



Delek Drilling

# 2018

FINANCIAL  
STATEMENTS  
AS OF 31.12.2018  
UNAUDITED



On February 11, 2013, the approval of the authorities in Cyprus was granted for the Transfer of the rights in the PSC and in the said license, and therefore, commencing from that date, the Partnership is a party to the PSC and directly holds 15% of the License. As of the closing of the Merger between the Partnership and Avner on May 17, 2017, the Partnership directly holds 30% of the License.

On January 18, 2016 the approval of the authorities in Cyprus was granted for the sale of 35% of Noble's rights in the PSC and in the said license to BG Cyprus Limited (hereinafter: "**BG Cyprus**"), and therefore, commencing from that date, BG Cyprus is a party to the PSC and directly holds 35% of the License.

#### 7.8.2. General details regarding Block 12

<b>General details about the petroleum asset</b>	
<b>Name of Petroleum Asset:</b>	Block 12
<b>Location:</b>	An offshore area at the EEZ of Cyprus, located approx. 35 km north-west of the Leviathan reservoir <sup>156</sup> .
<b>Area</b>	Approx. 386 square km
<b>Type of petroleum asset and description of actions permitted according to this type:</b>	Exploration license granted subject to the PSC
<b>Original grant date of the petroleum asset:</b>	October 24, 2008
<b>Original expiration date of the petroleum asset:</b>	October 24, 2011
<b>Dates on which an extension of the petroleum asset period was decided:</b>	October 23, 2011, August 20, 2013 and May 19, 2014
<b>Current date for expiration of the petroleum asset:</b>	May 23, 2016. On April 20, 2016, the partners submitted an application for a production license. For details, see Section 7.8.3(d) below.
<b>Statement whether there is another option for the extension of the petroleum asset period; if such an option exists – please state the possible extension period:</b>	See Section 7.8.3(d) below.
<b>Statement of Operator's Name:</b>	Noble Cyprus
<b>Statement of the names of the direct partners in the petroleum asset, and their direct share in the petroleum asset, and, to the best of the Partnership's knowledge, the names of the controlling shareholders in the said partners:</b>	<ul style="list-style-type: none"> <li>▪ Noble Cyprus (35%)</li> <li>▪ BG Cyprus (35%). To the best of the Partnership's knowledge, BG Cyprus is a subsidiary (indirect holdings) of Royal Dutch Shell Plc. ("<b>Shell</b>"), an energy company engaged in all fields of activity of the gas and oil industry, which is active in more than 70 countries worldwide.</li> <li>▪ The Partnership (30%).</li> </ul>

<sup>156</sup> It is noted that the vast majority of the Aphrodite reservoir is in the area of the EEZ of Cyprus, and the minority thereof is in the area of the Yishai/370 license, which is in the area of the EEZ of Israel. As of the report release date, the Israeli and Cypriot governments are in negotiations for regulation of the parties' rights in the Aphrodite reservoir.

## **Delek Drilling – Limited Partnership**

### **Notes to the Financial Statements for December 31, 2018 (Dollars in thousands)**

#### **Note 7 – Investments in petroleum and gas assets (Cont.):**

#### **C. The Partnership's oil and gas exploration business (Cont.):**

##### **4. Block 12 in Cyprus (Cont.):**

- d) The right holders are obligated to commence development actions within 6 months from the receipt of the approval of the Republic of Cyprus for the Development Plan.
- e) **Plan for Development of the Aphrodite reservoir:**
  - 1) As of the date of approval of the financial statements, the plan for development of the Aphrodite reservoir, which has been submitted for approval by the Government of Cyprus<sup>33</sup>, includes the export of natural gas through a pipeline to export markets, by means of constructing a floating independent production facility in the area of the Aphrodite reservoir, with the estimated production capacity of approx. 800 MMCF per day (the "**Floating Facility**" and the "**Development Plan**", respectively).
  - 2) According to an updated estimate of Noble Cyprus, which has been provided to the Partnership and to the Government of Cyprus, and prior to the completion of techno-economic feasibility studies, including the performance of full engineering design (FEED), the estimated cost of the Development Plan, excluding the cost of construction of the pipelines to the target markets, is estimated at the amount of approx. \$2.5 to 3.5 billion (in terms of 100%).
  - 3) The formulation of the Development Plan and arrival at the stage of making a final investment decision (FID) for the development of the Aphrodite reservoir, are subject, *inter alia*, to the approval of the aforesaid plan by the Government of Cyprus and the partners in Block 12, receipt of a production license under the Production Sharing Contract, performance of full engineering design (FEED), commercial arrangements for development of the pipelines, signing of natural gas supply agreements and fulfillment of the conditions precedent in such agreements, regulatory approvals and execution of financing arrangements. It is noted that agreements for supply to the target markets may be contingent, *inter alia*, upon the signing of intergovernmental framework agreements between Cyprus and Egypt.
  - 4) The updated Development Plan is subject, *inter alia*, to the Cypriot Government's approval. Insofar as such approval shall be received during 2019, and insofar as the aforesaid conditions precedent shall be fulfilled, the scheduled date for the commencement of natural gas supply from the Aphrodite reservoir is, at the earliest, during 2025.
  - 5) It is emphasized that the aforementioned Development Plan, including the budget estimate and the timetable, are merely preliminary, since the techno-economic studies, the full engineering design (FEED) and the formulation of the project's financing and commercial arrangements are yet to be completed.

<sup>33</sup> It is noted that the Aphrodite reservoir is mostly in the Cypriot EEZ, and a small part thereof is in the area of the Yishai /370 license, which is in the EEZ of Israel. As of the date of the approval of the financial statements, the governments of Israel and Cyprus are conducting negotiations for the regulation of the rights of the parties in the Aphrodite reservoir.