

Israel Opportunity – Energy Resources, Limited Partnership  
Interim Financial Statements for 31 March 2015  
In US\$ in Thousands

Unaudited

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**Independent Auditor's Report**  
**For the Partners of Israel Opportunity – Energy Resources, Limited Partnership**

**Introduction**

We reviewed the attached financial information of Israel Opportunity – Energy Resources Limited Partnership (Hereinafter – Limited Partnership), which includes the summary Statement of Financial Position for 31 March 2015 and the summary Statements of Comprehensive Income, Changes in Equity and Cash Flows for the period of six months and three months ending on that date. The Board of Directors and Management of the General Partner of the Limited Partnership is responsible for preparing and presenting the financial information for this interim period in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting" and are responsible for preparing the financial information for this interim period according to Chapter D of the Securities Regulations (Periodic and Immediate Statements) 5730-1970. Our responsibility is to express a conclusion of the financial information for these interim periods based on our review.

We did not review the summary financial information for the interim period of the joint transactions whose assets are included in the summary Statement of Financial Position that comprise approximately 1% of total summary Statement of Financial Position for 31 March 2015, and its expenses included in the summary statement of Comprehensive Income comprises approximately 12% of all expenses for the three-month period that ended on said date. The summary financial information for the interim periods for said joint transaction was covered by other accountants whose reports were issued to us and our conclusions, as it pertains to the amounts included for said joint transaction, are based on the reports of the other accountants.

**Scope of the Review**

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Performed by an Independent Auditor of the Entity." A review of the financial information for the interim periods 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 aforementioned financial information was not prepared, in all material respects, in accordance with International Accounting Standard IAS 34.

In addition to the specified in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the aforementioned financial information does not comply, in all material respects, the disclosure provisions in accordance with Chapter D of the Security Regulations (Periodic and Immediate Reports) 5730-1970.

Kost, Forer Gabbay & Kasierer  
Certified Public Accountants

Tel-Aviv  
31 May 2015

Israel Opportunity – Energy Resources, Limited Partnership  
 Statements of Financial Position

	For 31 March		For 31
	2015	2014	December
	Unaudited	Unaudited	2014
	Thousands of Dollars		
<b><u>Current Assets</u></b>			
Cash and cash equivalents	9,605	6,481	10,021
Deposits in banking corporations	9,529	13,844	8,520
Financial assets measured at fair value through profit or loss	5,196	5,200	5,195
Accounts receivable	292	81	288
	<u>23,622</u>	<u>25,606</u>	<u>24,024</u>
<b><u>Non-current Assets</u></b>			
Deposits in bank corporations restricted use	639	-	
Investment in oil and gas assets	-	4,241	
Accounts receivable	671	211	
Fixed assets and other assets, net	10	12	12
	<u>4,787</u>	<u>4,464</u>	<u>1,195</u>
	<u>24,942</u>	<u>30,070</u>	<u>25,219</u>
<b><u>Current Liabilities</u></b>			
Credit from banking corporations	-	44	-
Accounts payable	242	252	251
	<u>242</u>	<u>296</u>	<u>251</u>
<b><u>Partnership Equity</u></b>			
	<u>24,700</u>	<u>29,774</u>	<u>24,968</u>
Total liabilities and equity	<u>24,942</u>	<u>30,070</u>	<u>25,219</u>

**The accompanying notes are an integral part of the interim financial statements.**

Israel Opportunity – Oil and Gas Explorations – The General Partner, by

31 May 2015

Date of Approval of the Financial Statements

\_\_\_\_\_  
 Rony Halman  
 Chairman of the Board of  
 Directors of the General  
 Partnership

\_\_\_\_\_  
 Eyal Shuker  
 CEO of the General  
 Partnership

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 Gil Soltan  
 CFO of the General  
 Partnership

Israel Opportunity – Energy Resources, Limited Partnership  
Statements of Comprehensive Income

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	For the 3 months ending on 31 March		For the year ended 31 December
	2015	2015	2014
	Unaudited		Audited
	Dollars in Thousands		
	(with the exception of data on loss from the participation unit)		
Oil and gas exploration expenses	47	150	4,007
Administrative and general expenses	218	223	1,049
Operating loss	265	373	5,056
Financing income	(17)	(50)	(100)
Financing expenses	20	1	124
Financing income, net	3	(49)	24
Loss for the period	268	324	5,080
Total comprehensive loss	268	324	5,080
 <u>Loss for Participation Unit (in Dollars)</u>			
Basic and diluted	*)	*)	*)
 Weighted average of equity of participation units used in the calculation of loss per participation unit:			
Basic and diluted:	746,342,673	746,332,673	746,333,057

\*) Represents sum less than 0.01 Dollars

The accompanying notes are an integral part of the interim financial statements.

Israel Opportunity – Energy Resources, Limited Partnership  
Statements of Changes in Partnership Capital

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	The Limited Partnership – Israel Opportunity – Oil and Gas Exploration Trustees Ltd.		The General Partnership – Israel Opportunity – Oil and Gas Explorations Ltd.		
	Retained Loss	Investment in Partnership Equity	Retained Loss	Investments in Partnership Equity	Total Capital
Unaudited					
Dollars in Thousands					
<u>For the three month period ending on 31 March 2015</u>					
<u>Balance on 1 January 2015</u>	(23,651)	48,616	(3)	6	24,968
(Audited)					
Total Comprehensive Loss	(268)	-	*)	-	(268)
Balance on 30 June 2014	(23,919)	(48,616)	(3)	6	24,700

	The Limited Partnership – Israel Opportunity – Oil and Gas Exploration Trustees Ltd.		The General Partnership – Israel Opportunity – Oil and Gas Explorations Ltd.			
	Retained Loss	Investment in Partnership Equity	Retained Loss	Investments in Partnership Equity	Warrants	Total Capital
Unaudited						
Dollars in Thousands						
<u>For the three month period ending on 31 March 2014</u>						
<u>Balance on 1 January 2014</u>	(18,522)	48,616	(2)	4	2	30,098
(Audited)						
Total Comprehensive Loss	(324)	-	*)	-	-	(324)
Balance on 31 March 2014	(18,846)	(2)	(2)	4	2	29,774

\*) Represents sum less than \$1000

The attached notes are an integral part of the interim financial statements.

Israel Opportunity – Energy Resources, Limited Partnership  
Statements of Changes in Partnership Capital

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	The Limited Partnership – Israel Opportunity – Oil and Gas Exploration Trustees Ltd.		The General Partnership – Israel Opportunity – Oil and Gas Explorations Ltd.		Total Capital
	Retained Loss	Investment in Partnership Equity	Retained Loss	Investments in Partnership Equity	
Unaudited					
Dollars in Thousands					
<u>For the one year period ended on 31 December 2014</u>					
<u>Balance on 1 January 2014</u>	(18,522)	48,616	(2)	6	30,098
Distribution to Trustee	(50)	-	*)	-	(50)
Total comprehensive loss	(5,079)	-	(1)	-	(5,080)
<u>Balance on 31 December 2014</u>	<u>(23,651)</u>	<u>48,616</u>	<u>(3)</u>	<u>6</u>	<u>24,968</u>

\*) Represents amount less than one thousand dollars

**The accompanying notes are an integral part of the interim financial statements.**

Israel Opportunity – Energy Resources, Limited Partnership  
Statements of Cash Flows

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	For 3 months ended on 31 March		For the year ended 31 December
	2015	2014	2014
	Unaudited		Audited
<u>Cash Flows from Current Activities</u>			
Net cash derived used for current activities (a)	(264)	(258)	(1,178)
<u>Cash flows from Investment Activities</u>			
Change in deposits in banking corporations, net	(134)	(1)	4,809
Consideration from sale of negotiable securities at fair value through profit and loss	-	1,679	1,679
Increase in long-term accounts receivable	-	-	(882)
Decrease in accounts receivable	-	=	449
Consideration from sale of oil and gas assets designated for sale	-	-	95
Investment in oil and gas assets	-	(873)	(677)
Net cash derived from (used for) investment activities	(134)	(805)	(5,473)
<u>Cash Flows from Financing Activities</u>			
Credit from banking corporations	-	44	-
Distribution to trustee	-	-	(50)
Net cash used for financing activities	-	44	(50)
<u>Rate differentials between cash and cash equivalents</u>	(18)	(6)	(120)
<u>Increase (decrease) in cash and cash equivalents</u>	(416)	585	4,125
<u>Balance of cash and cash equivalents for start of period</u>	10,021	5,896	5,896
<u>Balance of cash and cash equivalents for end of period</u>	9,605	6,481	10,021

**The accompanying notes are an integral part of the interim financial statements.**

Israel Opportunity – Energy Resources, Limited Partnership  
Statements of Cash Flows

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	For the 3 months ending on 31 March		For the year ended 31 December
	2015	2014	2014
	Unaudited		Audited
<u>(a) Net Cash Derived from (Used for) Current Activities</u>			
Loss for the period	(268)	(324)	(5,080)
Adjustments to the Profit and Loss Items:			
Non-cash oil and gas exploration expenses	-	-	3,611
Profits from change in fair value of financial assets measured in fair value through profit and loss	(1)	(24)	(19)
Rate differentials for cash and cash equivalents	18	6	120
Depreciation expenses	-	-	2
Loss from sale of designated for sale oil and gas assets	-	95	-
Changes in assets and liability items:			
Decrease (increase) in accounts receivable	(4)	446	342
Decrease in Accounts payable	(9)	(457)	(154)
	(264)	(258)	(1,178)
<u>(b) Additional information on cash flows</u>			
Interest received	16	17	82

**The accompanying notes are an integral part of the interim financial statements.**



## Israel Opportunity – Energy Resources, Limited Partnership

### Notes to the Financial Statements

#### Note 1 – General

##### a. Definitions

The Partnership or The Limited Partnership –	Israel Opportunity – Energy Resources, Limited Partnership
The General Partner -	Israel Opportunity – Oil and Gas Explorations Ltd.
The Limited Partner or Trustee -	Israel Opportunity – Oil and Gas Explorations Trustees Ltd.
Dollar -	US Dollar

- b. The Limited Partnership was founded in accordance with the Limited Partnership foundation agreement that was signed on 10 February 2010 and that was amended throughout the years between the General Partner on the one hand and the Limited Partnership on the other. The Limited Partnership was registered on 24 February 2010 in accordance with the Partnership Ordinance (New Version) 5735-1975 (Hereinafter – The Partnership Ordinance). In accordance with Section 61(a) of the Partnership Ordinance, the partnership agreement constitutes the Limited Partnership statutes.

The Partnership is a public partnership that incorporated in and a resident of Israel. The registered address of the office of the Partnership is Derech Ben Gurion 2, Ramat-Gan.

The first stock exchange in which the Partnership's participation units were listed beginning on 14 July 2010 is the Tel-Aviv Stock Exchange.

- c. The General Partner in the Partnership holds approximately 0.01% of the participation units. The General Partner focuses on the management of the Limited Partnership. The Limited Partner in the Partnership holds approximately 99.99% of the Partnership capital. The Limited Partner serves as Trustee for the owners of the participation units.
- d. The Partnership specializes in oil and/or gas explorations in geographical areas included in licenses 370/Ishai, 371/Aditya, 372/Lela, 373/Yahav, 374/Yoad (Hereinafter: The Pelagic Licenses), 398/Neta, 399/Royee and 394/Oz, whether they are subject to the aforementioned oil assets or subject to early holdings or licenses or permits that will be issued to the Partnership in stead, and areas adjacent to the aforementioned oil asset area that will be included in said oil assets as a result of a change in their border, with a change in border being attributed to local geographical reasons (See Note 7 of the Annual Financial Statements). The Partnership filed with the Petroleum Commissioner in the Ministry of National Infrastructures, Energy and Water the Atidya, Lela and Yahav licenses, as well as for approval of a change in borders of the Yoad license as well as an extension of its period for two years and update of its work plan. The Petroleum Council recommended approving the change in border as specified, as of the date of the signing of the financial statements, Commissioner approval has not yet been received.
- e. These financial statements were prepared in summary format for 31 March 2015, and for a period of three months that ended on said date (Hereinafter – Interim Financial Statements). These reports should be reviewed with regards to the annual financial statements of the Partnership for 31 December 2014, and for the year ending on said date and for their accompanying notes (Hereinafter – Annual Financial Statements).

#### Note 2 – Main Accounting Policies

The Interim Financial Statements are prepared in compliance with GAAP for preparation of financial statements for interim periods as set forth in International Accounting Standard 34 on Interim Financial Reporting, and in accordance with the provisions for discovery in accordance with Chapter D of the Security Regulations (Periodic and Immediate Reports) 5730-1970.

## Israel Opportunity – Energy Resources, Limited Partnership

### Notes to the Financial Statements

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The accounting policies that will be implemented in the preparation of the interim financial statements are consistent with those applied in the preparation of the annual financial statements.

#### Note 3 – Investments in Oil and Gas Assets

##### a. Pelagic Joint Venture

1. Pursuant to Note 7d(6) of the annual financial statements regarding a change in the Partners holdings in the Pelagic joint venture, from 11 January 2015, the Partnership informed Norisha Holdings Limited (Hereinafter: Norisha) and Frendum investments Ltd. (Hereinafter Frendum), as follows:

a. That it is exercising its right of first refusal granted to it in accordance with the JOA Agreement, to acquire some of Frendum's rights in the licenses, in accordance with its relative share in the licenses, and that it also wishes to acquire the additional shares of Frendum's rights in the licenses if all other Partners in the licenses do not use the right of first refusal granted to them.

In addition, it believes that the completion of the transaction between Norisha and Aden constitutes a breach of the JOA and that it reserves its rights in this matter.

Namax Oil & Gas Limited (Hereinafter Nammax), which holds 42.5% of the Pelagic licenses, also announced that it is exercising its right of first refusal granted to it in accordance with the JOA agreement to acquire some of Frendum's rights in the licenses in accordance with its relative share in the licenses.

b. AGR Petroleum Services Holdings AS, which holds 5% of the Pelagic licenses, announced that it does not plan to exercise its right of first refusal granted to it as aforementioned.

On 2 February 2015, Norisha informed the Partnership and Nammax that it was rejecting their demand to exercise right of first refusal to acquire some of Frendum's participation rights in the Pelagic licenses, since it believes that the right of first refusal pertains to the rights in the Genesis Energy Group Limited (Hereinafter Genesis), which were sold by Norisha to Aden Energy Discoveries Ltd. (Hereinafter Aden) and not with regards to Frendum's participation rights in the Pelagic licenses.

The Partnership and Nammax informed Frendum that they were rejecting its said stance and viewed Frendum's actions and omissions with regards to change of control in Genesis, including non-compliance with its relative share in the guarantees to the Ministry of National Infrastructures, Energy and Water with regards to the Pelagic licenses, non-payment of its relative share in the work plan budget in the Pelagic licenses, which were approved by all partners in the Pelagic licenses, including Frendum and the fact that it is not honoring the exercise of right of first refusal, as a breach of the provisions of the JOA agreement that are applicable to the Pelagic licenses and demanded that it honor their notice regarding exercise of the right of first refusal.

On 5 February 2015, the Partnership announced that it and Nammax sent Default Notices by virtue of the JOA Agreement that applies to License 370 / Ishai, as follows:

a) To Frendum since it failed to comply with its relative share in the guarantees and since it failed to pay its relative share in the 2015 budget for the work plan in the license that was approved by all partners in the license, including Frendum.

b) To Daden Investment Ltd. (Hereinafter Daden), which holds participation rights at a rate of 9% in the license, since it failed to comply with its relative share in the guarantees.

Following receipt of the Default Notice, Frendum deposited its share of the budget in the joint transaction account.

On 2 March 2015, Frendum deposited \$132 thousand for the guarantee, comprising 10.526% of the total share of the required guarantee.

## Israel Opportunity – Energy Resources, Limited Partnership

### Notes to the Financial Statements

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On 15 April 2015, after the balance sheet date, the Partnership, Nammax, Frendum and Aden engaged in a settlement agreement, the main points being:

- a) Frendum would transfer to the Partnership and to Nammax participation rights in the Pelagic licenses at a rate of 6% (of 100%) and 17.5% (of 100%) accordingly (Hereinafter The Transferred Rights) so that after the transfer of said Transferred Rights, the partners in the Pelagic licenses and their holding rates would be as follows:

The Partnership – 16%  
Nammax – 60%  
Frendum – 10%  
Daden – 9%  
AGR Petroleum Service AS – 5%

The transfer of said rights would become valid following receipt of Commissioner approval (Hereinafter Commissioner Approval of the Transfer of Rights) as well as approval of the Anti-trust Commissioner (if required).

The Transferred Rights will be clear and free of any lien, claim, encumbrance or contractual rights or other third party rights, with the exception of restrictions imposed by law and with the exception of profit sharing rights as specified in Section 2 below and with the exception of royalties claimed as part of the Garren (Gary) J. Junco lawsuit and others as specified in Note 8d(2) of the annual financial statement

- b) It should be noted that the Transferred Rights are subject by virtue of the settlement agreement between the partners in the Pelagic licenses and WB (as specified in Note 8d(1) of the annual financial statements), to the rights of Frendum, Daden and WB to participate in some of the profits of any of the holders of these rights in the Pelagic licenses (following full reimbursement of all expenses in the Pelagic licenses plus annual 6% interest rate), at a rate of 0.9% to WB, 0.71% to Frendum and 0.19% to Daden (Hereinafter the Profit Sharing Rights). The Partnership's share in payment of the profit sharing rights is 6.71% (of the 100% profit sharing rights).
- c) The Partnership and Naamax will cancel the Default Notice by virtue of the JOA Agreement that apply to the licenses sent to Frendum on 5 February 2015 with regards to the license by virtue of the JOA agreement. At the same time, it is agreed that the Default Notices will be considered as not having been cancelled and resent if approval of the Commissioner with regards to transfer of said Rights is not received by 1 April 2016.
- d) It is hereby agreed that should the Partnership, Naamax and Frendum hold participation rights in License 370/Ishai on 1 March 2016 and subject to Frendum complying with all of its undertakings in accordance with the settlement agreement, the Partnership and Naamax will pay Frendum an amount of \$6,380 and \$18,620, respectively, as reimbursement of Frendum expenses for said license in accordance with the JOA agreement that applies to the license, beginning on 1 January 2015. Said sums will be paid by way of partial payment of Frendum in Cash Calls, which will be issued with regards to the license as of 1 April 2016 and until said amounts.
- e) Subject to compliance with the parties undertakings in accordance with the settlement agreement and Commissioner approval of transfer of rights as specified, the parties waive any mutual claim and charges with regard to the disputes between them as specified above.
- f) It is hereby agreed that until the Commissioner's approval of the transfer of rights is received, the parties will pay the Cash Calls whose results, if any, in accordance with their current share in the Pelagic licenses (i.e. prior to the Transfer of Rights), with the exception of the Partnership and Naamax will pay to the joint account of the joint venture in the area of the Pelagic licenses the aggregate sum of up to \$50 thousand for said Cash Calls, for rights that will be transferred to them (in accordance with their relative share in the rights to be transferred, i.e. the Partnership up to \$13 thousand and Naamax up to \$37 thousand) subject to Frendum paying 10% of all of the Cash Calls. If Commissioner approval of the transfer of rights is received, said payment will be calculated at the expense of the share of the Partnership and Naamax but if Commissioner approval of the transfer of rights is not received by 1 April 2016, said sum will be refunded to them by Frendum within 30 days and failure to do so will be considered a breach by Frendum of the JOA Agreement in the Pelagic licenses.

## Israel Opportunity – Energy Resources, Limited Partnership

### Notes to the Financial Statements

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- b. Pursuant to Note 7d of the annual financial statements regarding the filing of the work plan for the Ishai License, on 23 February 2015, the Partners in the License appealed to the Petroleum Commissioner with a request to extend the dates for implementation of the work plan in the license area. As of the date of this report, no response has been received from the Petroleum Commissioner with regards to said request.

#### b. Licenses 398/Neta and 399/Royee

1. Pursuant to Note 7e of the annual financial statements, the Partners in the Neta and Royee licenses filed a motion with the Commissioner to change the borders of the Royee license including by way of transfer of areas from the Neta license to the Royee license, and by way of subtracting other areas. The areas that will be subtracted from the Royee license and areas of the Neta license that will not be added to the Royee license – will be returned in a manner that the partners in the licenses will remain with only one license – the Royee license in its new borders. As of the date of the signing of the financial statements, Commissioner approval of said motion has not been received.

Pursuant to the motion that was filed as specified above, a motion was filed with the Commissioner on behalf of the Partners in the licenses to revoke its demand to deposit another bank guarantee for the Neta license and to order the return of the bank guarantee that was deposited for the Neta license.

2. Pursuant to Note 7e of the annual financial statements regarding the submission of the work plan for the Neta and Roe work plan, on 14 May 2015, after the balance sheet date, the Partners submitted a request with the Petroleum Commissioner to update the work plan for the Royee license for the year and accordingly an extension of its validity. It should be noted that as part of said request, the Partners requested that the Commissioner approve, inter alia, the addition of several milestones, including research, study and other professional analyses, for the work plan and postponement of the dates for implementation of the milestones in the current work plan for the license. As of the date of this report, no response has been received from the Commissioner with regards to said request.

#### c. License 394 / Oz

Pursuant to Note 7f of the annual financial statements regarding submission of a work plan for the Oz license, on 14 May 2015, the Partners in the Oz transaction submitted a request with the Petroleum Commissioner to extend the deadlines for implementation of the work plan in the license area. As of the date of this report, no response has been given by the Commissioner to said request.

#### d. Guidelines for granting securities with regards to the petroleum rights

Pursuant to Note 7c of the annual financial statements:

1. On 30 March 2015, a motion was filed to defer the date on which the second part of the guarantee in the Ishai license would be deposited until 30 June 2015. No response from the Commissioner has yet been received. As of the date of the signing of the financial statements, some of the Partners in the Ishai license have yet to deposit the first share of the guarantee in accordance with the Commissioner's directives (see also Note 3a above).
2. On 30 March 2015, a request was submitted to defer the date for depositing the second part of the guarantee in the Oz license for 60 days. The Commissioner's response has yet to be received.
3. On 31 March 2015, the Partnership deposited the second part of the guarantee of the Royee License for the amount of \$125 thousand.
- 4.

## Israel Opportunity – Energy Resources, Limited Partnership

### Notes to the Financial Statements

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Regarding the deposit of the second share of the guarantee for the Neta License, see Note 3b above.

It should be noted that failure to provide guarantees in a violation of the provision of the law may be cause for the Commissioner to seize the rights in the license.

#### Note 4 – Additional Information

- a. On 7 January 2015, the Partnership filed a financial lawsuit against Frendum, Placida and Lapidot-Heletz Limited Partnership (Hereinafter Lapidot) (Hereinafter The Defendants)

The matter of the financial lawsuit that was transferred by the Partnership to the account of the joint venture in the license, in total of US\$ 1,158 thousand, US\$1,152 thousand of which for Frendum's and Placida's share in accordance with the agreement from 1 April 2012 in which the Partnership acquired the rights in the license from Frendum, and with regards with the Cash Calls from 2012 and from March 2014.

According to the Partnership, these funds were raised for specific and predefined purposes and in accordance with the sums that were submitted, and undertakings that were issued with regards, and since these purposes were not realized, including and up to the date set forth with regards to their share in particular, the funds must be refunded to the Partnership and should not be used.

The Partnership submitted to the Defendants, which held the signature rights to the bank account of the joint venture in the license and that began to use said funds without the consent of the Partnership, a demand to pay it said monies, but the Defendants failed to respond and the former had no choice but to file a lawsuit to insist on their rights.

On 11 January 2015, Lapidot announced that it vehemently rejected all of the claims made against it.

On 22 February 2015, Lapidot filed a Statement of Defense.

On 28 May 2015, after the balance sheet date, the Partnership engaged in a settlement agreement with Frendum and Placida (Hereinafter The Agreement with Frendum and Placida) and in a settlement agreement with Lapidot (Hereinafter The Agreement with Lapidot), to resolve the dispute between them, the main points being:

1. Agreement with Frendum and Placida

- a. The Partnership would acquire from Placida and Frendum all of the participation rights held by them in the license, at an overall rate of 31.5% (of 100%) (Hereinafter: The Acquired Rights), , in a manner as to subject to completion of the said acquisition , the Partnership will hold 41.5% (of 100%) of the participation rights in the license.
- b. The acquired rights will be transferred to the Partnership clear and free of any third party right, and of any lien, encumbrance, royalty, preemptive right, right of refusal, etc. (with the exception of royalties to the State of Israel and with the exception of third party rights as specified that are the result of Frendum and Placida activities with regards to the License).
- c. The transfer of the acquired rights to the Partnership will be valid from the date of the signing of the agreement with Frendum and Placida and from this date forward, the Partnership will bear all liabilities with regards to the acquired rights and will benefit from all rights with regarding said rights, and even undergoes approval by the Commissioner for the transfer of the acquired rights to the Partnership.
- d. A motion will be filed with the court for consent to reject the lawsuit.
- e. Registration of the acquired rights under the Partnership's names is contingent upon approval of the Petroleum Commissioner and approval of the Anti-Trust Commissioner (if required) (Hereinafter: The Regulatory Approvals").

- f. In consideration of the acquired rights, the Partnership will undertake to pay Placida, on its behalf and on behalf of Frendum, a sum of \$400 thousand at the earlier of the dates of the signing of the agreement with Frendum and Placida or 7 days from the date of regulatory approval.

In addition, the Partnership undertook to pay Placida, if a discovery is made in the license within 10 years from the date of the signing of the Agreement, \$200 thousand, in 36 equal monthly payments, over the course of the first 3 years from the date of commercial production of oil or gas from the license for commercial sale purposes.

- g. With regards to the consideration that the Partnership undertook to pay for the acquired rights as specified above, and to complete the picture, the Partnership wishes to note the following:
1. On 1 April 2012, the Partnership engaged in an agreement with Frendum, in which the Partnership acquired from Frendum 10% (of 100%) of the participation rights in the license (Hereinafter The Original Acquisition Agreement). For this matter, see also Note 7f(1) of the annual financial statement for 2014.
  2. In the Original Acquisition Agreement, it was agreed that in addition to the Partnership's relative share in license expenses, the Partnership would bear, from the date of the Original Acquisition Agreement, all license expenses, including provision of financial guarantees, that will be charted for Frendum's share and Placida's share (Hereinafter Carried Interest), up until the date of completion of the analysis of the seismic survey data in the license area and preparation of a comprehensive report of the license area (Hereinafter Carry End Date), and pursuant that in any case, the overall sum of the Carried Interest will not exceed \$3,450 thousand (Hereinafter: the Carried Interest Ceiling).

In this context, it is hereby agreed that the provision of financial guarantees by the Partnership for the relative share of Frendum and Placida will be considered cash payment for the purpose of calculating the Carried Interest ceiling, and pursuant to if the said guarantees expire without being disposed before the Carry End Date, the said unused guarantees will not be calculated as part of the calculation of the Carried Interest ceiling.

3. It is further agreed in the Original Acquisition Agreement that as long as on the Carry End Date, the actual sum paid by the Partnership at the expense of the Carried Interest will be less than the sum of the Carried Interest Ceiling, the Partnership will pay Frendum, as an additional consideration for the rights acquired in accordance with the Original Acquisition Agreement, a sum equivalent to half the difference between the Carried Interest ceiling and the actual sum paid at the expense of the Carried Interest and until the Carry End date. (Hereinafter The Additional Consideration) and that subject to

payment of the Additional Consideration, from the date of said payment, the Partnership will be released from its undertaking to the Carried Interest.

4. On the Carry End Date, the sum paid by the Partnership at the expense of the Carried Interest was lower than the Carried Interest ceiling. Accordingly, any sum that was ruled in favor of the Partnership by the court as part of the lawsuit (if any), was subject to payment of the Additional Consideration.

## 2. Agreement with Lapidot

- a. A motion will be filed for consent to reject the lawsuit.
- b. Lapidot will agree to the transfer of the rights acquired from Frenum and Placida to the Partnership in accordance with the agreement with Frenum and Placida and will waive right of refusal (if any) for said transfer.

On 28 May 2015, after the balance sheet date, the Partnership filed with the court notice of consent to reject the lawsuit against the Defendants. On 31 May 2015, after the balance sheet date, the ruling to reject the lawsuit was validated as described above.

- b. Pursuant to Note 8c(3) of the annual financial statement regarding the draft law to amend the Partnership Ordinance on 16 February 2015, the Knesset ratified the draft law on the second and third call.

The amendment is essentially a new chapter that is added to the Partnership Ordinance [New Version] 5735-1975 (Hereinafter – The Partnership Ordinance), and applies only to public limited partnerships, i.e. limited partnerships whose participation units or rights of the limited partner in them are listed on the stock exchange or were offered to the public in accordance with a prospectus.

The main purpose of the amendment is general application of the rules of corporate governance in public partnerships and in arrangement of corporate governance in which a large percentage of the amendment is made by way of adopting the arrangements of the Companies Law 5759-1999 (Hereinafter The Companies Law) with the obligatory changes and adjustments.

Inter alia, the amendment sets forth:

- In a public limited partnership, the general partner will be a private company that is not a bond company, whose incorporation in Israel and its exclusive occupation is management of the limited partnership's businesses.
- Requirement to appoint an audit committee.
- Requirement to appoint a compensation committee
- Requirement to approve compensation policy in the general partnership and partnership.
- Requirement to appoint external directors.
- The general partner and officers will be subject to prudence duty and duty of trust to the Partnership and that they must prioritize the best interest of the Partnership over the interest of the General Partner.
- That the Partnership will be subject to the exemption, indemnification and insurance arrangements that apply in a public company.
- That the controlling shareholder in the General Partner and the shareholders in the General Partner must act fairly with the partnership.
- That the holder of the participation units who knows that their vote is the deciding vote in general assembly resolution – act with decency.
- The holder of the participation units must act in good faith and in the accepted manner and must prevent exploiting other holders, the General Partner and the Partnership.
- Requirement to appoint an internal auditor.
- Requirement to appoint a committee to approve the financial statements.

## Israel Opportunity – Energy Resources, Limited Partnership

### Notes to the Financial Statements

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- Arrangement of the office of the supervisor with expanded authorities under certain circumstances.
- Duty to convene an annual general assembly no later than 15 months after the last annual assembly.
- Management of approval of interested party and controlling shareholder transactions in the General Partner and in the Partnership, similar to public companies. Accordingly, in accordance with the amendment, an extraordinary transaction of the Partnership with the controlling shareholder or in which the controlling shareholder has a personal interest – requires re-approval every 3 years (with the exception of venture fees that are defined in the amendment as any asset that is given by the Partnership to the General Partner or to its controlling shareholder, in accordance with the Partnership Agreement, " that is derived from the assets, income or profits of the Partnership; either in cash or in any other manner).

The Partnership intends to study the provisions of the law and to review their repercussions on the Partnership.

#### Note 5 – Financial Instruments

The fair value of financial instruments:

The fair value of financial instruments presented in the financial statements are compatible or near-compatible to their book value.