Delek Drilling

2019

INTERIM FINANCIAL STATEMENTS AS OF 31.3.19 UNAUDITED




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2019

Delek Drilling

Partnership Description

2019

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

of the 2018 Periodic Report

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

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

   On May 14, 2019, the Partnership released a shelf prospectus. For details, see the Partnership's immediate report as of May 14, 2019 (Ref. No.: 2019-01-041106), the information appearing in which is incorporated herein by reference.

2. **Section 2.3 of the Periodic Report – examination of the possibility of a structural change**

   With regard to convening a general meeting of holders of the participation units on May 16, 2019 whose agenda shall include, *inter alia*, a deliberation and a response to questions in relation to examining the possibility of promoting a plan to split the Partnership's assets, see the immediate reports dated March 31, 2019 (Ref. No.: 2019-01-028755) (the "**Immediate Report dated March 31, 2019**"), and dated May 12, 2019 (Ref. No. 2019-01-040413), the information appearing in which is incorporated herein by reference.

3. **Section 4.3.3 of the Periodic Report – petition to the court for instructions in relation to the supervisor's expenses**

   With regard to convening a general meeting of holders of the participation units on May 16, 2019 whose agenda shall include, *inter alia*, a resolution to approve payment of reimbursement of the legal fee expenses for the supervisor's attorneys in the context of a petition for instructions that was filed by the supervisor with the court pertaining to the interpretation and manner of implementation of Section 19 of the Taxation of Profits from Natural Resources Law, 5771-2011, and in the context of the Partnership's appeal, see the Immediate Report dated March 31, 2019, the information appearing in which is incorporated herein by reference.

4. **Sections 7.2 and 7.3 of the Periodic Report – production of the natural gas from Yam Tethys and Tamar reservoirs**

   With regard to the resumption of production of natural gas from the Tamar and Yam Tethys reservoirs on May 6, 2019 after it was discontinued on May 5, 2019 in the afternoon, according to the Minister of Energy's decision in

[1] The update includes material news or changes that have occurred in the Partnership's business from the date of release of the 2018 periodic report that was released on March 24, 2019 (Ref. No.: 2019-01-023982) (the "**Periodic Report**") and until shortly before the date hereof on any matter required to be described in the Periodic Report. The update refers to the section numbers in Chapter A (Description of the Partnership's Business) of the Periodic Report.

view of the geopolitical situation, see the immediate report dated May 6, 2019 (Ref. No.: 2019-01-039021), the information appearing in which is incorporated herein by reference. It is noted that on May 7, 2019, the flow of natural gas from the reservoirs was restored to full production capacity.

5. **Sections 7.5, 7.6 and 7.7 of the Periodic Report – 399/"Roy", 405/"New Ofek" and 406/"New Yahel" licenses (the "Roy License", "New Ofek License" and "New Yahel License", respectively, and jointly, the "Licenses")**

With regard to convening a general meeting of holders of the participation units on May 16, 2019 whose agenda shall include, *inter alia*, resolutions to approve the transactions for the purchase of the rights in the Licenses and the participation in oil and/or gas exploration and their production in the area of the Licenses, and to this end, to amend Section 5.1 of the limited partnership agreement dated July 1, 1993, as amended from time to time (the "**Partnership Agreement**"), such that the Licenses will be added to the list of petroleum assets mentioned in the aforesaid section, in such manner that will enable the Partnership to participate in oil and/or gas exploration and their production in the area of the Licenses, and to give approval to the General Partner in the Partnership, in accordance with the provisions of Section 9.4 of the Partnership Agreement, to refrain from distribution of profits (as defined in Section 9.4 of the Partnership Agreement) for the purpose of participation in the aforesaid activities, see the Immediate Report dated March 31, 2019, the information appearing in which is incorporated herein by reference.

6. **Sections 7.8.3(d) and 7.8.11 of the Periodic Report – a plan to develop "Aphrodite" reservoir in Cyprus (the "Aphrodite Reservoir")**

On May 8, 2019 the Partnership submitted together with its other partners in the Aphrodite reservoir in Cyprus an updated plan for the development of Aphrodite Reservoir, for approval by the Government of Cyprus. The aforesaid updated development plan is essentially similar to the development plan described in Section 7.8.11 of the Periodic Report.

7. **Section 7.9 of the Periodic Report – 367/Alon D license (the "Alon D License")**

With regard to convening a general meeting of holders of the participation units on May 16, 2019 whose agenda shall include, *inter alia*, a resolution to approve the Partnership's engagement in the transaction according to which Ithaca Energy Inc., a foreign company wholly owned by Delek Group Ltd. ("**Delek Group**"), the control holder of the Partnership, will join as a partner at the rate of 25% in the Alon D License and will be appointed as the operator of the petroleum asset, see the Immediate Report dated March 31, 2019, the information appearing in which is incorporated herein by reference.

8. **<u>Sections 7.10 and 7.27.16 of the Periodic Report – I/16 "Tanin" and I/17 "Karish" leases (jointly below, the "Leases") and an agreement to sell the Partnership's rights in the Leases</u>**

With regard to the notice of Energean Oil & Gas plc dated April 15, 2019 on a natural gas discovery in the exploration well drilled in the "Karish North" prospect, in the area of the I/17 "Karish" lease", see the immediate report of the Partnership dated April 15, 2019 (Ref. No.: 2019-01-034260), the information appearing in which is incorporated herein by reference. For details on a very material valuation on royalties receivable from the sale of the Partnership's rights in the Leases, see Note 4F to the financial statements as of March 31, 2019 that are attached below.

9. **<u>Sections 7.13.4(a)(4) and 7.28 of the Periodic Report – competitive process for supply of natural gas to the Israel Electric Corporation Ltd. (the "IEC")</u>**

With regard to the Partnership's notice on choosing the proposal of the Leviathan partners as the winner in the request for proposals for supply of natural gas to the IEC (the "**Competitive Process**"), see the immediate report dated April 7, 2019 (Ref. No.: 2019-01-031422), the information appearing in which is incorporated herein by reference. With regard to an administrative petition, a motion for an urgent hearing on the petition and an interim order, that were filed on April 18, 2019 with the Tel Aviv District Court, by part of the Tamar partners (Isramco Negev 2, Limited Partnership, Tamar Petroleum Ltd., Dor Gas Exploration, Limited Partnership, and Everest Infrastructures, Limited Partnership) (the "**Petitioners**"), against the IEC and the Leviathan partners (the Partnership, Noble Energy Mediterranean Ltd., and Ratio Oil Exploration (1992), Limited Partnership) (the "**Respondents**"), in relation to the Competitive Process, see the immediate report dated April 18, 2019 (Ref. No.: 2019-01-036000), the information appearing in which is incorporated herein by reference. According to the court's decision, on May 6, 2019 the Respondents' response to the giving of an interim order was filed and the Petitioners' answer to the response was filed on May 14, 2019. A preliminary hearing on the petition was scheduled for June 3, 2019. In addition, the date for filing the Respondents' response to the petition is until May 19, 2019.

10. **<u>Section 7.20.2 – human capital</u>**

On March 14, 2019 and May 1, 2019, the compensation committee and the board of directors of the General Partner of the Partnership, respectively, approved an updated compensation policy for officers of the Partnership and the General Partner of the Partnership, subject to the approval of the general meeting of the holders of the participation units in the Partnership. The Partnership intends to call a general meeting whose agenda shall include, *inter alia,* approval of the updated compensation policy.

11. **Section 7.22 of the Periodic Report – financing**

a. Pursuant to the provisions of Section 7.22.2(a) of the Periodic Report it is noted that the Partnership has complied with the financial covenants undertaken thereby in the context of the public offering of the bonds as provided in Section 7.22.1(e) of the Periodic Report, as specified below:

Financial Covenant	The examined ratio as of March 31, 2019 and as of the report date
Economic capital of the Partnership	4,421
Economic capital to debt ratio	Approx. 11
Distribution	-

b. Pursuant to the provisions of Section 7.22.2(b) of the Periodic Report it is noted that the Partnership has complied with the financial covenants undertaken thereby in the context of the financing agreement as provided in Section 7.22.1(a) of the Periodic Report, as specified below:

Financial Covenant	The examined ratio as of March 31, 2019	The examined ratio as of April 29, 2019 – the date of the last money withdrawal[2]	The examined ratio as of the report release date
Required debt coverage ratio	3.3	3.2	3.2

12. **Section 7.27.12(c)(1) of the Periodic Report – payment of royalties from Yam Tethys project**

On March 31, 2019, a letter was received from the Ministry of Energy with regard to advance payments of royalties in the Yam Tethys project for 2019 which determined that the effective rate of royalties to be paid as advance payments in 2019 shall be 9.36%.

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[2] According to the provisions of Section 7.22.1(a) of the Periodic Report, compliance with the required debt coverage ratio will be measured, *inter alia*, at the time of each withdrawal. From March 24, 2018 (the date of release of the Periodic Report), and until the date of release hereof, the Partnership has made 3 withdrawals, with the last withdrawal being made on April 29, 2019. For each one of the said withdrawals, the Partnership has met the required ratio.

13. **Section 7.27.12(c)(2) of the Periodic Report – payment of royalties from Tamar project**

On March 28, 2019, a letter was received from the Ministry of Energy with regard to advance payments of royalties in the Tamar project for 2019 which determined that the effective rate of royalties to be paid as advance payments in 2019 and until further notice, shall be 11.3%.

14. **Section 7.28 of the Periodic Report – legal proceedings**

a. Pursuant to the provisions of Section 7.28.1 of the Periodic Report on a class certification motion filed by a consumer of the IEC against the Tamar partners on June 18, 2014 with the Tel Aviv District Court, it is noted that, according to the Court's decision as of March 25, 2019, the scheduled date for filing of summations on behalf of the Tamar partners is July 2019 (instead of April 2019).

b. Further to the provisions of Section 7.28.4 of the Periodic Report on a dispute in relation to the electricity production tariff between the Partnership together with part of the Tamar partners and OPC Mishor Rotem Ltd. (jointly below, the "**Parties**"), it is noted that in March 2019, the arbitrator notified the Parties that his decision in the arbitration is expected to be given by the end of May 2019.

c. Further to the provisions of Section 7.28.5 of the Periodic Report on the filing of a class action and a motion for class certification, filed with the Tel Aviv District Court (Economic Department) by a shareholder of Tamar Petroleum Ltd. ("**Tamar Petroleum**") and the Public Representatives Association, in relation to the offering of Tamar Petroleum shares in July 2017, it is noted that the date for filing the response of Tamar Petroleum, the Partnership, the CEO of the General Partner of the Partnership, the CEO of Tamar Petroleum, the CFO of Tamar Petroleum and Leader Issues (1993) Ltd., is June 16, 2019 (instead of April 2019).

d. Further to the provisions of Section 7.28.6(b) of the Periodic Report, it is noted that on April 4, 2019, an answer and a counterclaim against the Partnership, the General Partner of the Partnership and the supervisor were filed by the royalty interest owners (which include Delek Group, Delek Energy Systems Ltd. and Delek Royalties (2012) Ltd., jointly below: the "**Royalty Interest Owners**"), in the context of a complaint and a motion for a provisional order filed by the supervisors against the Partnership, the General Partner of the Partnership and the Royalty Interest Owners in relation to the date of recovery of the investment in the Tamar project (the "**Supervisors' Complaint**"). For additional details, see the Partnership's immediate report dated April 4, 2019 (Ref. No.: 2019-01-031320), the information appearing in which is incorporated herein by reference. As of the date hereof, the motion for an extension for the filing of pleadings in the Supervisors' Complaint until a decision is issued in the motion for stay of proceedings in the Supervisors' Complaint that was filed on February 6, 2019 on behalf of the Partnership and the General Partner in the Partnership, has not yet been heard and decided and therefore, pleadings on behalf of the Partnership and the General Partner have not yet been filed in the Supervisors' Complaint. On May 13, 2019 the court decided to grant an agreed upon motion (by the Royalty Interest Owners) filed by the Partnership and the General Partner in the Partnership, and to give an extension for the filing of an answer on behalf of the Partnership and the General Partner in the Partnership to the counterclaim that was filed by the Royalty Interest Owners until after the motion for stay of proceedings in the Supervisors' Complaint is decided.

e. Further to the provisions of Section 7.28.7(a) of the Periodic Report, it is noted that on April 11, 2019 a judgment was entered on a mediation arrangement that was agreed by the parties, i.e. the holders of the rights in the 353/"Eran" license before its expiration, the Minister of Energy, and the Petroleum Commissioner at the Ministry of Energy. For additional details, see the immediate report dated April 14, 2019 (Ref. No.: 2019-01-033858), the information appearing in which is incorporated herein by reference. Accordingly, on March 25, 2019 the Tamar Partners notified the Minister of Energy that they are withdrawing the appeal from the Petroleum Commissioner's decision on approval of the development plan of Tamar SW reservoir.

15. **Below is a table that includes data on production of natural gas and condensate in Q1/2019 in the Tamar project:**[3] [4]

		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)		20,500	26.43
Average price per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)		5.53	58.25
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	6.43
	Third Parties	0.1	1
	Interested Parties	0.39	4.08
Average production costs per output unit (attributed to the holders of the equity interests of the Partnership) (Dollar per MCF and per barrel)[5]		0.47	2.58
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	44.16

Date: May 14, 2019

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

[3] The data presented in the table above with respect to the rate attributed to the holders of the equity interests of the Partnership of the average price per output unit, of the royalties paid, of the production costs and of the net proceeds, was rounded off, up to two digits after the decimal point.
[4] The production figures include the Partnership's direct holding in Tamar project at the rate of 22%. For details on the change to the accounting treatment of the Partnership's investment in Tamar Petroleum, see Note 4F to the financial statements as of March 31, 2019, that are attached below.
[5] 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

2019

This report is a translation of Delek Drilling - Limited Partnership's Hebrew-language Board of Directors' Report of the General Partner. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

May 14, 2019

Delek Drilling Limited Partnership

Report of the Board of Directors of the General Partner for the Period Ended March 31, 2019

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, 2019 (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 (the Description of the Partnership's Business) of the periodic report for 2018 (the "**Periodic Report**"), and the condensed interim financial statements as of March 31, 2019, which are attached below.

2. Results of operations

A. General

As of the date of approval of the condensed interim financial statements, the Partnership's primary business is exploration, development and production of natural gas, condensate and oil, as well as the promotion of the use of infrastructures for the export of natural gas, with the purpose of increasing the volume of natural gas sales. The Partnership is also promoting several alternatives for the sale of its remaining direct holdings in the Tamar I/12 and Dalit I/13 leases (jointly: "**Tamar and Dalit**"), in accordance with the provisions of the Gas Framework (see Note 1G and Note 12J1 to the annual financial statements), including the incorporation of an SPV which would offer debt and equity, to be listed on a foreign stock exchange and/or on the Tel Aviv Stock Exchange, and/or sale to a third party and/or by means of a split of the Partnership's assets, such that all of the Partnership's assets and liabilities, other than the assets and liabilities attributed to the Tamar and Dalit leases, would be transferred to a foreign SPV whose shares will be distributed by the Partnership as a distribution in kind to the Partnership's participation unit holders. For further details, see Note 23A to the annual financial statements.

The Partnership's net profit in the Report Period amounted to approx. $40 million, compared with approx. $88.3 million in the same period last year.

The decrease in profit in the Report Period, compared with the same period last year, mainly derives from an adjustment of the value of investment in a company accounted for at equity to the market value thereof, in the sum of approx. $36.6 million, in view of the resignation of the CEO of the General Partner of the Partnership from the board of directors of the company accounted for at equity. For details, see Note 4F to the financial statements attached below.

It is noted that the profit, discounting the revaluation of amounts receivable in respect of Karish and Tanin and the adjustment of the value of investment in a company accounted for at equity to the market value thereof, in the Report Period and in the same period last year, is approx. $58.3 million and $42.5 million, respectively.

B. Analysis of statements of comprehensive income

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

	1-3/19	1-3/18	2018
Revenues:			
From natural gas and condensate sales	117,739	106,606	457,982
Net of royalties	23,380	21,278	91,333
Revenues, net	**94,359**	**85,328**	**366,649**
Expenses and costs:			
Cost of gas and condensate production	9,980	8,502	32,720
Depreciation, depletion and amortization expenses	,10953	10,309	45,058
Oil and gas exploration expenses, and other direct expenses	3,344	1,375	9,720
G&A expenses	2,517	2,299	9,811
Total expenses and costs	**,26794**	**22,485**	**97,309**
Other expenses, net	(474)	(988)	(561)
Partnership's share of earnings (losses) of company accounted for at equity, net	(36,640)	(5,360)	10,542
Operating income	**30,451**	**56,495**	**279,321**
Financial expenses	(11,037)	(15,804)	(57,432)
Financial income	21,500	48,360	59,149
Financial income , net	,10463	32,556	1,717
Profit before levy	**40,914**	**89,051**	**281,038**
Petroleum and gas profit levy	(922)	(757)	(4,205)
Net profit	**39,992**	**88,294**	**276,833**
Other comprehensive loss:			
Amounts which may subsequently be reclassified to profit or loss:			
Loss in respect of cash flow hedging transactions	(1,641)	-	-
Carried to profit or loss in respect of cash flow hedging transactions	(594)	(621)	(2,721)
Amounts which will not be subsequently reclassified to profit or loss:			
Loss in respect of investment in equity instruments designated for measurement at fair value through other comprehensive income	(3,249)	-	-
Total other comprehensive income (loss) for the period	(5,484)	(621)	(2,721)
Total comprehensive income	**34,508**	**87,673**	**274,112**
Gas sales in BCM[1]	**2.7**	**2.4**	**10.5**
Condensate sales in Israel in thousands of barrels[2]	**120**	**109**	**477**

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

[2] Figures refer to condensate sales (100%) from the Tamar project, rounded off to thousands of barrels.

Net revenues in the Report Period amounted to approx. $94.4 million, compared with approx. $85.3 million in the same period last year, an increase of approx. 10%. The increase derives primarily from the increase in the quantity of gas and condensate that was sold in the Report Period from the Tamar reservoir.

The cost of production of gas and condensate mainly includes the management and operating expenses in the Tamar project which include, *inter alia*, expenses of haulage and transport, salaries, consulting, maintenance and insurance. The cost of production of gas and condensate in the Report Period amounted to approx. $10 million, compared with approx. $8.5 million in the same period last year, an increase of approx. 17.6%. The increase in the Report Period mainly derives from expenses in respect of an upgrade of equipment on the Tamar platform which started in H2/2018.

Depreciation, depletion and amortization expenses in the Report Period amounted to approx. $11 million, compared with approx. $10.3 million in the same period last year. Depreciation expenses in the Report Period include depletion depreciation in the Tamar and Yam Tethys projects. The increase derives primarily from an increase in the quantity of gas produced from the Tamar reservoir during the Report Period.

Oil and gas exploration expenses in the Report Period amounted to approx. $3.3 million, compared with approx. $1.4 million in the same period last year. Oil and gas exploration expenses in the period include, *inter alia*, expenses of geologists, engineers and consulting, as well as G&A expenses of various projects. The increase in the Report Period derives primarily from an increase in the administrative expenses attributed to the Ratio-Yam joint venture.

G&A expenses in the Report Period amounted to approx. $2.5 million, compared with approx. $2.3 million in the same period last year, and include, *inter alia*, expenses for professional services, payroll expenses and management fees to the General Partner. Furthermore, G&A expenses include expenses in the amount of approx. $0.2 million (in the same period last year: approx. $0.4 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 Report Period amounted to approx. $0.5 million, compared with approx. $1 million in the same period last year, and they derive primarily from the update of other long-term assets.

The Partnership's share in the losses of a company accounted for at equity, net amounted to approx. $36.6 million, compared with a sum of approx. $5.4 million in the same period last year. The loss in the Report Period mainly derives from an adjustment of the value of the investment in Tamar Petroleum to the market value thereof, as specified above. For further details, see Note 4F of the financial statements attached below.

Financial expenses in the Report Period amounted to approx. $11 million, compared with approx. $15.8 million in the same period last year. Most of the financial expenses derived from interest in respect of bonds in the sum of approx. $17.3 million, out of which the Partnership capitalized financial expenses in the amount of approx. $7.7 million attributed to the development of the Leviathan project. In addition, in the Report Period, the Partnership capitalized financial expenses in respect of credit from banking corporations, which credit was directly designated for the Leviathan project, in the sum of approx. $32.8 million. The decrease in financial expenses in the Report Period compared with the same period last year derives from the repayment of the 2018 Tamar Bond Series, which repayment was made in October 2018.

Financial income in the Report Period amounted to approx. $21.5 million, compared with approx. $48.4 million in the same period last year. The decrease in financial income mainly derives from a revaluation of royalties receivable from the Karish and Tanin leases and annual payments receivable that derived from the sale of all of the Partnership's interests in the Karish and Tanin leases (jointly: "**Amounts Receivable**"), in the sum of approx. $17.8 million which derived primarily from a resource update, compared with approx. $45 million in the same period last year which mainly derived from a change in the cap rates, bringing forward of the date of the investment decision on the development of the leases, updating of contingent resources and hydrocarbon liquids (condensate and natural gas liquids) and a production rate forecast. For further details with respect to the Amounts Receivable, see Note 4E to the financial statements attached below.

Petroleum and gas profit levy in the Report Period amounted to an expense of approx. $0.9, compared with the sum of $0.8 million in the same period last year. The amount of the levy in the Report Period is comprised of a levy for the Partnership's revenues from the Yam Tethys project.

3. Financial position, liquidity and financing sources

A. Financial position

Below is a specification of the main changes in the condensed interim statement of financial position as of March 31, 2019, compared with the statement of financial position as of December 31, 2018:

Total condensed statement of financial position as of March 31, 2019 amount to approx. $3,879.8 million, compared with approx. $3,771.4 million as of December 31, 2018.

Current assets of the Partnership as of March 31, 2019 amount to approx. $424.2 million, compared with approx. $474.7 million as of December 31, 2018, as specified below:

1) **Cash and cash equivalents** as of March 31, 2019 total approx. $93.3 million, compared with approx. $143.9 million as of December 31, 2018. The decrease during the Report Period derived primarily from the Partnership's investments in the Leviathan project as well as from distribution of profits to the participation unit holders.

2) **Short-term investments** as of March 31, 2019 total approx. $204.7 million, compared with approx. $186.2 million as of December 31, 2018, and include, *inter alia*, corporate bonds, short-term deposits, a deposit serving as a safety cushion for the bonds of Tamar Bond, and ETFs.

3) **Trade receivables item** as of March 31, 2019 total approx. $52 million, compared with approx. $45.5 million as of December 31, 2018.

4) **Trade and other receivables item** as of March 31, 2019 total approx. $74.3 million, compared with approx. $99.2 million as of December 31, 2018. The decrease derives primarily from a decrease in the balance of the operator of the joint ventures in the Leviathan project.

Non-current assets of the Partnership as of March 31, 2019 amount to approx. $3,455.6 million, compared with approx. $3,296.7 million on December 31, 2018, as specified below:

1) **Investments in petroleum and gas assets** as of March 31, 2019 total approx. $2,964 million, compared with approx. $2,805.4 million as of December 31, 2018. The increase mainly derives from investments for the development of the Leviathan project in the sum of approx. $166 million. Conversely, the Partnership recorded depreciation depletion and amortization expenses in respect of the Tamar and Yam Tethys projects in the sum of approx. $11 million.

2) **Other long-term assets** as of March 31, 2019 totaled approx. $390.8 million, compared with approx. $306.8 million as of December 31, 2018. The assets mainly include receivables in respect of the sale of the Karish and Tanin leases in the sum of approx. $193.2 million, other receivables in respect of the construction of infrastructures for the export of gas in the sum of approx. $55.5 million, advance payments on account of Royalties paid to the State to related parties and to third parties in the sum of approx. $34.2 million and financial assets available for sale in the sum of approx. $84.4 million, which derive from the Partnership's holdings in the shares of Tamar Petroleum which were recorded at fair value and classified from investment in a company accounted for at equity item as provided in Note 4F to the financial statements attached hereto.

3) **Long-term deposits in banks** as of March 31, 2019 amount to approx. $100.7 million, compared with approx. $60.3 million as of December 31, 2018, which serve as a safety cushion for the bonds of Tamar Bond.

4) **Investment in a company accounted for at equity** as of December 31, 2018 included the investment in shares of Tamar Petroleum Ltd. in the sum of approx. $124.3 million. See the other long-term assets item above and Note 4F to the financial statements attached below.

Current liabilities as of March 31, 2019 amount to approx. $152.4 million, compared with approx. $196.5 million as of December 31, 2018, as specified below.

1) **Trade and other payables** as of March 31, 2019 amounted to approx. $152.4 million, compared with approx. $161.8 million as of December 31, 2018. The decrease derives primarily from a decrease in the payables item in the context of the joint venture in the Leviathan project. Conversely, the Partnership recorded interest payable expenses in respect of liabilities for bonds and to banking corporations in the sum of approx. $33.8 million.

2) **Declared profits for distribution** as of December 31, 2018 amounted to approx. $34.7 million and were paid in January 2019.

Non-current liabilities as of March 31, 2019 amount to approx. $2,831.2 million, compared with approx. $2,719.8 million as of December 31, 2018, as specified below:

1) **Bonds** – in the sum of approx. $1,348.4 million consist of Series A Bonds in the sum of approx. $396.1 million (net of issue expenses) and bonds of Tamar Bond in the sum of approx. $952.3 million (net of issue expenses) (see Part Four below).

2) **Long-term liabilities to banking corporations** include a loan in the sum of approx. $1,349.3 million (net of raising costs) compared with approx. $1,238.1 million (net of raising costs) as of December 31, 2018, in relation to the financing of the Leviathan project (see Note 10C to the annual financial statements).

3) **Other long-term liabilities** as of March 31, 2019 total approx. $133.5 million, compared with approx. $134 million as of December 31, 2018, and include mainly gas and petroleum asset retirement obligations in the Yam Tethys, Tamar and Leviathan projects, in the amount of approx. $112.6 million and tax payment liabilities on account of the tax owed by the holders of the Partnership's participation units in the sum of approx. $21 million which derived from capital gain from the sale of 9.25% of the interests in Tamar and Dalit to Tamar Petroleum.

The capital of the limited partnership as of March 31, 2019 totals approx. $896.2 million, compared with approx. $855.1 million as of December 31, 2018. The increase in capital mainly derives from the profit for the Report Period, in the sum of approx. $40 million, an increase in a capital reserve for transactions between a corporation and a controlling interest holder thereof in the amount of approx. $0.2 million, and an increase due to a refund of excess advance tax payments paid on account of the tax owed by the unit holders in the sum of approx. $6.4 million. Conversely, a decrease was recorded in a capital reserve for an equity instrument designated for measurement at fair value and cash flow hedging transactions in the sum of approx. $5.5 million.

Cash flow

Cash flows generated by the Partnership from operating activities amounted in the Report Period to approx. $70.7 million, compared with approx. $53.5 million in the same period last year.

Cash flows used for investment activities amounted in the Report Period to approx. $203.6 million, compared with the sum of approx. $106.1 million in the same period last year. In the Report Period, the Partnership invested approx. $185.7 million, mainly in the Leviathan project, and approx. $39.8 million in a long-term deposit that serves as a safety cushion for Tamar Bond, and, in addition, a decrease occurred due to the operator of joint ventures in the sum of approx. $33.7 million.

Cash flows generated from financing activities in the Report Period total approx. $82.3 million, compared with approx. $38 million derived from financing activities in the same period last year. Cash flows for the financing activities in the Report Period mainly derived from the receipt of loans from banking corporations for the financing of the Leviathan project in the sum of approx. $110.6 million, and, conversely, the Partnership distributed profits in the sum of approx. $34.7 million, and also recorded a refund of excess advance tax payments paid on account of the tax owed by the unit holders in the sum of approx. $6.4 million.

B. <u>Profit distributions</u>

On January 14, 2019, the Partnership distributed approx. ILS 130 million (ILS 0.11075 per participation unit), which were approved by the board of directors of the General Partner and the trustee on December 24, 2018.

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 2018, except as stated below:

1. Report on linkage bases in Dollars in thousands, as of March 31, 2019

	Financial Balances				
	In dollars or dollar-linked	**In non-linked ILS**	**Non-linked**	**Non-financial balances**	**Total**
Assets					
Cash and cash equivalents	85,347	7,926	-	-	93,273
Short-term investments	204,519	188	-	-	204,707
Trade receivables	51,997	-	-	-	51,997
Other receivables	71,523	-	-	2,743	74,266
Investments in gas and petroleum assets	-	-	-	2,964,045	2,964,045
Long-term deposits in banks	100,682	-	-	-	100,682
Other long-term assets	196,393	-	84,361	110,082	390,836
Total assets	**710,461**	**8,114**	**84,361**	**3,076,870**	**3,879,806**
Liabilities					
Trade and other payables	128,107	1,725	-	20,963	152,425
Bonds	1,348,388	-	-	-	1,348,388
Long-term liabilities to banking corporations	1,349,276	-	-	-	1,349,276
Other long-term liabilities	-	-	-	133,523	133,523
Total liabilities	**2,827,401**	**1,725**	**-**	**154,486**	**2,983,612**
Total net assets	**(2,116,940)**	**6,389**	**84,361**	**2,922,384**	**896,194**

2. Report on linkage bases in Dollars in thousands, as of December 31, 2018

	Financial Balances			
	In dollars or dollar-linked	In non-linked ILS	Non-financial balances	Total
Assets				
Cash and cash equivalents	105,370	38,515	-	143,885
Short-term deposits and investments	185,979	174	-	186,153
Trade receivables	45,481	-	-	45,481
Other receivables	96,487	-	2,684	99,171
Investments in gas and petroleum assets	-	-	2,805,352	2,805,352
Long-term deposits	60,281	-	-	60,281
Investment in company accounted for at equity	-	-	124,250	124,250
Other long-term assets	201,560	-	105,242	306,802
Total assets	**695,158**	**38,689**	**3,037,528**	**3,771,375**
Liabilities				
Trade and other payables	142,383	78	19,366	161,827
Declared profits for distribution	-	-	34,685	34,685
Bonds	1,347,575	-	-	1,347,575
Long-term liabilities to banking corporations	1,238,143	-	-	1,238,143
Other long-term liabilities	-	-	134,041	134,041
Total liabilities	**2,728,101**	**78**	**188,092**	**2,916,271**
Total net assets	**(2,032,943)**	**38,611**	**2,849,436**	**855,104**

3. Sensitivity tests

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

Sensitivity analysis of contingent proceeds in connection with Royalties and receivables in connection with the Debt Component from the sale of the Karish and Tanin leases to changes in the cap rate ($ in thousands):

Sensitive instrument	Profit/(Loss) from Changes		Fair Value	Profit/(Loss) from Changes	
	2%	1%		-1%	-2%
Royalties receivable	(16,705)	(8,771)	129,200	9,723	20,536
Amounts receivables in connection with the sale of the Karish and Tanin leases	(5,371)	(2,762)	77,800	2,926	6,029
Total	**(22,076)**	**(11,533)**	**207,000**	**12,649**	**26,565**

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

Sensitive instrument	Profit/(Loss) from Changes		Fair Value	Profit/(Loss) from Changes	
	10%	5%		-5%	-10%
Royalties receivable	5,790	1,601	129,200	(4,540)	(6,397)

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

Sensitive instrument	Profit/(Loss) from Changes		Fair Value	Profit/(Loss) from Changes	
	10%	5%		-5%	-10%
	3.995	**3.814**	**3.632**	**3.450**	**3.269**
Cash and cash equivalents	(793)	(396)	7,926	396	793
Bank deposits	(19)	(9)	188	9	19
Trade and other payables	173	86	(1,725)	(86)	(173)
Total	**(639)**	**(319)**	**6,389**	**319**	**639**

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

Dollar Interest	Profit/(Loss) from Changes		Fair Value	Profit/(Loss) from Changes	
	10%	**5%**		**-5%**	**-10%**
Foreign bonds	(334)	(167)	67,546	167	334
Liabilities to banking corporations	(6,568)	(3,281)	(1,485,601)	3,275	6,543
Financial derivatives	1,951	976	(1,719)	(979)	(1,960)
Total	**(4,951)**	**(2,472)**	**(1,419,774)**	**2,463**	**4,917**

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

Dollar Interest	Profit/(loss) from the changes		Fair value	Profit/(loss) from the changes	
	10%	**5%**		**-5%**	**-10%**
ETFs	2,852	1,426	28,523	(1,426)	(2,852)
Investment in a company accounted for at equity	8,436	4,218	84,361	(4,218)	(8,436)
Total	**11,288**	**5,644**	**112,884**	**(5,644)**	**(11,288)**

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

1. Subsequent events

For material events after the date of the condensed statement of financial position, see Note 6 to the financial statements as of March 31, 2019, which are attached below.

2. Critical accounting estimates

No material change occurred in the Report Period compared with the reports for 2018, except as stated in Note 2 to the financial statements in relation to the first-time application of new accounting standards.

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

Bond Series[4 5]	**2020**	**2023**	**2025**
Par value on issue date	400,000	400,000	400,000
Issue date	May 19, 2014	May 19, 2014	May 19, 2014
Par value as of March 31, 2019	320,000	320,000	320,000
Linked par value as of March 31, 2019	320,000	320,000	320,000
Value in the Partnership's books as of March 31, 2019	322,534	321,310	320,413
Market cap as of March 31, 2019[6]	327,690	331,498	332,390
Fixed annual interest rate	4.435%	5.082%	5.412%
Principal payment date	December 30, 2020	December 30, 2023	December 30, 2025
Interest payment dates	Semiannual interest payable on every June 30th and every December 30th as of the issue date in 2014-2020	Semiannual interest payable on every June 30th and every December 30th as of the issue date in 2014-2023	Semiannual interest payable on every June 30th and every December 30th as of issue date in 2014-2025
Linkage base: base index[7]	None		
Conversion right	None		
Right to prepayment or mandatory conversion[8]	Right to prepayment		
Guarantee for payment of the liability	See Note 10B to the annual financial statements		
Name of the trustee	HSBC BANK USA, NATIONAL ASSOCIATION		
Name of person in charge at the trust company	Susie Moy		

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

Trustee's address and e-mail	HSBC Bank USA, National Association, as TRUSTEE 452 5th Avenue, 8E6 New York, NY 10018 CTLANYDealManagement@us.hsbc.com
Rating as of the issue date[9]	Moody's: Baa3 S&P: BBB- Midroog Ltd: Aa2 Standard & Poor's Maalot: ilAA
Rating as of the report date[10]	Moody's: Baa3 S&P: BBB Midroog Ltd: Aa2 Standard & Poor's Maalot: ilAA
Has the company fulfilled, up to March 31, 2019 and during the three months then ended, all of the conditions and obligations under the indenture	Yes
Is the bonds series material[11]	Yes
Have any conditions establishing cause for acceleration of the bonds been met	No
Pledges to secure the bonds	See Note 10B to the annual financial statements.

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

[10] Since the bond issue date no change has occurred in the rating in relation to the initial rating report. See report dated March 5, 2019 (Ref. No.: 2019-01-019092), the information in which is incorporated herein by reference.

[11] 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 Bonds	**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, 2019 in ILS in thousands	1,528,533
Linked par value as of March 31, 2019 in ILS in thousands	1,453,687
Value in the Partnership's books as of March 31, 2019 in ILS in thousands	1,461,663
Market cap as March 31, 2019 in ILS in thousands	1,472,742
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[12]	Right to prepayment
Guarantee for payment of the liability	See Note 10D to the annual financial statements.
Name of the trustee	Reznik Paz Nevo Trusts Ltd.
Name of person in charge at the trust company	Adv. Michal Avtalion-Rishony
Trustee's address and e-mail	14 Yad Harutzim St., Tel Aviv, michal@rpn.co.il
Rating as of the issue date[13]	A1 stable
Rating as of the report date[14]	A1 stable
Has the company fulfilled, by March 31, 2019 and in the three months ending on such date, all of the conditions and obligations under the indenture	Yes
Have any conditions establishing cause for acceleration of the bonds been fulfilled	No
Pledges to secure the bonds	See Note 10D to the annual financial statements.
The Partnership's financial equity as of March 31, 2019, as defined in the indenture[15]	$4,421 thousand
The financial equity to debt ratio as of March 31, 2019, as defined in the indenture[13]	Approx. 11
Is it material[16]	Yes

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

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

[14] Since the bond issue date no change has occurred in the rating of the bonds. Doe an updated rating report, see the Partnership's immediate report of January 1, 2019 (Ref. No.: 2019-01-000193), the information in which is incorporated herein by reference.

[15] In accordance with the Partnership's undertaking on the date of the issue of the bonds – for further details, see Note 10D to the Periodic Report. 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, 2018 that are included in Chapter A (Description of the Partnership's Business) of the Partnership's periodic report for 2018.

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,

Assi Bartfeld	**Yossi Abu**
Chairman of the Board of Directors	CEO

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

[16] 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.

Annex A to the Board of Directors' Report

Figures regarding Delek Avner (Tamar Bond) Ltd.

Further to Note 10B to the financial statements for 2018 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)

	31.3.2019	31.3.2018	31.12.2018
	Unaudited	**Unaudited**	**Audited**
Assets:			
Current Assets:			
Short-term bank deposits	68,541	127,179	37,158
Interest receivable	11,943	15,014	-
Shareholders	-	319,701	2,561
	80,484	461,894	39,719
Noncurrent Assets:			
Loans to shareholders	958,845	958,808	958,822
Long-term bank deposits	100,682	101,927	60,281
	1,059,527	1,060,735	1,019,103
	1,140,011	1,522,629	1,058,822
Liabilities and Equity:			
Current Liabilities:			
Interest Payable	11,943	15,014	-
Related parties	69,223	129,106	-
Bonds	-	320,000	-
	81,166	464,120	-
Noncurrent Liabilities:			
Bonds	960,000	960,000	960,000
Loans from shareholders	100,000	100,000	100,000
	1,060,000	1,060,000	1,060,000
Equity (Deficit)*	(1,155)	(1,491)	(1,178)
	1,140,011	1,522,629	1,058,822

* The deficit stems from the initial implementation of IFRS 9, approx. 23 thousand USD$ (Income) for the current period. 31.3.2018 approx. 105 USD$ (Income) and 31.12.2018 approx. 419 USD$ (Income).

Statements of Comprehensive Income (Expressed in US$ Thousands)

	For the Three Month Ended 31.3.2019 Unaudited	For the Three Month Ended 31.3.2018 Unaudited	For the Period Ended 31.12.2018 Audited
Financial expenses	12,760	15,575	60,570
Financial income	(12,783)	(15,680)	(60,988)
Total comprehensive income	(23)	(105)	(418)

SPONSOR FINANCIAL DATA REPORT[17]
Cash flow for the period from July 1, 2019 – March 31, 2019

		Delek Drilling LP
	Item	Quantity/Actual Amount (In thousands)
A.	Total Offtake (BCM) (100%)[18]	2.6
B.	Tamar Revenues (100%)[9]	521,831
C.	Loss Proceeds, if any, paid to Revenue Accounts	-
D.	Sponsor Deposits, if any, into Revenue Accounts	-
E.	Gross Revenues (before Royalties)	110,983
F.	Overriding Royalties	
	(a) Statutory Royalties	(13,194)
	(b) Third Party Royalties	(11,640)
G.	Net Revenues	86,149
H.	Costs and Expenses:	
	(a) Fees Under the Financing Documents – (Interest Income)	180
	(b) Taxes	-
	(c) Operation and Maintenance Expenses	(11,486)
	(d) Capital Expenditures	(3,695)
	(e) Payments under the Tamar FUA	-
	(f) Insurance	1
I.	Total Costs and Expenses (sum of Items H(a), (b), (c), (d), (e) and (f))	15,000
J.	Total Cash Flows Available for Debt Service (Item G minus Item H)	71,149
K.	Total Debt Service (Interest Expense)	-

[17] 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.
[18] Sections A and B are based on 100% of Tamar partners.

Annex B to the Board of Directors' Report

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

Following are details of a highly material valuation with respect to the profit from the revaluation of Royalties from the sale of the Partnership's interests in the Karish and Tanin leases (for further details, see Note 4E to the condensed interim financial statements and the valuation attached below):

Identification of the object of the valuation:	Royalties in respect of the sale of all of the interests in the Karish and Tanin leases.
Timing of the valuation:	March 31,2019.
Value of the object of the valuation shortly before the date of the valuation, if GAAP, including depreciation and amortization, did not warrant a change in its value according to the valuation:	Not applicable.
Value of the object of the valuation determined according to the valuation:	A sum of approx. U.S. $129.2 million, which is included under other long-term assets of the Partnership.
Identification of the valuator and his/its characteristics, including education, experience in the preparation of valuations for accounting purposes in reporting corporations and in scopes similar to or exceeding those of the reported valuation, and dependence on the party commissioning the valuation, including reference to indemnification agreements with the valuator:	GSE Financial Advisory Ltd. is a subsidiary of Giza Singer Even Ltd. (jointly: the "**Valuator**"), which is a leading financial consulting and investment banking firm in Israel. The firm has vast experience in supporting the largest companies, the most prominent privatizations and the most important transactions in the Israeli market, which experience was gained thereby over the course of its thirty years of activity. Giza Singer Even is active in three segments, through autonomous and independent business divisions: economic consulting; investment banking; analytical research and corporate governance. The work was performed by a team headed by CPA Eitan Cohen, partner and Head of the Economic Department at Giza Singer Even, who has more than ten years of experience in economic and business consulting, company valuations and financial instruments. Eitan is an accountant holding a B.A. in Economics and Business Administration from the Ben Gurion University and an M.A. in Financial Mathematics from the Bar Ilan University. The Valuator has no personal interest in and/or dependence on the Partnership

	and/or the General Partner of the Partnership, other than the fact that it received a fee for the valuation. Furthermore, the Valuator has confirmed that its fee is not contingent on the results of the valuation.
The valuation model applied by the Valuator:	Discounting expected cash flows while adjusting the discount rates to the risks entailed by the cash flow forecasts.
The assumptions based on which the Valuator prepared the valuation according to the valuation model:	The key assumptions underlying the valuation are as follows: 1. Dates of production of gas from the Karish reservoir: January 1, 2022 to June 30, 2035; 2. Average annual production rate from the Karish reservoir: approx. 4.6 BCM of natural gas; condensate production rate from the Karish reservoir according to a ratio of approx. 13.1 condensate barrels per 1 mmcf of natural gas produced from the reservoir; 3. Dates of production of gas from the Tanin reservoir: April 1, 2035 to September 30, 2039; 4. Average annual production rate from the Tanin reservoir: approx. 4.8 BCM of natural gas; condensate production rate from the Tanin reservoir according to a ratio of approx. 5.3 condensate barrels per 1 mmcf of natural gas produced from the reservoir; 5. Royalty component discount rate: 11.5%; 6. Effective Royalty rate to be paid to the State for the gas and the condensate: 11.5%; 7. Gas price formula: The basic price in the contracts according to which the valuation was prepared was estimated based on the formula specified in the price mechanism between Energean and ICL and ORL and between Energean and

	OPC; 8. Condensate price: The condensate price forecast was estimated based on a long-term oil price forecast average by the World Bank[19] and the EIA[20] and based on the assumption that the condensate price will derive from the Brent price with adjustments to oil quality differences; 9. On April 15, 2019, Energean reported that the gas quantity in place discovered in the exploration drilling that commenced in the beginning of March 2019 at Karish North ranged between 1.0 and 1.5 TCF (28-42 BCM). The additional recoverable gas quantity, for the purposes of the valuation, was estimated based on the lower end of the range, multiplied by a recovery factor of approx. 60%, according to the data of the amount of recoverable gas in the Tamar and Leviathan reservoirs, which are based on data that were included in a resource report by an outside appraiser and were published by the Partnership. 10. Petroleum profit levy: According to the Petroleum Profit Taxation Law, 5771-2011; 11. Corporate tax rate: 23%, according to the statutory tax rate throughout the years of the forecast.

[19] A world Bank Quarterly Report: Commodity Markets Outlook, October 2018.
[20] U.S Energy Information Administration: Annual Energy Outlook 2019.

Delek Drilling

Condensed Interim financial statements 31.3.19

2019

May 14, 2019

To

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

19 Abba Eban, Herzliya

Dear Sir/Madam,

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

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 May 14, 2019 on condensed financial information of the Partnership as of March 31, 2019, and for the three-month period then ended.

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

Delek Drilling – Limited Partnership

Condensed Interim Financial Statements as of March 31, 2019

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, 2019. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

Delek Drilling – Limited Partnership

Condensed Interim Financial Statements as of March 31, 2019

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, 2019 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 this interim period in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of financial information for this interim period under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel – "Review of Interim Financial Statements by the Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Generally Accepted Auditing Standards in Israel, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information 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.

Tel Aviv, May 14, 2019

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

Delek Drilling – Limited Partnership

Condensed Interim Statements of Financial Position (Dollars in thousands)

	31.3.2019	31.3.2018	31.12.2018
	Unaudited	Unaudited	Audited
Assets:			
Current assets:			
Cash and cash equivalents	93,273	140,223	143,885
Short-term investments	204,707	303,182	186,153
Trade receivables	51,997	41,739	45,481
Trade and other receivables	74,266	24,635	99,171
	424,243	509,779	474,690
Non-current assets:			
Investments in petroleum and gas assets	2,964,045	2,192,125	2,805,352
Investment in a company accounted for at equity	-	117,236	124,250
Long-term deposits in banks	100,682	101,927	60,281
Other long-term assets	390,836	309,849	306,802
	3,455,563	2,721,137	3,296,685
	3,879,806	3,230,916	3,771,375
Liabilities and equity:			
Current liabilities:			
Bonds	-	309,742	-
Declared profits for distribution	-	-	34,685
Trade and other payables	152,425	169,503	161,827
	152,425	479,245	196,512
Non-current liabilities:			
Bonds	1,348,388	1,344,988	1,347,575
Long-term liabilities to banking corporations	1,349,276	577,743	1,238,143
Other long-term liabilities	133,523	122,397	134,041
	2,831,187	2,045,128	2,719,759
Equity:			
Partnership's equity	154,791	154,791	154,791
Capital reserves	15,742	21,658	21,010
Retained earnings	725,661	530,094	679,303
	896,194	706,543	855,104
	3,879,806	3,230,916	3,771,375

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

May 14, 2019			
Date of approval of the financial statements	Assi Bartfeld Chairman of the Board Delek Drilling Management (1993) Ltd. General Partner	Yossi Abu CEO Delek Drilling Management (1993) Ltd. General Partner	Yossi Gvura Deputy CEO Delek Drilling Management (1993) Ltd. General Partner

Delek Drilling – Limited Partnership

Condensed Interim Statements of Comprehensive Income (Dollars in thousands)

	For the three-month period ended		For the year ended
	31.3.2019	31.3.2018	31.12.2018
	Unaudited	Unaudited	Audited
Revenues:			
From natural gas and condensate sales	117,739	106,606	457,982
Net of royalties	23,380	21,278	91,333
	94,359	85,328	366,649
Expenses and costs:			
Cost of production of natural gas and condensate	9,980	8,502	32,720
Depreciation, depletion and amortization expenses	10,953	10,309	45,058
Petroleum and gas exploration expenses and other direct expenses	3,344	1,375	9,720
G&A	2,517	2,299	9,811
Total expenses and costs	26,794	22,485	97,309
Other expenses	(474)	(988)	(561)
Partnership's share of earnings (losses) of company accounted for at equity, net (Note 4F)	(36,640)	(5,360)	10,542
Operating income	30,451	56,495	279,321
Financial expenses	(11,037)	(15,804)	(57,432)
Financial income	21,500	48,360	59,149
Financial income, net	10,463	32,556	1,717
Profit before levy	40,914	89,051	281,038
Petroleum and gas profit levy	(922)	(757)	(4,205)
Net profit	39,992	88,294	276,833
Other comprehensive loss:			
Amounts which may subsequently be reclassified to profit or loss:			
Loss from cash flow hedging transactions	(1,641)	-	-
Carried to profit or loss for cash flow hedging transactions	(594)	(621)	(2,721)
	(2,235)	(621)	(2,721)
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	(3,249)	-	-
Total other comprehensive loss	(5,484)	(621)	(2,721)
Total comprehensive income	34,508	87,673	274,112
Basic and diluted profit per participation unit (in dollars)	0.034	0.075	0.236
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, 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 (loss) income	-	-	-	(5,484)	39,992	34,508
Profits distributed	-	-	-	-	(4)	(4)
Reimbursement of tax advances on account of the tax for which the holders of the participation units are liable	-	-	-	-	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 Partnership's equity	Capital reserve for redemption of participation units	Capital reserve for transactions between a corporation and a control holder thereof	Capital reserve for financial assets available for sale and cash flow hedging transactions	Retained earnings	Total
	Unaudited					
For the three-month period ended March 31, 2018:						
Balance as of January 1, 2018 prior to application of said change (audited)	154,791	1,631	13,166	9,198	439,692	618,478
Effect of initial application of IFRS 9 (see Note 2C to the annual financial statements)	-	-	-	(2,100)	2,114	14
Balance as of January 1, 2018 subsequently to application of said change (audited)	154,791	1,631	13,166	7,098	441,806	618,492
Net profit	-	-	-	-	88,294	88,294
Other comprehensive loss	-	-	-	(621)	-	(621)
Total comprehensive income (loss)	-	-	-	(621)	88,294	87,673
Profits distributed	-	-	-	-	(6)	(6)
Capital reserve for benefits from a control holder	-	-	384	-	-	384
Balance as of March 31, 2018	154,791	1,631	13,550	6,477	530,094	706,543

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

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

	The Partnership's equity	Capital reserve for redemption of participation units	Capital reserve for transactions between a corporation and a control holder thereof	Capital reserve for financial assets available for sale and cash flow hedging transactions	Retained earnings	Total
	Audited					
For the year ended December 31, 2018:						
Balance as of January 1, 2018 prior to application of said change	154,791	1,631	13,166	9,198	439,692	618,478
Effect of initial application of IFRS 9 (see Note 2C to the annual financial statements)	-	-	-	(2,100)	2,114	14
Balance as of January 1, 2018 subsequently to application of said change	154,791	1,631	13,166	7,098	441,806	618,492
Net profit	-	-	-	-	276,833	276,833
Other comprehensive loss	-	-	-	(2,721)	-	(2,721)
Total comprehensive income (loss)	-	-	-	(2,721)	276,833	274,112
Profits distributed	-	-	-	-	(274)	(274)
Declared profits for distribution	-	-	-	-	(34,446)	(34,446)
Tax advances on account of the tax for which the holders of the participation units are liable	-	-	-	-	(4,616)	(4,616)
Capital reserve for benefits from a control holder	-	-	1,836	-	-	1,836
Balance as of December 31, 2018	154,791	1,631	15,002	4,377	679,303	855,104

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
	31.3.2019	31.3.2018	31.12.2018
	Unaudited		Audited
Cash flows – operating activity:			
Profit for the period	39,992	88,294	276,833
Adjustments for:			
Depreciation, depletion and amortization	11,406	11,056	47,518
Change in fair value of financial derivatives, net	37	-	-
Update of asset retirement obligations	729	678	5,070
Revaluation of short-term and long-term investments and deposits	(1,655)	60	2,603
Expenses (income) due to revaluation of share-based payment	227	243	(221)
Benefit from a control holder included in expenses against a capital reserve	216	384	1,836
Revaluation of other long-term assets	(17,858)	(45,157)	(48,804)
Partnership's share of losses (earnings) of company accounted for at equity, net	36,640	5,360	(10,542)
Changes in assets and liabilities items:			
Decrease (increase) in trade receivables	(6,516)	4,767	1,025
Decrease (increase) in trade and other receivables	(1,062)	1,385	446
Decrease (increase) in other long-term assets	2,149	(690)	(2,114)
Increase (decrease) in trade and other payables	6,502	(12,893)	(15,503)
Decrease in other long-term liabilities	(125)	(3)	(1)
	30,690	(34,810)	(18,687)
Net cash deriving from current operations	70,682	53,484	258,146
Cash flows - investment activity:			
Investment in petroleum and gas assets	(185,655)	(139,815)	(744,186)
Investment in other long-term assets	(9,628)	(5,120)	(15,930)
Repayment of a loan given	15,342	10,850	10,850
Decrease (increase) in short-term investments, net	(17,500)	(14,974)	91,159
Dividend received from company accounted for at equity	-	-	16,125
Deposit in long-term deposits in banks	(39,800)	-	(60,000)
Maturity of long-term deposits in banks	-	-	100,000
Change in respect of the operator of the joint ventures	33,651	43,007	(52,590)
Net cash used for investment activity	(203,590)	(106,052)	(654,572)
Cash flows - financing activity:			
Receipt of long-term loans from banking corporations (net of raising expenses)	110,615	109,150	775,384
Profits distributed	(34,689)	(61,091)	(61,359)
Tax advances paid for holders of participation units, net	-	-	(33,310)
Returns received from Income Tax for previous years, net	6,370	-	24,761
Repurchase of Tamar bonds	-	(10,103)	(10,103)
Repayment of Tamar bonds	-	-	(309,897)
Net cash deriving from financing activity	82,296	37,956	385,476
Decrease in cash and cash equivalents	(50,612)	(14,612)	(10,950)
Cash and cash equivalents balance at the beginning of the period	143,885	154,835	154,835
Cash and cash equivalents balance at the end of the period	93,273	140,223	143,885
Annex A – Financing and investment activity not involving cash flow:			
Investments in petroleum and gas assets against liabilities	78,236	92,438	127,110
Dividend declared by company accounted for at equity	-	7,237	-
Declared profits for distribution and tax advances payable at the expense of the unit holders	-	-	34,446
Annex B – Further information on cash flow:			
Interest paid (including capitalized interest)	21,231	8,981	129,117
Interest received	2,141	1,994	10,205

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

Note 1 – General:

A. Delek Drilling – Limited Partnership (the "**Partnership**") was founded according to a limited partnership agreement of July 1, 1993 between Delek Drilling Management (1993) Ltd. as general partner (the "**General Partner**") of the first part, and Delek Drilling Trusts Ltd. as limited partner (the "**Trustee**") of the second part.

The Trustee serves as trustee for the holders of the participation units, under the supervision of the supervisors, CPA Micha Blumenthal, together with Fahn Kanne & Co., CPAs, and Gissin & Keidar (jointly: the "**Supervisors**"). The Supervisors were granted certain supervision powers in the partnership agreement and in the Partnerships Ordinance.

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

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

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

B. As of the date of approval of the Condensed Interim Financial Statements, the Partnership's primary business is exploration, development and production of natural gas, condensate and petroleum, as well as the promotion of the use of infrastructures for the export of natural gas, aiming to increase the sales volume of natural gas. The Partnership is also promoting several alternatives for the sale of its remaining direct holdings in the Tamar I/12 and Dalit I/13 leases (jointly: "**Tamar and Dalit**"), in accordance with the provisions of the Gas Framework (see Note 1G and Note 12J1 to the Annual Financial Statements), including by way of establishing an SPV which will offer debt and equity, to be listed on a foreign stock exchange and/or on the TASE and/or sale to a third party and/or through split of the Partnership's assets, such that all of the Partnership's assets and liabilities, other than the assets and liabilities attributed to the Tamar and Dalit leases, shall be transferred to a foreign SPV whose shares will be distributed by the Partnership as a distribution in kind to the Partnership's participation unit holders. For further details, see Note 23A to the Annual Financial Statements.

C. The Partnership's Condensed Interim Financial Statements should be read together with the Partnership's Financial Statements as of December 31, 2018 (the "**Annual Financial Statements**"). Therefore, notes regarding relatively insignificant updates to information that was already reported in the notes to the Annual Financial Statements were not presented in these Condensed Interim Financial Statements.

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

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

Notes to the Condensed Interim Financial Statements as of March 31, 2019 (Dollars in thousands)

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:

Financial instruments:

Further to the provisions of Note 2L1 to the Annual Financial Statements regarding financial assets, dividend income from investments in equity instruments is recognized on the record date for entitlement to the dividend in the income statement.

International Financial Reporting Standard No. 16 (“**IFRS 16**”):

Further to the provisions of Note AD to the Annual Financial Statements regarding the first-time application of IFRS 16 regarding leases, the Partnership reached the conclusion that in view of the nature of the operator’s engagement with the lessors, examination of the JOAs signed by the various participants in the projects, the contracts in which the operator engages in the context of the joint ventures, and the JOAs, such agreements do not meet the definition of a lease according to the provisions of IFRS 16 from the Partnership’s perspective.

Note 3 – Investments in Petroleum and Gas Assets:

A. Composition:

	31.3.2019	31.3.2018	31.12.2018
	Unaudited	Unaudited	Audited
Appraisal and exploration assets	115,169	114,321	114,952
Petroleum and gas assets	2,848,876	2,077,804	2,690,400
Total	2,964,045	2,192,125	2,805,352

B. Developments in investments in petroleum and gas assets:

1. **The Michal-Matan and Yam Tethys Joint Ventures:**
   In view of the security situation and in accordance with the decision of the Energy Minister, on May 5, 2019, production from the Tamar and Yam Tethys reservoirs was halted for approx. 24 hours. The halting of production as aforesaid will not have a material effect on the Partnership’s income from the sale of natural gas in Q2/2019.

2. **Block 12 in Cyprus:**
   On May 8, 2019 (after the date of the Condensed Interim Financial Statements) the Partnership, together with its other partners in Block 12, submitted an updated plan for development of Aphrodite reservoir, for approval by the Government of Cyprus. The aforesaid updated development plan is essentially similar to the development plan described in Note 7C4E to the Annual Financial Statements.

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

3. Further to the provisions of Note 7C9C to the Annual Financial Statements regarding a mediation arrangement in the Eran license, it is noted that on April 11, 2019, a judgment was entered on the mediation arrangement, according to which the Tamar South West reservoir, which is in the area of the Tamar I/12 lease (the "**Tamar SW Reservoir**"), will be divided between the area of the Tamar lease (78%) and the area of the Eran license (22%), and the right in the area of the Eran license will be divided at a ratio of 76% to the State and 24% to the rights holders in the Eran license prior to its expiration.

As of the date of approval of the Condensed Interim Financial Statements, the parties are working to formulate the agreements required for the implementation of the mediation arrangement, as specified above.

It is noted that on March 25, 2019, the Tamar partners notified the Energy Minister that they were withdrawing the appeal from the decision of the Petroleum Commissioner with respect to approval of the development plan for the Tamar SW Reservoir.

Note 4 – Additional Information:

A. Royalties to the State:

1. Further to Note 15B3 to the Annual Financial Statements, it is noted that on March 28, 2019, a letter was received from the Ministry of Energy, regarding payment of royalties advances in the Tamar project for 2019 according to which it was determined that the effective rate of royalty to be paid as advances in 2019 and until further notice, shall be 11.3%.

2. Further to Note 15B4 to the Annual Financial Statements, it is noted that on March 31, 2019 a letter was received from the Ministry of Energy, regarding payment of royalties advances in the Yam Tethys project for 2019 according to which it was determined that the effective rate of royalty to be paid as advances in 2019, shall be 9.36%.

B. Further to Note 12C3 to the Annual Financial Statements on the submission of bids by the Tamar partners and the Leviathan partners as part of proposals for the supply of natural gas to the Israel Electric Corporation Ltd. (the "**Competitive Process**" and the "**IEC**", respectively), it is noted that on April 4, 2019 (after the date of the Condensed Interim Financial Statements), the IEC notified the Partnership and the other Leviathan partners (hereinafter jointly: the "**Leviathan Partners**") that their proposal was chosen as the winner of the Competitive Process. The Leviathan Partners intend to promote the engagement in an agreement for the supply of natural gas from the Leviathan project to the IEC on an interruptible basis (the "**Agreement**").

Note 4 – Additional Information (Cont.):

On April 18, 2019 (after the date of the Condensed Interim Financial Statements), an administrative petition was served on the Partnership, which was filed with the Tel Aviv District Court by some of the Tamar partners (Isramco Negev 2, Limited Partnership, Tamar Petroleum Ltd., Dor Gas Exploration, Limited Partnership, and Everest Infrastructures, Limited Partnership (hereinafter jointly: the "**Petitioners**"), against the IEC and the Leviathan Partners (the IEC and the Leviathan Partners jointly: the "**Respondents**") (the "**Petition**"), pursuant to which the Court was moved to declare that the decision by the Tenders Committee of the IEC (the "**Committee**") of April 4, 2019, which declares the Leviathan Partners the winners of the Competitive Process, is wrong and unlawful and is therefore void; Alternatively, to remand the decision to the Committee and instruct it to consider other options, as specified in the Petition; Alternatively, to order the cancellation of the Competitive Process.

Concurrently with the filing of the Petition, a motion for an interim order was filed with the Court, to prohibit the Respondents from carrying out any action to promote or execute the results of the Competitive Process pending a decision on the said Petition as well as a motion to hold an urgent hearing on the motion for an interim order and on the Petition. On May 6, 2019, the Respondents' responses were filed to the granting of an interim order and the Petitioners' reply to the responses was filed on May 14, 2019. A preliminary hearing of the Petition was scheduled for June 3, 2019. In addition, the date for the filing of the Respondents' response to the Petition is by May 19, 2019.

The Leviathan partners estimate that the quantity of natural gas that will be supplied to the IEC during the term of the Agreement, as explained above (i.e. from October 1, 2019, or from the date of commencement of production of the gas from the Leviathan reservoir, whichever is later, until June 30, 2021, or the date of commencement of production of the gas from the Karish reservoir, whichever is earlier) is expected to be approx. 4 BCM.

C. Further to Note 12I5B to the Annual Financial Statements regarding a complaint and a motion for a provisional injunction filed by the Supervisors 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. (collectively: the "**Royalty Interest Owners**")), in which it was asserted, *inter alia*, that the Investment Recovery Date in the Tamar project has not yet arrived (the "**Supervisors' Claim**"), on April 4, 2019 (after the date of the Condensed Interim Financial Statements), the Royalty Interest Owners filed an answer in the Supervisors' Claim, as well as a counter-complaint against the Partnership, the Partnership's General Partner and the Supervisors (the "**Counterclaim**").

Note 4 – Additional Information (Cont.):

In the Counterclaim, the Royalty Interest Owners assert, *inter alia*, that the calculation of the Investment Recovery Date in the Tamar project, which was made by the Partnership, included expenses which were loaded onto the calculation, and *inter alia*, the financial expenses of the Partnership itself, future expenses, the sum of which is uncertain, of removal and clearing of facilities, HQ expenses of the Partnership and any expense intended for the stages of the project after the "wellhead". According to the Royalty Interest Owners, discounting such expenses, the Investment Recovery Date in the Tamar project occurred already in August 2015, or alternatively in 2016, or alternatively in 2017. Accordingly, the Royalty Interest Owners are moving the court to declare which expenses should be taken into account in the calculation of the Investment Recovery Date, and to order that the Partnership is required to make a new calculation of the Investment Recovery Date based on the aforesaid, as well as of the royalties that the Royalty Interest Owners are entitled to receive, and to deliver the calculation to the Royalty Interest Owners.

The Royalty Interest Owners further claim that according thereto, the issue of the Investment Recovery Date ought to be referred to arbitration and not heard in court, and that if the Supervisors' Claim is referred to arbitration, the hearing of the Counterclaim should also be referred to arbitration.

On May 13, 2019, the court decided to grant an agreed (by the Royalty Interest Owners) motion filed by the Partnership and the Partnership's General Partner and to extend the timeframe for the filing of an answer on behalf of the Partnership and the Partnership's General Partner to the Counterclaim filed by the Royalty Interest Owners until after the motion for a stay of proceedings in the Supervisors' Claim is decided.

In the Partnership's estimation, based on an opinion of its legal advisors, the Partnership's financial exposure from the Counterclaim is lower than 50% and the provision that was made in the Annual Financial Statements is sufficient.

It is noted that further to the hearing that was held at the court on the motion for a provisional remedy (as specified in Note 12I5 to the Annual Financial Statements), on April 2, 2019, the court sanctioned as a decision an arrangement between the Royalty Interest Owners and the Supervisors regarding the granting of a letter of undertaking to be given by Delek Energy Systems Ltd. This decision obviated the Supervisors' motion for a provisional injunction. A hearing of the motion for a stay of proceedings is expected to be held in June 2019.

D. On March 31, 2019, the Partnership announced the convening of a general meeting, to be held on May 16, 2019, on the agenda of which, are, *inter alia*, the following items:

1. Approval of the transaction for the acquisition of rights in the 399/"Roy" license and for participation in oil and/or gas explorations and production thereof in such license. For further details, see Note 7C8 to the Annual Financial Statements.

2. Approval of the transaction for adding Ithaca Energy Inc. as a partner in the 367/"Alon-D" license, and appointment thereof as operator of such petroleum asset at a rate of 25% in the license. For further details, see Note 7C6 to the Annual Financial Statements.

Note 4 – Additional Information (Cont.):

3. Approval of the transaction for the acquisition of rights in the 405/“New Ofek” and 406/“New Yahel” licenses and for participation in oil and/or gas explorations and production thereof in such licenses. For further details, see Note 23N to the Annual Financial Statements.

E. 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 (hereinafter jointly: the “**Leases**”), on April 15, 2019 (after the date of the Condensed Interim Financial Statements), Energean announced the discovery of natural gas in the exploration drilling performed in the “North Karish” prospect in the I/17 “Karish” lease area (the “**Notice**”, the “**Drilling**” and the “**Finding**”, respectively). According to the Notice, a preliminary analysis indicates an approximate amount of 28-42 BCM of Gas in Place. It is noted that the Partnership has no information regarding the quantity of natural gas that is recoverable from the well (if developed). However, for purposes of valuation of the royalties to which the Partnership is entitled from the Leases, this quantity was estimated by the appraiser at approx. 60%, based on the data on the quantity of recoverable gas in the Tamar and Leviathan reservoirs.

The financial income item in the report period includes an amount of approx. $17.7 million deriving mainly from an update of the value of the royalties from the Leases due to the Notice and partially from an update of the receivables in connection with the loan to Energean.

Below are the main parameters from the valuations used to measure the royalties and the receivables: the cap rate for receivables is estimated at 7.5%; the cap rate for the royalty component is estimated at 11.5%; the sum total of the contingent resources of natural gas and hydrocarbon liquids used in the valuation to measure the royalties was estimated at approx. 84 BCM and approx. 33 MMBBL, respectively; production rate forecast.

F. In view of the resignation of the General Partner’s CEO from his office as a director of Tamar Petroleum Ltd. (“**Tamar Petroleum**”) (as stated in Note 6G to the Annual Financial Statements), effective from March 6, 2019, and considering the rate of the voting rights of the Partnership in Tamar Petroleum, the Partnership no longer has material influence over Tamar Petroleum, and hence the Partnership has stopped treating its investment in Tamar Petroleum as an investment treated according to the equity method, and begun treating it as a financial asset designated for measurement at fair value through other comprehensive income.

The Partnership recorded a loss in the sum of approx. $36.6 million in the item “Partnership’s share of earnings (losses) of a company accounted for at equity, net”, which mainly derived from the recording of the holding in Tamar Petroleum at fair value on the date of the resignation, which includes deduction of a surplus cost that was attributed to oil and gas assets. From this date, any change in market value is classified as other comprehensive income (loss), with the exception of dividend income, which will be recognized in the income statement.

Note 4 – Additional Information (Cont.):

G. Further to Note 12C1B to the Annual Financial Statements regarding an amendment to the IEC agreement, it is noted that in the Condensed Interim Financial Statements, the Partnership applied the said amendment to the agreement from January 1, 2019, whose effect on the net profit of the Partnership totaled an expense of approx. $1.5 million. It is noted that as of the date of approval of the Condensed Interim Financial Statements, the Electricity Authority's approval has not yet been received for the agreement, and accordingly, the amendment to the agreement has not yet been signed.

H. Further to Note 12C1A8 to the Annual Financial Statements regarding a dispute in connection with the Electricity Production Tariff between the Partnership together with some of the Tamar partners and OPC Mishor Rotem Ltd. (collectively: the "**Parties**"), it is noted that during the month of March 2019, the arbitrator notified the Parties that in May 2019, his decision in the arbitration would be issued.

I. Further to Note 12I2 to the Annual Financial Statements regarding a motion for class certification which was filed by a consumer of the IEC against the Tamar partners on June 18, 2014 with the Tel Aviv District Court, it is noted that according to the court's decision of March 25, 2019, the date for the filing of closing statements on behalf of the Tamar partners was scheduled for July 2019 (in lieu of April 2019).

J. On May 1, 2019 (after the date of the Condensed Interim Financial Statements), the Compensation Committee and the Board of the Partnership's General Partner approved an annual bonus for the General Partner's CEO for 2018 in the sum of ILS 1,650 thousand (of which approx. ILS 165 thousand will be paid by Delek Energy and the balance of the bonus will be paid by the General Partner).

K. During March 2019 and May 2019, the Compensation Committee and the Board of the Partnership's General Partner, respectively, approved an updated compensation policy for officers of the Partnership and the Partnership's General Partner, subject to the approval of the general meeting of the holders of the Partnership's participation units. The Partnership intends to summon a general meeting on whose agenda, *inter alia*, is approval of the updated compensation policy.

L. Further to Note 13E to the Annual Financial Statements, on May 14, 2019 (after the date of the Condensed Interim Financial Statements), the Partnership released a shelf prospectus.

Note 5 – Financial Instruments:
Fair value of financial instruments:

A. The fair value of the financial instruments presented in the financial statements is at or around their book value, with the exception of issued bonds whose fair value, as of March 31, 2019, is approx. $1,397.1 million (as of December 31, 2018: approx. $1,356 million, as of March 31, 2018: approx. $1,696.6 million), and whose book value is approx. $1,364.8 million (as of December 31, 2018: approx. $1,348 million, as of March 31, 2018: approx. $1,674.1 million).

Notes to the Condensed Interim Financial Statements as of March 31, 2019 (Dollars in thousands)

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

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:

	31.3.2019			
	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 receivables from the Karish and Tanin leases (See Note 4E above)	-	-	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	39,889	-	-	39,889
Total financial assets	166,754	77,800	134,174	378,728
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, 2019 (Dollars in thousands)

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

	31.3.2018			
	Level 1	Level 2	Level 3	Total
	Unaudited			
Financial assets at fair value through profit or loss:				
- Bonds	83,896	-	-	83,896
- Structured deposits	-	-	49,859	49,859
- Royalties receivables from the Karish and Tanin leases (See Note 4E above)	-	-	114,600	114,600
- Loan to Energean from the sale of the Karish and Tanin leases (See Note 8B to the Annual Financial Statements)	-	86,700	-	86,700
ETFs	14,181	-	-	14,181
	98,077	86,700	164,459	349,236

	31.12.2018			
	Level 1	Level 2	Level 3	Total
	Audited			
Financial assets at fair value through profit or loss:				
- Bonds	78,720	-	-	78,720
- Royalties receivables from the Karish and Tanin leases (See Note 8B to the Annual Financial Statements)	-	-	113,100	113,100
- ETFs	28,136	-	-	28,136
- Structured deposits	25,483	-	4,974	30,457
- Loan to Energean in the context of the sale of the Karish and Tanin leases (See Note 8B to the Annual Financial Statements)	-	91,500	-	91,500
	132,339	91,500	118,074	341,913

Notes to the Condensed Interim Financial Statements as of March 31, 2019 (Dollars in thousands)

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

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

	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
Remeasurement recognized in profit or loss	-	16,100	(84)	16,016
Remeasurement recognized in other comprehensive income	-	-	(1,929)	(1,929)
Acquisitions	-	-	294	294
Balance as of March 31, 2019	4,974	129,200	(1,719)	132,445

	For the period ended March 31, 2018			
	Structured deposits	Royalties based on future production	Contingent consideration from the sale of the Karish and Tanin leases	Total
	Unaudited			
Balance as of January 1, 2018 (audited)	44,888	88,600	78,500	211,988
Re-measurement recognized in profit or loss	(29)	26,000	19,050	45,021
Transfers out of level 3	-	-	(86,700)	(86,700)
Acquisitions	15,000	-	-	15,000
Dispositions/revenues	(10,000)	-	(10,850)	(20,850)
Balance as of March 31, 2018	49,859	114,600	-	164,459

Notes to the Condensed Interim Financial Statements as of March 31, 2019 (Dollars in thousands)

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

Adjustment for fair value measurements classified as Level 3 in the fair value hierarchy of financial instruments: (Cont.)

	For the year ended December 31, 2018			
	Structured deposits	Royalties based on future production	Contingent proceeds from the sale of the Karish and Tanin leases	Total
	Audited			
Balance as of January 1, 2018	44,888	88,600	78,500	211,988
Remeasurement recognized in profit or loss	86	24,500	19,050	43,636
Acquisitions	15,000	-	-	15,000
Dispositions/revenues	(55,000)	-	(10,850)	(65,850)
Transfers out of level 3	-	-	(86,700)	(86,700)
Balance as of December 31, 2018	4,974	113,100	-	118,074

C. 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 IRS agreements in the sum total of $400 million, according to which the Partnership receives variable interest and pays fixed interest at the rate determined in the agreement. The exchange transaction is used to hedge the exposure to changes in the fair value 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 liability for the exchange transaction in the sum of approx. $1,641 thousand was recognized against a capital reserve as part of the other comprehensive income. The ineffective amount recognized in profit or loss in the report period was immaterial.

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

A. For details on an updated plan for the development of the Aphrodite reservoir which was submitted for the approval of the Cypriot government, see Note 3B2.

B. For details on the IEC's notice to the Partnership and to the other Leviathan partners that their bid was chosen as the winner in the competitive process, and for an administrative petition that was filed with the Tel Aviv District Court by some of the Tamar partners against the IEC and the Leviathan partners, see Note 4B.

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

C. For details on an answer and a counterclaim that were filed by the Royalty Interest Holders, see Note 4C.

D. For details on Energean's notice regarding a natural gas discovery, see Note 4E.

E. For details on approval of a bonus for the CEO of the Partnership's General Partner, see Note 4J.

F. For details on an updated compensation policy for officers, see Note 4K.

G. For details on the release of a shelf prospectus, see Note 4L.

Delek Drilling

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

2019

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. Assi Bartfeld, Chairman of the Board of the General Partner;
2. Yossi Abu, CEO of the General Partner;
3. Yossi Gvura, Deputy CEO and Market Risk Manager;
4. Yaniv Friedman, Deputy CEO.

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

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

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

In the annual report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the periodic report for the period ended on December 31, 2018 (the "**Most Recent Annual Report on Internal Control**"), the board of directors of the General Partner and the management of the General Partner evaluated the internal control in the Partnership; based on such evaluation, the board of directors of the General Partner and the management of the General Partner came to the conclusion that such internal control, as of March 31, 2019, 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 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 Q1/2019 (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, 2018) and the date hereof, which can change the conclusion of the board of directors and the management of the Partnership's General Partner with regard to the effectiveness of internal control over Partnership's financial reporting and disclosure.

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

May 14, 2019	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 Q1/2019 (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, 2018) and the date hereof, pertaining to the interim financial statements and any other financial information included in the Interim Reports, which could, in my opinion, change the conclusion of the board of directors and the management of the Partnership's General Partner with regard to the effectiveness of internal control over the Partnership's financial reporting and disclosure.

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

May 14, 2019	Yossi Gvura, CPA Deputy CEO

Delek Drilling

Valuation

2019

Delek Drilling – Limited Partnership

Valuation of Royalties

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

****

May 2019

This document is a translation of the original Hebrew-language document of Giza Singer Even Ltd. of May 2019. 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.

Giza Singer Even Ltd.
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www.gse.co.il

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1. Introduction and Limitation of Liability

1.1 General

This work (the "**Work**" and/or the "**Opinion**") was prepared by GSE Financial Advisory Ltd. ("**GSE**") for the purpose of valuation of the royalties to which the limited partnership Delek Drilling[1] ("**Delek Drilling**" and/or the "**Partnership**") is entitled for the sale of its rights in the I/16 "Tanin" and I/17 "Karish" Leases (the "**Leases**") as of March 31, 2019 (the "**Valuation Date**") according to the management's requirement. We are aware that the Work is intended to be used by Delek Drilling, *inter alia*¸ for quarterly and periodic financial statements, and therefore we agree that the Work will be referred to and/or included in any report released by the Partnership and the interested parties therein, according to the Securities Law, 5728-1968 and the regulations thereunder, all as specified in the engagement letter of January 29, 2018.

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

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

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

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

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

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

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

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

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

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

1.2 Sources of Information

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

- Financial statements of the Partnership
- Information regarding the terms of the transaction and forecasts received from the Partnership
- Prospectus released by Energean Oil & Gas plc (the parent company of Energean Israel Limited) of March 16, 2018 (the "**Prospectus**") including the resource report prepared by Netherland Sewell and Associate Inc. ("**NASI**")
- Agreement for the sale of the rights in the Karish and Tanin Leases
- Immediate reports of publicly traded companies and overt information released on websites (including Energean's website), journalistic articles or other public sources
- Internal sources and databases of Giza Singer Even
- Meetings and/or phone calls with office holders at the Partnership

1.3 Details of the valuating company

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

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

Sincerely,

GSE Financial Advisory

May 14, 2019

2. Executive Summary

2.1 Background

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

During the years 2012 and 2013 the Partnership reported to TASE that the Tanin and Karish gas reservoirs constitute natural gas discoveries. Following are the quantities of natural gas and hydrocarbon liquids (Condensate and natural gas liquids) at the Karish and Tanin reservoirs (100%) as released in the Prospectus of Energean Oil & Gas plc, the parent company of Energean Israel Limited[2] ("**Energean**" and/or the "**Purchaser**") of March 16, 2018[3]:

Lease	Reserves and Contingent Resources	
	Natural Gas (BCM)	Hydrocarbon Liquids (MMBBL)
Karish	62*	28.7
Tanin	21.7	4.1
Total	**83.7**	**32.8**

* The quantity of natural gas in the Karish reservoir (62 BCM), includes an additional 17 BCM according to the report of April 15, 2019 on the results of the exploration well in the Karish North reservoir[4].

Following the decision of the Israeli government on a framework for the increasing of the amount of natural gas produced from the Tamar natural gas field and the quick development of the Leviathan, Karish and Tanin natural gas fields and other natural gas fields (the "**Gas Framework**"), the Partnerships and Noble Energy Mediterranean ("**Noble**") were required, *inter alia*, to sell their holdings in the Karish and Tanin reservoirs in order to comply with the conditions which would entitle them to an exemption from several provisions of the Restrictive Trade Practices Law, 5748-1988 (the "**Restrictive Trade Practices Law**"). On August 16, 2016, an agreement was executed for the sale of all of the rights in Karish and Tanin between Delek Drilling and Avner Oil Exploration - Limited Partnership ("**Avner**") (jointly, the "**Partnerships**") and Energean, within which the Partnerships are entitled to consideration in the amount of $148.5 million, comprising cash payment of $40 million (paid on the date of the transaction closing) and $108.5 million which will be paid spread into 10 annual equal payments plus interest, with this amount depending on the Purchaser's decision

[2] Formerly Ocean Energean Oil and Gas Ltd.
[3] According to the NSAI resource report attached to Energean Prospectus, Net Resources.
[4] On April 15, 2019, Energean announced a natural gas discovery in the exploration drilling which was performed in the Karish North prospect. According to the announcement, an initial analysis indicates an estimated amount in the range of 1.0-1.5 TCF (28-42 BCM) of Gas in Place.
Because no additional information has yet been received from Energean with regard to the amount of the natural gas that will actually be recoverable from the well, for the purpose of the valuation, the aforesaid amount was estimated based on the lower threshold of the aforesaid range of quantities, multiplied by a Recovery Factor of approx. 60%. Such Recovery Factor is according to the figures of the amount of recoverable gas in the Tamar and Leviathan reservoirs, as included in a resource report by an external assessor and published by the Partnership.

to develop the reservoir (the "**Debt Component**"). Furthermore, the Partnerships will be entitled to royalties from the revenues generated for the Purchaser from the sale of natural gas and Condensate produced from the Leases, at the rates of 7.5% (before the payment of petroleum profit levy) and 8.25% (after payment of petroleum profit levy), net of the rate of the existing royalties[5], by which the Partnership is charged regarding the original share of Delek Drilling and Avner in the Leases (the "**Royalties**'). On December 27, 2016, the Partnerships announced that the closing conditions for the transaction were fulfilled. On March 27, 2018, Energean notified the Partnership of the adoption of an investment decision for the development of the Karish reservoir.

2.2 Result of the valuation

The valuation of the consideration was performed in the Discounted Cash Flow (DCF) method. According to the assumptions specified in the Work itself, the value of the Royalties in the transaction as of the Valuation Date is estimated at approx. $129.2 million.

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

		Change in the Natural Gas Price Vector (U.S. $ per MMBTU)						
		(1.50)	(1.00)	(0.50)	-	0.50	1.00	1.50
Change in Cap Rates (in Base Points)	+250bp	88.3	94.7	101.9	108.8	114.4	120.6	126.8
	+150bp	94.5	101.4	109.0	116.4	122.4	129.0	135.7
	+50bp	101.4	108.7	116.8	124.7	131.1	138.2	145.5
	-	105.1	112.7	121.0	129.2	135.8	143.2	150.7
	-50bp	108.9	116.8	125.4	133.9	140.7	148.4	156.3
	-150bp	117.4	125.8	135.0	144.2	151.5	159.8	168.4
	-250bp	126.7	135.9	145.7	155.6	163.4	172.5	181.8

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

3. Description of the Partnership's Business

3.1 Description of the Partnership

Delek Drilling is a limited partnership (within the meaning thereof in the Partnerships Ordinance) listed on the TASE. The Partnership engages in the exploration, development and production of petroleum, natural gas and Condensate. Following is a description of the overriding royalties' mechanisms applicable to the Partnership as of the date hereof with respect to its original share in the Karish and Tanin Leases (approx. 52.9%):

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

3.2 Description of the business field

3.2.1 General

As aforesaid, the main field of business of the Partnership is the exploration, development and production of petroleum, natural gas and Condensate, in Israel and in Cyprus and the review of various infrastructure alternatives for natural gas flow to other target markets. The nature resources exploration, development and production activity in Israel is subject to the provision of approvals under the Petroleum Law, 5712-1952 (the "**Petroleum Law**") which controls the regulation in the field and defines the type of approvals given to defined field blocks and subject to the approval of a work plan for the performance of exploration and production work as specified below:

[6] The term "**Investment Recovery Date**" means the date after the signing of the agreement for the transfer of rights between the Partnership and Delek Energy Systems and Delek Israel (now Delek Group) which was signed in 1993 (as amended from time to time) according to which the Net Proceeds Value which the Partnership received or is entitled to receive for petroleum and/or gas and/or other valuable materials which were produced and used from the Petroleum Asset (i.e. – license or lease) where the finding is located, calculated in Dollars shall reach an amount which is equal to the full Value of All of the Partnership's Expenses in such Petroleum Asset calculated in Dollars.
The term "**Net Proceeds Value**" means the value of all of the proceeds as shall be approved by the accountants of the Partnership for petroleum and/or gas and/or other valuables which were produced and used from the Petroleum Asset (i.e. – license or lease) (the "**Gross Proceeds Value**") after the deduction of all of the production costs thereof and royalties paid in respect thereof.
The term the "**Value of All of the Partnership's Expenses**" means all of the expenses incurred by the Partnership in the Petroleum Asset (i.e. – license or lease) where the petroleum and/or the gas and/or the other valuables are produced but excluding expenses (up to the Net Proceeds Value) which were deducted from the Gross Proceeds Value for the determination of the amount of the all of the Net Proceeds Value and as they shall be approved by the Partnership's accountants.
For details and elaboration regarding agreements pertaining to the payment of royalties to the State and to interested parties in and to third parties of in Partnership, see Section 7.27.12 of the periodic report for 2018 of Delek Drilling.

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

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

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

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

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

3.2.2 Exploration and development of natural gas reservoirs

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

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

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

3.2.3 Benefits

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

- **Saving of energy costs in industry and in electricity production –** The low price of natural gas compared with currently common alternative fuels such as diesel oil and fuel oil, leads to significant saving of production costs, and thereby also to a decrease in the final product prices whose production costs mainly consist of the costs of electricity. Most of the power plants constructed in recent years in Israel operate by means of natural gas turbines and are characterized by low construction costs[7], shorter construction time, smaller areas of land[8] and many operational advantages. In addition to the relatively low price, natural gas is a more efficient energetic source than other fuels and it allows power plants and enterprises to reach a high energetic efficiency level which is also ultimately reflected in cost saving[9]. According to the estimates of the Natural Gas Authority[10], the transition to natural gas in the years 2004-2017 saved the Israeli market an estimated total of approx. ILS 54.4 billion. Most of such saving derives from the electricity sector, total consumption by which in 2017 amounted to approx. 8.5 BCM, which represents 83% of the demand for natural gas. The rest of the amount saved due to the transition to use of natural gas is primarily attributed to industrial plants, total consumption by which in 2017 amounted to approx. 1.8 BCM.

- **Clean energy** – The main substances emitted from the burning of natural gas are carbon dioxide and water vapor. Since coal and petroleum are more complex fuels, with a higher ratio of Carbon and Nitrogen and Sulphur components, then upon their combustion contaminants at higher contamination levels are released, including ash particles of materials which are not burned but are present in the atmosphere and add to the air pollution. The natural gas combustion on the other hand, releases a small quantity of contaminants while reducing air pollution and maintaining a cleaner and healthier environment.

- **Energetic independence** – The geopolitical characteristics of Israel make it an energetic island which cannot import fuels from neighboring countries and forced it to rely for many years on costly fuels import from Europe. Israel's energetic isolation was somewhat reduced between the years 2008 and 2012 upon the commencement of supply of natural gas from Egypt, however, the sudden cut of supply illustrated the importance of the development of local energy sources. The development of the natural gas market in Israel will provide the Israeli industry energetic security in the long term and will reduce its dependence on international energy prices.

[7] About one half of the cost of a coal power plant, about a third of the cost of a nuclear power plant and about 15% of a wind energy operated plant.
[8] The natural gas is transported by an underground pipe and unlike other fuels, requires no storage areas.
[9] A combined cycle power plant combining a gas turbine and a steam turbine is more efficient and uses 55% of the energy. Cogeneration stations utilizing the thermal energy produced in the production process reach an efficiency level of approx. 80%.
[10] https://www.gov.il/BlobFolder/guide/natural_gas_basics/he/ng_2017.pdf.

- **Natural gas as a governmental source of income through taxation -** The Israeli natural gas market is expected to benefit the local economy also directly through governmental revenues from the taxation of the companies and from the VAT from sales to the ultimate consumer. Moreover, the Israeli market has a few unique taxation systems which apply to the natural gas sector and similarly to all of the other fuel products, the natural gas is also subject to excise tax. Furthermore, according to the Petroleum Law, the State is entitled to charge royalties at a rate of up to. 12.5% of the total sales of natural gas at the wellhead. Moreover, following the conclusions of the Sheshinski Committee the State is entitled to proceeds of petroleum and gas profits levy at a rate of approx. 20%-50% (depending, *inter alia*, on the corporate tax rate) of the revenues of the holders of the petroleum rights, net of royalties, operation costs and development costs.

3.2.4 Customers

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

- **Israel Electric Corporation** (IEC) – The IEC constitutes for the Tamar project partners a very important anchor customer, *inter alia*, for the obtaining of financing for the construction of infrastructure for production of natural gas and development of the reservoirs. In fact, without the existence of the transaction for the sale of natural gas to the IEC, it might not have been possible to secure the financing required for the development of the Tamar project. The IEC is a governmental company supervised by the Electricity Authority ("PUA-E"), *inter alia*, regarding the costs of inputs for electricity production, particularly, the costs of natural gas.

  In 2018, the IEC purchased approx. 4.66 BCM of natural gas from the Tamar partnership. The rate of electricity produced by the IEC through natural and liquefied gas is estimated at approx. 56.5% (an increase of approx. 3% with respect to 2017).

  In 2017, consumption of natural gas for electricity production constituted approx. 83%[11] of the total natural gas consumption in the market, similarly to 2016. The share of the IEC represented approx. 63% of the natural gas consumption for electricity production in 2017, compared with approx. 61% in 2016, approx. 65% in 2015 and approx. 74% in 2014. The remaining demand is by private electricity producers and this trend is expected to continue in the coming years.

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

  Private electricity producers are divided into several types, according to the production technology which they use: conventional PEP, cogeneration facilities, pumped energy, renewable energies PEPs and large enterprises that constructed power plants for themselves for which they received a self-production license. As to the status of the PEPs

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

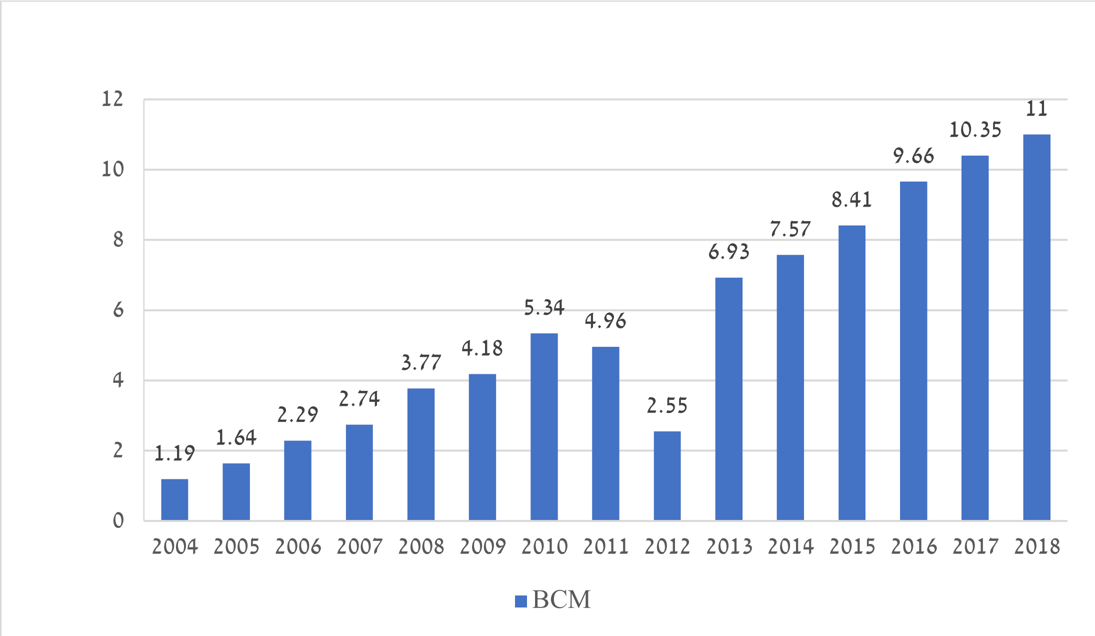
in the natural gas sector, Section 93 of the Natural Gas Sector Law defines that natural gas sold to a PEP is a product subject to control under the Control of Prices of Commodities and Services Law, 5756-1996.

- **Large industry consumers** – This tier of consumers comprises several significant consumers, which are essential to the development of the Israeli gas sector. Consumers with significant power and reputation in the Israeli market, having extensive experience and knowledge pertaining to the operations of Israeli industry in general and the operations of the natural gas sector in Israel in particular. Most of the large industrial enterprises in the market executed agreements for the purchase of natural gas within the construction of private power plants at the enterprise's premises, for the supply of the enterprise's electricity needs, constituting only part of the production capacity of the power plant, and the sale of the produced electricity to external consumers or to the IEC. Accordingly, the natural gas purchase agreements signed by most of the large industrial enterprises thus far also have the characteristics of agreements with private power plants. In 2017, total natural gas consumption by the industry sector amounted to approx. 1.81 BCM, an increase of 11% compared with 2016. The increase chiefly derives from the connection of new consumers to the distribution network and 4 additional consumers that consume CNG.[13]

- **Medium and small consumers** – The distribution networks' consumers sector which includes mainly medium and small enterprises and businesses, such as laundries and bakeries, is a relatively new sector in the natural gas sector which began executing agreements for purchase and infrastructure conversion performance only in recent years. These consumers typically consume low gas pressure, at a relatively small amount, non-continuous over a whole day (24 hours), some of which not yet connected to the onshore transmission systems, or the distribution, and therefore consuming Condensed Natural Gas (CNG) – a temporary and not optimal solution, since the cost of consumption can reach twice the cost of the natural gas which is transmitted trough the distribution system.

- **Chart 1 – Natural gas consumption in the years 2004-2018 (Source: the Natural Gas Authority for the years 2004-2017 and estimates in the energy market in 2018)**

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



3.2.5 Demand forecast

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

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

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

  In August 2016 the Minister of Energy announced his decision to shut down four coal production units of IEC upon the connection of three gas reservoirs to the shore and the construction of new natural gas operated power plants within up to six years. Following that, in September 2016, emission permits were received by the IEC under the Clean Air Law, 5768-2008 with respect to its coal power plants sites, which included, *inter alia*, an obligation to continue installing emission reduction measures, as well as the shutdown of units 1-4 in the coal power plant at the "Rabin Lights" site, no later than January 1, 2022. On May 28, 2017, the website of the Ministry of Energy released a notice regarding the decision of the Minister of Energy according to which the private sector will construct the natural gas operated power plants instead of the coal units 1-4 at the "Rabin Lights", *inter alia,* in order to ensure compliance with the timetables that he prescribed for the cessation of coal use at these units.

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

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

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

In addition, it was decided that from January 1, 2024, the excise tax on compressed natural gas (CNG) will increase gradually, subject to the existence of no less than 25 CNG fueling stations that shall receive all of the approvals required for operation. It was further determined that from May 1, 2018, the reimbursement of excise on diesel oil, which is used mainly for transportation purposes, will gradually be cancelled. On February 20, 2019, the Minister of Finance signed an order postponing the expected rise in excise on coal, from March 2019 to 2021, in order to reduce the increase in electricity prices of January 2019.

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

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

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

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

On October 9, 2018, the Minister of Energy presented a plan whose purpose is to lead to a reduction in the use of polluting energy, the principle of which is to decrease the use of polluting fuel products by 2030. According to the plan, targets have been set for the following sectors:

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

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

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

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

- **Improvement in the diplomatic relations with neighboring countries** – Recently, the relations with several neighboring countries, the business relations with which are strategic for the State of Israel in general and for the gas companies in particular, have demonstrated a trend of improvement. In this context we shall note the export agreement signed on September 26, 2016 between the Leviathan partners and the Jordanian electric corporation (NEPCO), for the supply of up to 45 BCM of natural gas for a period of about 15 years (we note that the closing conditions in the agreement have been fulfilled, and that the gas transmission pipeline is currently under construction), and the agreements signed on February 19, 2018 between the partners in the Tamar project and the Leviathan project and the Egyptian Dolphinus, for the supply of approx. 64 BCM of natural gas for a period of about 10 years. It is noted that on September 26, 2018, an agreement was signed (subject to the fulfillment of closing conditions, as specified in the Partnership's report) between EMED (a company held by Delek Drilling (25%), Noble Energy (25%) and the East Gas Company (50%)) for the acquisition of 39% of EMG, which owns a subsea pipeline for the transport of gas between Israel and Egypt, in the context of which, upon the closing of the acquisition transaction, the capacity and operation rights in connection with the EMG pipeline shall be transferred to the purchaser (EMED), for execution of the agreements with Dolphinus, as described above.

- According to publications by the Ministry of Energy, the amount of natural gas consumed in the market in 2017 totaled approx. 10.35 BCM, an increase of approx. 7% compared with 2016. Total natural gas consumption for electricity production was estimated at approx. 8.5 BCM, representing approx. 83% of the total natural gas consumption. Furthermore, natural gas consumption by the industry sector was estimated at approx. 1.81 BCM. The scope of the use of natural gas in Israel in 2018 is estimated by various entities in the energy market at approx. 11 BCM, which constitutes an annual increase of approx. 6% relative to 2017.

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

  According to forecasts that were published by various entities in the market, including forecasts which were included in the Tamar reservoir's partners reports to TASE, the level of demand for natural gas in the years 2020 and 2025 will be approx. 14 BCM and 19 BCM, respectively.

3.2.6 Regulatory environment

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

- **Royalties to the State of Israel** – Under the Petroleum Law, a lease holder is charged with a royalty of 12.5% of the amount of natural gas or petroleum produced in the lease and the lease holder will pay the State the market value of the royalty at the wellhead. The manner of calculation of the value at the wellhead for the Tamar reservoir is under discussion between the Petroleum Commissioner and the partners in the Tamar reservoir and the manner of calculation has not been set yet. Currently the partners in the Tamar project pay advance payments on account of royalties at the rate of 11.3% of the Tamar project revenues. The manner of calculation of the royalties for the Leviathan, Karish and Tanin reservoirs has not been determined yet.

- **Taxation of profits from Natural Resources Law** – The Resources Taxation Law prescribes a levy on petroleum and gas profits according to a mechanism which relates the rate of the levy and the ratio of the net accrued revenues from the petroleum and gas production project and the total accrued investments for the initial exploration and

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

development of the reservoir ("**Investment Coverage Ratio**"). The minimal levy at a rate of 20% will be charged when the Investment Coverage Ratio will reach 1.5 and will increase gradually to a rate of 50% (depending, *inter alia*, on the Corporate Tax rate) when the Investment Coverage Ratio shall reach 2.3. The levy will be calculated and imposed on each reservoir separately.

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

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

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

  - The sale of the entire rights of Delek Drilling in Tamar Reservoir to a third party unrelated thereto or to any of the holders of rights in the Leviathan, Karish and Tanin reservoirs as well as restriction of the rights of Noble in the Tamar reservoir to a maximum 25% rate within 72 months. As of the date of the Work, the Partnership holds directly 22% of the Tamar reservoir. Furthermore, we shall note that in January 2018 Noble sold Tamar Petroleum Ltd. 7.5% of its rights in the Tamar reservoir, and as a result, it went down to a 25% holding rate in the Tamar reservoir.

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

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

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

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

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

  - **Alternative 3** – The holders of rights in the leases will offer the potential consumers who are Private Electricity Producers (PEP) holding a license for installed capacity of 20 Megawatt or more per site, in addition also the alternative which includes linkage to the weighted production tariff published by the PAU-E as specified below:

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

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

  The aforesaid averages will be calculated by the Natural Gas Authority according to data provided thereto by the holders of rights in the leases. Following are the linkage formulas for private electricity producers for Q4/2018:

  <u>Conventional Private Electricity Producer</u>

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

  <u>Cogeneration Private Electricity Producer</u>

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

  Whereby:

  CP$ - Indexed monthly price in $ per MMBTU

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

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

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

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

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

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

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

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

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

$$CP = P_0 * PT/PT_0$$

Whereby:

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

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

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

CP = P0 * PT/PT0

Whereby:

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

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

3.2.8 Risk and uncertainty factors

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

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

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

- **Competition on gas supply** – In recent years, several significant gas reservoirs were discovered in Israel in amounts which significantly exceed the estimates of the Ministry of Energy regarding the needs of the local market. In addition, in 2015, a material natural gas reservoir was discovered in Egypt ("**Zohar**") and in 2018, a natural gas reservoir was discovered in Block 6 in Cyprus, these reservoirs could have a negative effect on the capacity of natural gas export from Israel on the one hand, and they could lead to an increase in competition in the natural gas market in Israel by increasing the supply (through import) on the other hand. Also, further findings may be discovered in the future, both in Israel and in other countries in the eastern Mediterranean Basin, whose development could lead to the entrance of other competitors on the supply of natural gas to the local market and to neighboring countries, and thus increase the scope of competition in the sector.

- **Restrictions on export** – Limiting the amount of exportable gas may have adverse effects in the form of surplus supply in the domestic market and reduced tariffs which may also adversely affect the prices obtained from the Karish and Tanin reservoirs and the economic merit in the development thereof. In this context, it is noted that, according to the Adiri Committee's draft recommendations of July 2018, the gas export quotas as determined in Government Resolution 442 shall remain unchanged. However, according to the Committee's recommendations, the formula for calculating the export quota shall be changed, such that it will be higher relative to the formula determined by Government Resolution 442, solely for gas reservoirs that have not yet been discovered.

- **Dependence on the proper working order of the Israeli National Transmission System** – The ability to supply gas which will be produced from the reservoirs to the potential consumers is dependent, *inter alia*, on the proper working order of the Israeli National Transmission System for the supply of gas and of the regional distribution networks.

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

- **Operational risks and lack of sufficient insurance coverage** – Petroleum and gas exploration and production activities are exposed to a variety of risks, such as uncontrolled eruption of liquids and gas from the well, explosion, collapse of the well and other events which could affect the functioning of the production and transmission system, each of which could cause destruction or damage to petroleum or gas wells, the transmission and production facilities, exploration equipment etc. There is also a risk of liability for damage deriving from contamination due to the eruption and/or leakage of liquid and/or a gas leak. Despite the insurance existing in the market, not all of the possible risks are covered or are coverable.

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

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

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

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

3.2.9 Developments in the market

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

- **The offering of Energean on the London Stock Exchange** – On March 15, 2018 the parent company of Energean, Energean Oil & Gas plc completed an initial public offering on the London Stock Exchange, within that offering, it raised approx. $460 million, designated to be used, *inter alia*, for the development of the Karish reservoir.

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

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

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

  On March 4, 2019, Energean announced commencement of the execution of the drilling plan in Israel, which includes the drilling of 3 production wells in the Karish reservoir, and an exploration drilling in the North Karish reservoir, which is intended to verify the presence of approx. 1.3 TCF of natural gas, with a 69% chance of success.

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

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

- **Commencement of manufacture of Energean's floating production facility** – On November 27, 2018, Energean announced commencement of manufacture, in China, of the floating rig (FPSO) that is due to be used by the Karish and Tanin reservoirs, and which is expected to be transferred to the Karish gas field in late 2020.

- **Signing of an agreement for the sale of gas with IPM Beer Tuvia Ltd.** – On January 2, 2019, Energean announced the signing of an agreement for the sale of up to 5.5 BCM of gas for a period of 19 years to IPM Beer Tuvia, subject to receipt of approvals and to the success of the 4 wells that are expected to be drilled in 2019, the first of which will be an exploration well in "Karish North", which commenced in March 2019.

- **Amendment to the gas supply agreement between the Tamar partnership and the IEC** – On February 17, 2019, Delek Drilling announced that the board of directors of the Partnership's general partner had approved an amendment to the agreement between the Tamar partnerships and the IEC, in the framework of which the price linkage clause determined in the agreement will not be implemented. Consequently, the gas prices will not rise from January 2019 until July 1, 2021 (the first price adjustment date set forth in the agreement between the Tamar partnerships and the IEC). It is noted that as of the Valuation Date, the PUA-E's approval for the agreement has not yet been obtained and accordingly, the amendment to the agreement has not yet been signed. We shall note that the amendment to the agreement does not affect the projected prices in our Work, since the price fixing mechanism, as described above, will end before commencement of the production of the gas expected from the Karish reservoir in our Work (2022).

- **Winning a tender for the sale of gas to the IEC by the Leviathan partners** – On April 7, 2019, Delek Drilling announced that the Leviathan partners' proposal to the IEC for the supply of a total amount of approx. 4 BCM starting from October 1, 2019 until the earlier of June 30, 2021 or the commencement of production of gas from the Karish reservoir, was chosen as the winner of the competitive process conducted by the IEC. As of this date, the parties have not yet signed the gas sale agreement.

- **A new gas discovery in the Karish North reservoir** – On April 15, 2019, Energean announced a natural gas discovery in the exploration drilling which was performed in the Karish North prospect. According to the announcement, an initial analysis indicates an estimated amount in the range of 1.0-1.5 TCF (28-42 BCM) of Gas in Place. Because no additional information has yet been received from Energean with regard to the amount of the natural gas that will actually be recoverable from the well, for the purpose of the valuation, the aforesaid amount was estimated based on the lower threshold of the aforesaid range of quantities, multiplied by a Recovery Factor of approx. 60%. Such Recovery Factor is according to the figures of the amount of recoverable gas in the Tamar and Leviathan reservoirs, as included in a resource report by an external assessor and published by the Partnership.

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

4.1 The sold rights

On February 7, 2012 and on May 22, 2013, the Partnerships reported to TASE that the Tanin and Karish gas Leases, respectively, constitute natural gas discoveries. The share of each of the Partnerships in each of the Leases is 26.4705% (the share of Noble – 47.059%). It is noted that in May 2017, Delek Drilling merged with Avner and consequently the Avner partnership was stricken off without dissolution.

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

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

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

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

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

Lease	Reserves and Contingent Resources	
	Natural Gas (BCM)	Hydrocarbon Liquids (MMBBL)
Karish	62*	28.7
Tanin	21.7	4.1
Total	**83.7**	**32.8**

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

* The quantity of natural gas in the Karish reservoir (62 BCM), includes an additional 17 BCM according to the report of April 15, 2019 on the results of the exploration well in the Karish North reservoir. The additional amount of recoverable gas, for the purpose of the valuation, was estimated based on the lower threshold of the range in the report (approx. 28 BCM), multiplied by a Recovery Factor of approx. 60%. Such Recovery Factor is according to the figures of the amount of recoverable gas in the Tamar and Leviathan reservoirs, as included in a resource report by an external assessor and published by the Partnership.

4.2 The consideration

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

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

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

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

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

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

   iv. Note that on March 27, 2108, Energean notified the Partnership of the adoption of an investment decision for the development of the Karish reservoir, and in March 2018 and March 2019 it paid the Partnership the first and second payments, respectively.

   v. The Purchaser will transfer to the Seller royalties for natural gas and Condensate which will be produced from the Leases at a rate of 7.5% before payment of a petroleum profits levy by virtue of the Natural Resources Taxation Law (the "**Levy**") and 8.25% after the commencement of payment of the Levy, net of the rate of the existing royalties[18] borne by the Partnerships in respect of their original share in the Leases.

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

5. Valuation of Royalties

5.1 Methodology

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

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

i. Consideration in the amount of $108.5 million which will be paid to the Seller in ten equal annual payments plus interest commencing from the date on which the Purchaser made a FID or the Purchaser invested in the development of the reservoir an aggregate sum exceeding $150 million (the "**Investment Decision**"), whichever is earlier. Therefore, this consideration component is similar in its nature to a financial debt of the Purchaser to the Seller, which is contingent upon the development of the Leases, whether by a FID or the actual performance of the investment (the "**Debt Component**").

   Note that on March 27, 2018, Energean notified the Partnership of the adoption of an Investment Decision for the development of the Karish reservoir, and therefore the Debt Component is defined as deferred consideration.

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

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

5.2 Work assumptions

5.2.1 General

The main work assumptions as specified below are based on market data from public sources, information appearing in the Prospectus released by Energean on March 16, 2018, and the financial model of holdings which was received from the Partnership and whose main assumptions were examined by us and were found to be reasonable. **It is emphasized that**

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

the assumptions and information specified below, including with respect to forecasts and the main commercial conditions in the agreement for the sale of the reservoirs, as well as regarding the types of the hydrocarbon liquids which will be produced from the reservoirs and in respect of which royalties will be paid to the Partnership, constitute forward-looking information in the meaning thereof in the Securities Law, 5728-1968, which there is no certainty of the materialization thereof, in whole or in part, in the said manner or in any other manner.

5.2.2 The Valuation Date

The valuation was carried out as of March 31, 2019.

5.2.3 Timetable

Within our Work we assumed that in order to develop the Leases and supply the amounts of gas assumed, Energean will be required to execute agreements for the sale of natural gas. The agreements executed between Energean and the Israeli Corporation, Dorad, Rapak, Edeltech and IPM Beer Tuvia reflect the sale of most of the natural gas resources in the reservoirs and support the reasonability and feasibility of the estimate that the reservoirs will be developed.

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

On March 22, 2018, Energean notified of the adoption of an Investment Decision for the development of the Karish and Tanin reservoirs, and as a result of the purchase agreement, the first and second payments for the Debt Component were received in March 2018 and March 2019 (the other annual payments will be received on March 31 of each of the years 2020-2027). Furthermore, it was assumed that the development of the reservoirs will be done gradually, such that the commencement of the production from the Tanin lease will begin towards the completion of the production from the Karish lease.

5.2.4 Quantity forecast and annual production rate

From an analysis of the demand forecast in the local market as released on the MAYA system by the Partnership, it arises that the total projected annual demand in the market during the running-in period and in the beginning of the commercial operation period in 2022, is expected to be approx. 15-18 BCM with the main demand deriving from an increase in electricity production (as a result of natural growth) and as a result of the conversion of coal plants to the use of natural gas (as specified in Section 3.2.5 above).

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

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

Lease	Karish	Tanin
Operation period commencement	1/2022	4/2035
Operation period end	6/2035	9/2039
Natural Gas		
Average annual production rate (BCM)	4.59	4.82
Total (BCM)	62**	21.7
Condensate		
Production ratio*	13.11	5.35
Total (MMBBL)	28.7	4.1

* bbl of Condensate per 1 mmcf of natural gas

**The quantity of natural gas in the Karish reservoir (62 BCM), includes an additional 17 BCM according to the report of April 15, 2019 on the results of the exploration well in the Karish North reservoir. The additional amount of recoverable gas, for the purpose of the valuation, was estimated based on the lower threshold of the range in the report (approx. 28 BCM), multiplied by a Recovery Factor of approx. 60%. Such Recovery Factor is according to the figures of the amount of recoverable gas in the Tamar and Leviathan reservoirs, as included in a resource report by an external assessor and published by the Partnership.

5.2.5 Natural gas prices forecast

The natural gas prices forecast relied on the following assumptions:

- The base price in the contracts under which the valuation was carried was estimated through the formulas specified in the price mechanism between Energean and ICL and ORL, and between Energean and OPC, and the parameters specified below:

  i. **The Production Component Tariff**: as of the Valuation Date, the production component tariff is 29.09 Agorot, as determined commencing from January 2019. Throughout the other forecast years, it was assumed that the production component tariff would change according to the IEC's expected expenses in respect of electricity production, which are affected, *inter alia*, by the prices of natural gas, coal, and by other production costs. According to our forecasts, the production component tariff is expected to range between approx. 28.4 and 31.3 Agorot throughout 2019-2037.

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

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

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

5.2.6 Condensate prices forecast

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

5.2.7 The royalties rate

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

5.2.8 Petroleum profits levy

The Petroleum Profits Levy is a progressive levy which is set according to a mechanism which connects the rate of the levy to the ratio of the net accrued revenues from the petroleum and gas production project and the total accrued investments for the exploration and initial development of the reservoir (the "**Investment Coverage Ratio**"). The minimal levy at a rate of 20% will be charged when the Investment Coverage Ratio will reach 1.5 and rise gradually to a rate of 50% (according to the corporate tax rate[22]) with the Investment Coverage Ratio reaching 2.3. The levy will be calculated and imposed for every reservoir separately.

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

[20] A world Bank Quarterly Report: Commodity Markets Outlook, October 2018.
[21] U.S Energy Information Administration: Annual Energy Outlook 2019.
[22] Corporate tax of 23% was assumed according to the historical tax rate known as of the Valuation Date.

5.2.9 Royalties cap rate

We estimated the royalties cap rate at approx. 11.5% (before tax) and it was calculated in the following manner:

- We estimated the operating cap rate derived from the Leviathan reservoir as of December 31, 2018 through a comparison of the following: (1) the present value of the cash flow forecast (before tax) attributed to Ratio's share in the Leviathan reservoir (the forecast was released on February 28, 2018), with (2) the asset value of Ratio (the average market value of the participation units and the bonds of Ratio in the three months ended December 31, 2018, plus the net financial debt balances (excluding the bond balances) of Ratio as of September 30, 2018), based on the assumption that the value of Ratio mainly reflects the value of its share in the Leviathan reservoir. The calculated cap rate is estimated at approx. 13.25% (before tax).

- In view of the fact that the cap rate that was calculated above derives, *inter alia*, from forecasts that were released around 12 months ago, and in view of the expected decrease in the level of the natural gas prices relative to the projected level of the prices which prevailed at the time of the forecast (February 2018), and in view of the decline that was recorded in the oil price forecast, from which the Condensate price directly derives, and in view of other parameters that changed between the periods, we examined the effect of the changes in the forecasts on the deriving cap rates for the reservoir, through examination of the gap between the cap rate of the Tamar reservoir, as derives from the asset value of Isramco in proximity to the date of release of the updated forecasts[23] of the Tamar reservoir of February 10, 2019 (using a methodology similar to the calculation of the cap rate for the Leviathan reservoir as described above), and based on the updated forecasts for the projected cash flows which were released by Isramco on February 10, 2019, compared with the previous forecasts of February 7, 2018. The gap in the calculated cap rates between the said forecasts was estimated at approx. 1.5%. Accordingly, we deducted this rate from the operating cap rate calculated for Leviathan above (13.25%). Consequently, we estimated the standardized operating cap rate for Leviathan at approx. 11.75% (before tax).

- We performed an adjustment in respect of the royalties risk level: the cap rate deriving from the asset value and the forecast as aforesaid is a cap rate which reflects the risk level of the operating cash flow. For the purpose of adjusting the operating cap rate to the cap rate of the royalties, whose risk level is the same as the risk level of the income, a deduction of approx. 1.25% was performed, which reflects the surplus risks that apply to the operating cash flow, including unexpected operating expenses, exposure to losses, working capital and a discrepancy in income and expenses linked to indices and exchange rates. This rate is estimated through a calculation of the gap between the operating cap rate and the royalties cap rate, which derive from the Tamar reservoir (using a methodology similar to the calculation of the cap rate for the Leviathan reservoir as described above) as of December 31, 2018. This gap is estimated through a calculation of the difference between the average cap rates, which derive from the asset value of Isramco and Tamar Petroleum (reflecting the operating risk of the Tamar reservoir) and

[23] Average asset value over a period of 10 days before and 10 days after the date of release of the forecasts.

the cap rate deriving from the asset value of Delek Royalties (reflecting the royalties risk of the Tamar reservoir).

- We added a 1% premium in view of the surplus risks inherent in the Karish and Tanin reservoirs relative to Leviathan as aforesaid.

- In accordance with the aforesaid, the calculated royalties cap rate for the Karish and Tanin reservoirs is estimated at approx. 11.5% (before tax).

5.3 Results of the valuation

According to the assumptions specified in the Work itself, the value of the Royalties is estimated at approx. $129.2 million.

5.4 Sensitivity analyses

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

		Change in the Natural Gas Price Vector (U.S. $ per MMBTU)						
		(1.50)	(1.00)	(0.50)	-	0.50	1.00	1.50
Change in Cap Rates (in Base Points)	+250bp	88.3	94.7	101.9	108.8	114.4	120.6	126.8
	+150bp	94.5	101.4	109.0	116.4	122.4	129.0	135.7
	+50bp	101.4	108.7	116.8	124.7	131.1	138.2	145.5
	-	105.1	112.7	121.0	**129.2**	135.8	143.2	150.7
	-50bp	108.9	116.8	125.4	133.9	140.7	148.4	156.3
	-150bp	117.4	125.8	135.0	144.2	151.5	159.8	168.4
	-250bp	126.7	135.9	145.7	155.6	163.4	172.5	181.8

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

		Change in the Annual Production Rate of Natural Gas (BCM)						
		(1.00)	(0.50)	(0.25)	-	0.25	0.50	1.00
Change in Cap Rates (in Base Points)	+250bp	93.9	101.1	106.3	108.8	109.5	112.4	112.8
	+150bp	101.0	108.4	113.8	116.4	117.1	120.0	120.2
	+50bp	108.8	116.6	122.1	124.7	125.4	128.3	128.4
	-	113.1	121.0	126.6	**129.2**	129.8	132.8	132.8
	-50bp	117.7	125.7	131.4	133.9	134.6	137.5	137.5
	-150bp	127.6	135.8	141.7	144.2	144.8	147.8	147.5
	-250bp	138.7	147.2	153.2	155.6	156.1	159.1	158.6

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

		Change in the Condensate Price Vector (U.S. $ per bbl)						
		(15.00)	(10.00)	(5.00)	-	5.00	10.00	15.00
Change in Cap Rates (in Base Points)	+250bp	105.4	106.5	107.7	108.8	110.3	111.3	109.7
	+150bp	112.7	113.9	115.2	116.4	117.9	119.1	117.3
	+50bp	120.8	122.1	123.4	124.7	126.4	127.6	125.7
	-	125.2	126.5	127.9	**129.2**	130.9	132.2	130.3
	-50bp	129.8	131.2	132.6	133.9	135.7	137.0	135.1
	-150bp	139.8	141.3	142.7	144.2	146.1	147.5	145.5
	-250bp	150.9	152.5	154.0	155.6	157.7	159.1	157.0

Annex A – Cash Flow Forecast (Nominal)

Year	Unit	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<u>Production</u>													
Gas production - Karish	*bcm/y*	-	-	-	*3.00*	*3.50*	*4.00*	*5.00*	*5.00*	*5.00*	*5.00*	*5.00*	*5.00*
Gas production - Tanin	*bcm/y*	-	-	-	-	-	-	-	-	-	-	-	-
Condensate production - Karish	*bbl/y m*	-	-	-	*1.39*	*1.62*	*1.85*	*2.31*	*2.31*	*2.31*	*2.31*	*2.31*	*2.31*
Condensate production - Tanin	*bbl/y m*	-	-	-	-	-	-	-	-	-	-	-	-
<u>Prices</u>													
Natural gas price	*US$*	-	-	-	*4.00*	*4.17*	*4.17*	*4.22*	*4.28*	*4.34*	*4.05*	*4.02*	*4.03*
Condensate Price	*US$*	-	-	-	*68.84*	*70.94*	*73.82*	*76.36*	*79.43*	*82.29*	*84.78*	*87.29*	*89.77*
<u>Revenues</u>													
Karish - Revenues													
Natural Gas Revenues	*US$ MM*	-	-	-	*432.3*	*524.7*	*600.2*	*759.0*	*769.8*	*780.9*	*728.6*	*722.8*	*725.1*
Condensate Revenues	*US$ MM*	-	-	-	*95.6*	*114.9*	*136.7*	*176.7*	*183.8*	*190.5*	*196.2*	*202.0*	*207.8*
Total Gross Revenues	*US$ MM*	-	-	-	*527.9*	*639.6*	*736.9*	*935.8*	*953.6*	*971.4*	*924.9*	*924.8*	*932.9*
Tanin - Revenues													
Natural Gas Revenues	*US$ MM*	-	-	-	-	-	-	-	-	-	-	-	-
Condensate Revenues	*US$ MM*	-	-	-	-	-	-	-	-	-	-	-	-
Total Gross Revenues	*US$ MM*	-	-	-	-	-	-	-	-	-	-	-	-
K&T - Total Gross Revenues	*US$ MM*	-	-	-	*527.9*	*639.6*	*736.9*	*935.8*	*953.6*	*971.4*	*924.9*	*924.8*	*932.9*
<u>*Delek Drilling - Transaction Revenues*</u>													
*Transaction ORRI, Net**	*US$ MM*	-	-	-	*24.9*	*30.1*	*34.7*	*27.0*	*21.7*	*18.3*	*16.6*	*14.9*	*14.7*
Total Discounted Transaction Revenues	*US$ MM*	**-**	**-**	**-**	***17.4***	***19.0***	***19.6***	***13.8***	***9.8***	***7.5***	***6.1***	***4.9***	***4.3***

*Net of Existing ORRI net of Petroleum Tax

Year	Unit	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Production											
Gas production - Karish	bcm/y	5.00	5.00	5.00	5.00	1.50	-	-	-	-	-
Gas production - Tanin	bcm/y	-	-	-	-	3.50	5.00	5.00	5.00	3.20	-
Condensate production - Karish	bbl/y m	2.31	2.31	2.31	2.31	0.69	-	-	-	-	-
Condensate production - Tanin	bbl/y m	-	-	-	-	0.66	0.94	0.94	0.94	0.60	-
Prices											
Natural gas price	US$	4.07	4.11	4.17	4.22	4.28	4.33	4.39	4.39	4.39	4.39
Condensate Price	US$	92.92	96.10	99.31	102.55	105.84	109.16	112.50	115.85	119.23	122.64
Revenues											
Karish - Revenues											
Natural Gas Revenues	US$ MM	731.9	740.3	750.1	759.6	230.8	-	-	-	-	-
Condensate Revenues	US$ MM	215.1	222.4	229.9	237.4	73.5	-	-	-	-	-
Total Gross Revenues	US$ MM	946.9	962.7	980.0	997.0	304.3	-	-	-	-	-
Tanin - Revenues											
Natural Gas Revenues	US$ MM	-	-	-	-	538.5	779.1	789.2	789.2	505.1	-
Condensate Revenues	US$ MM	-	-	-	-	70.0	103.1	106.3	109.4	72.1	-
Total Gross Revenues	US$ MM	-	-	-	-	608.5	882.2	895.4	898.6	577.1	-
K&T - Total Gross Revenues	US$ MM	946.9	962.7	980.0	997.0	912.7	882.2	895.4	898.6	577.1	-
Delek Drilling - Transaction Revenues											
Transaction ORRI, Net*	US$ MM	14.9	15.2	15.4	15.7	33.4	16.4	15.5	14.2	9.1	-
Total Discounted Transaction Revenues	US$ MM	**3.9**	**3.6**	**3.3**	**3.0**	**5.7**	**2.5**	**2.1**	**1.7**	**1.0**	-

*Net of Existing ORRI net of Petroleum Tax

Definitions

Delek Drilling Limited Partnership	Delek Drilling Limited Partnership
Avner	Avner Oil Exploration - Limited Partnership
Natural Gas	A gas mixture containing mainly Methane, used mainly for the production of electricity and as a source of energy for industry
The Purchaser/Energean	Energean E&P Holdings Ltd. through Energean Israel Limited (Formerly Ocean Energean Oil and Gas Ltd.).
The Partnerships/Sellers	Delek Drilling and Avner
The Petroleum Law	The Petroleum Law, 5712-1952
The Gas Framework or the Framework	The resolution of the Israeli government on the creation of a framework for increasing the amount of natural gas produced from the Tamar natural gas field and the quick development of the Leviathan, Karish and Tanin natural gas fields as well as other gas fields
Noble	Noble Energy Mediterranean Ltd**.**
Condensate	Hydrocarbon liquid created during the production of natural gas, used as raw material for the production of fuels and constitutes a petroleum substitute
Petroleum Asset	A lease with a preliminary permit, license or lease by virtue of the Petroleum Law in Israel or a right of similar meaning granted by the entity authorized therefor outside Israel
Ratio	Ratio Oil Exploration (1992), Limited Partnership
Isramco	Isramco Negev 2, Limited Partnership
BCM	Billion Cubic Meters
DCF	Discounted Cash Flows
FID	The date on which the Purchaser adopted a decision for the investment for the development of Karish and Tanin natural gas reservoirs
LNG	Liquid Natural Gas
MMBTU	A Million BTU – an energy unit used as a basis for the determination of natural gas prices