the Buyers will purchase from the Partnership (in equal parts) all of the Partnership's 22% holding in each of the Leases, together with the Partnership's portion of the shares in Tamar 10 Inch Pipeline Ltd. (the holder of the transportation license pursuant to Article 10 of the National Gas Sector Law, 5762 – 2002), and the Partnership's rights and obligations under the joint operating agreement that applies to the Leases, the agreement for the use of the Yam Tethys facilities (in respect of the Partnership's rights and obligations as a rights-holder in the Tamar lease), the gas and condensate sale agreements from the Tamar lease, gas export agreements (including agreements connected to the export agreements and the export permits to Jordan and Egypt) and

additional ancillary agreements between the rights-holders in the Leases (together, the "**Sale Interest**").

2. As consideration for the Sale Interest, on the date of the completion of the transaction, the Buyers will pay to the Partnership a total of 1.025 billion U.S. Dollars, and the cut-off date has been set as August 1, 2021 (the "**Cut-Off Date**").¹ The calculation of the consideration shall be subject to certain adjustments in respect of the Partnership's revenues and expenses in relation to the Sale Interest in respect of the period between the Cut-Off Date and the date of the completion of the transaction.
3. The Partnership's rights in the Leases will be transferred to the Buyers subject to the existing overriding royalty interests in the Leases that were borne by the Partnership, and accordingly, the payment obligation to the royalty holders will apply to the Buyers.
4. Subject to the completion of the transaction, as of the Cut-Off Date, the Buyers shall assume, each in accordance with its share, all of the expenses, payments, guarantees, collateral and obligations applying in respect of the Sale Interest and under the instructions of applicable law, with the exception of certain obligations in respect of which it is set out in the Agreement that the Partnership will retain liability after the completion of the transaction as described below.
5. The Partnership will bear all costs, payments, guarantees, collateral and obligations applying in respect of the Sale Interest and in accordance with all law until the Cut-Off Date, including taxes in respect of the Sale Interest and the petroleum profits levy under the Taxation of Profits from Natural Resources Law, 5771 – 2011 (the "**Petroleum Profits Levy**") for quantities of hydrocarbons sold until the Cut-Off Date.

As well, the Partnership will remain responsible for the following liabilities after the completion of the transaction: (a) all liabilities in respect of the Sale Interest for the period prior to the Cut-Off Date (with the exception of any faults or general wear and tear of the Tamar Project's facilities or equipment that existed prior to the Cut-Off Date but were not known to the Partnership); (b) all liabilities in respect of hydrocarbons that were produced from the Leases prior to the Cut-Off Date; (c) all liabilities in respect of the motion to certify a class action that was submitted by a customer of Israel Electric Company Ltd. against the rights-holders in the Tamar lease (including any appeal or other proceeding in connection therewith);² (d) cash calls in accordance with the joint operating agreement for the Leases, which were sent by the operator of the Tamar Project prior to the Cut-Off Date; and (e) liabilities in respect of environmental damage in the area of the Leases insofar as was present prior to the Cut-Off Date or known to the Seller prior to the completion of the transaction.

6. The Agreement includes a number of conditions precedent as is customary in transactions of this type, including the following main conditions:
 - a. Receipt of regulatory approvals with respect to the transaction, including the approval of the Petroleum Commissioner in the Ministry of Energy for the

¹ It is noted that the original "Cut-Off Date" that was included in the memorandum of understandings described in the abovementioned report of April 26, 2021 was April 1, 2021. The Partnership's revenues (net of expenses) derived from the Sale Interest during the period between April 1, 2021 and August 1, 2021 is estimated at approx. [●] million U.S. Dollars.

² For additional details regarding the motion and the ruling of the District Court of June 8, 2021 rejecting the motion to certify, see Section 7.26.1 of the Annual Report and the Partnership's immediate report of June 8, 2021 (Ref. No. 2021-01-097734).

transfer of rights in the Leases to the Buyers subject to the existing overriding royalty interests;

- b. Receipt of approval for the transfer of rights and obligations of the Partnership pursuant to the joint operating agreement for the Leases, the Yam Tethys facilities usage agreement, gas export agreements and additional ancillary agreements, from the other counterparties to those agreements, and all this insofar as the approval of such counterparties is required for the transfer of the rights and obligations to the Buyers;
 - c. Receipt of approval of the supervisor, and (insofar as required under the circumstances) receipt of approval of the general meeting of shareholders for the entrance into the agreement and the sale of the Sale Interest to the Buyers;
 - d. The removal of the pledges applying to the Sale Interest to guarantee the redemption of the bonds that were issued by Delek and Avner (Tamar Bond) Ltd. ("**Tamar Bond**").
7. The date of the completion of the transaction (the Closing) has been set for the last business day of the month during which the conditions precedent are satisfied (with the exception of conditions that will be satisfied at Closing itself) but if the day on which the conditions precedent are satisfied is less than seven business days before the end of the month, the Closing will take place on the seventh business day in the following month. As well, if a VAT exemption in respect of the transaction is not received, the Purchasers are entitled to delay the completion of the transaction until the earlier of (a) 5 business days following the receipt of the VAT exemption; and (b) November 30, 2021.
 8. The Agreement includes provisions with respect to each party's right to terminate the Agreement prior to Closing. Such rights include *inter alia* the following:
 - a. Each Party is entitled to terminate the Agreement in the event that (i) the conditions precedent are not satisfied within 90 days of the signing date of the Agreement, provided that the terminating party is not in breach of the Agreement; or (ii) the application for approval of the transfer of interests in the Leases or the request for other third party approval has been denied or any such approval is not expected to be received within 90 days, provided that the terminating party is not the cause for the delay.
 - b. The Buyers are entitled to terminate the Agreement prior to Closing if a "Material Adverse Change" has occurred in relation to the Sale Interest or the transaction.
 - c. The Partnership is entitled to terminate the Agreement prior to Closing under certain conditions set out in the Agreement if the Buyers breach any obligation under the Agreement.
 9. The Agreement includes various warranties towards the Buyers, as is customary in transactions of this type, including with respect to the Partnership's title to the Sale Interests and material information with respect to the Sale Interest including, *inter alia*, compliance with the terms of the Leases, validity and non-breach of material contracts, legal proceedings applicable to the Sale Interests, compliance with applicable law, applicable taxation and certain financial information of the Tamar joint venture.

10. The Agreement also includes provisions under which the Partnership has undertaken to indemnify the Buyers for any damage or liability that may be caused to them in relation to demands, claims or any other legal proceeding as a result of a breach of a warranty provided that the Partnership will not be liable for damages until the total quantum of damages as abovementioned exceeds 2.5 million U.S. Dollars and provided that the total indemnity for which the Partnership will be liable does not exceed 35% of the consideration paid for the Sale Interest, except in relation to certain warranties which have been defined as "Fundamental Warranties" (for which the total indemnity will not exceed 100% of the consideration) or in case of fraud (in respect of which there is no limit of liability). The Partnership will not be liable to the Buyers for breach of warranty unless a demand for indemnity has been provided by the end of 18 months from the Closing (or 36 months in relation to the fundamental warranties as described and until the end of the relevant statutory limitation period in relation to warranties having to do with tax obligations).
11. The Partnership has undertaken to indemnify the Buyers in respect of extraordinary circumstances, including over-charging of the Buyers for the Petroleum Profits Levy, in connection with certain disputes existing between the Partnership and the tax authorities regarding the method of calculation of the levy in relation to profits and expenses during the period prior to the Cut-Off Date, subject to the mechanism set out in the Agreement and up to a maximum indemnity limit of 15 million U.S. Dollars.³
12. The law governing the Agreement is English law. Any disputes between the parties to the Agreement will be decided by arbitration before three arbitrators in London in accordance with the rules of the London Court of International Arbitration.
- B. To the best of the Partnership's knowledge, the Buyers are special purpose vehicles (SPVs) that were established for the purpose of the transaction and are fully owned (indirectly) by MDC Oil & Gas Holding Company LLC ("MDC"), which is a corporation from the same group as Mubadala Investment Company PJSC, a company owned by the government of Abu Dhabi. It is noted that the Buyers' parent companies are not party to the agreement nor do they guarantee the Buyers' obligations.
- C. It is clarified that the consideration will be used inter alia for the redemption of the Tamar Bonds whose outstanding balance (principle and interest), as of this date, is approximately 646 million dollars, the payment of capital gains tax that is expected to apply in respect of the sale, and to fund the repayment of half of the Partnership's remaining bond principle (Series A), in accordance with the conditions of such bonds.⁴

The holding rates in the Leases prior to the completion of the transaction that is the subject of the Agreement are as follows:

Iramco Negev 2, Limited Partnership	28.75%
Chevron Mediterranean Ltd.	25.00%
The Partnership	22.00%
Tamar Petroleum Ltd.	16.75%
Dor Gas Exploration, Limited Partnership	4.00%
Everest Infrastructures, Limited Partnership	<u>3.50%</u>
Total	100%

³ For additional details see Note B in the Partnership's Financial Report of 31.12.2020, attached to the Annual Report.

⁴ For details regarding the bonds (Series A) see Section 7.20.4 in the Annual Report.

Warning regarding forward-looking information – it is clarified that as of the date of this report there is no certainty that all of the required conditions for the completion of the transaction for the sale of the Partnership's rights in the Tamar Project in accordance with the Agreement detailed above will be satisfied on time. The possibility of the satisfaction of the conditions precedent and the other necessary conditions for the completion of the transaction as detailed above is dependent, inter alia, on third parties and other parties that the Partnership does not have control over, that may cause changes and delays in the schedule. As such it is emphasized that the possibility of completion of the transaction that is the subject of the Agreement described in this report constitutes forward-looking information as defined in the Securities Law, 5722-1968, in respect of which there is no certainty regarding the chances of it coming to be, in the way described above or in any other way.

Sincerely,

Delek Drilling Management (1993) Ltd.
General Partner of Delek Drilling - Limited Partnership

By Yossi Abu, CEO
and Yossi Gvura, Deputy CEO