



# **Tamar Petroleum Ltd.**

**Quarterly Report  
as of September 30, 2017**

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September 30, 2017**

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## **Chapter A - Update of the Description of the Company's Business**

### **of Tamar Petroleum Ltd. (the "Company")**<sup>1</sup>

*This report is a translation of Tamar Petroleum Ltd.'s Hebrew-language Update of the Description of the Company's Business, prepared solely for convenience purposes. Please note that the Hebrew version is the binding version, and in the event of any discrepancy, the Hebrew version shall prevail.*

1. **Section 6.7.2(e) of the Prospectus - Planned Work Plan for the Tamar Project**

For details with respect to the detection of a crack in the emission pipeline used to release natural gas and pressure from the Tamar platform routinely and in emergencies (the "Malfunction") during the performance of upgrade and improvement work on the Tamar Platform and on the Reception Terminal (the "Upgrade Work") by Noble Energy Mediterranean Ltd. ("Noble" or the "Operator"), the repair thereof and the renewal of flow of natural gas from the Tamar reservoir, see the immediate reports of September 23, 2017 (Ref. 2017-01-083254) and September 27, 2017 (Ref. 2017-01-084892), the details contained in which are included herein by way of reference. It is noted that the Upgrade Work was completed as planned on October 10, 2017.

2. **Section 6.7.2(n)(1)a of the Prospectus – Reserves, Contingent Resources and Prospective Resources in the Tamar Project; Section 6.7.19 of the Prospectus – Royalties to Related and Third Parties**

Further to Footnotes 59 and 108 in Chapter 6 of the Prospectus with respect to the date of return on investment in the Tamar Project, for the purpose of setting the date for the commencement of payment of royalties to Delek Group Ltd. and Delek Energy Systems Ltd. at a rate of 6.5% (in lieu of a rate of 1.5%), it is noted that as of the report release date the Company is examining the aforesaid return on investment date which, in its estimation, is expected to occur by the end of 2017 (and may have possibly even elapsed).

3. **Section 6.7.2(n)(1)d of the Prospectus - Production Data of the Tamar Project**

Data of the production of natural gas and condensate in the first three quarters of 2017 from the Tamar Project (assuming that the Company held interests in

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<sup>1</sup> The update includes material changes or news occurring in the Company's business from the release date of the Report for Q/2 2017 on August 17, 2017 until shortly before the date of this report on any matter required to be described in an annual report. The update refers to the section numbers in Chapter 6 (Description of the Company's Business) of the prospectus for supplementation and the shelf prospectus of the Company dated July 4, 2017 (the "Prospectus") (Ref.: 2017-01-056551), as updated in the supplementary notice released on July 6, 2017 (Ref.: 2017-01-057649) and in the shelf offering report released on July 18, 2017 (Ref.: 2017-01-061960).

the I/12 Tamar lease from the date of commencement of gas flow from the Tamar project), are presented in the table below:<sup>2</sup>

		Natural Gas			Condensate		
		Q/1	Q/2	Q/3	Q/1	Q/2	Q/3
Total output (attributable to the holders of the equity interests of the Company) during the period (in MMCF for natural gas and in barrels in thousands for condensate)		7,833	7,954	8,316	10.5	10.4	11.0
Average price per output unit (attributable to the holders of the equity interests of the Company) (Dollars per MCF and per barrel)		5.43	5.40	5.48	46.3	40.20	46.17
Average royalties (any payment derived from the output of the producing asset, including from the gross revenues from the petroleum asset) paid per output unit (attributable to the holders of the equity interests of the Company) (Dollars per MCF and per barrel)	The State	0.6	0.60	0.62	5.1	4.48	5.24
	Third parties	0.10	0.09	0.10	0.8	0.71	0.85
	Interested Parties	0.14	0.14	0.15	1.2	1.05	1.26
Average production costs per output unit (attributable to the holders of the equity interests of the Company) (Dollars per MCF and per barrel) <sup>3</sup>		0.39	0.35	0.35	2.2	1.91	1.91
Average net revenues per output unit (attributable to the holders of the equity interests of the Company) (Dollars per MCF and per barrel)		4.2	4.22	4.26	37	32.05	36.91

<sup>2</sup> The rate attributable to the holders of the equity interests of the Company in the average price per output unit, royalties, production costs and net revenues, was rounded to the nearest hundredth.

<sup>3</sup> It is emphasized that the average production costs per output unit only include current production costs and do not include the costs of exploration and development of the reservoir.

4. **Section 6.7.10 of the Prospectus - Human Resources**

On September 10, 2017, Messrs. Giora Inbar and Alon Cohen were appointed to serve as external directors of the Company.

On October 1, 2017, Mr. Alon Amit of the accounting firm Raveh Ravid & Co. was appointed to serve as the Company's internal auditor.

5. **Section 6.7.13 of the Prospectus - Financing**

5.1. On August 20, 2017, the Company made a buy-back of Series A Bonds in the sum of ILS 481,896 par value. For further details see immediate report of August 21, 2017 (Ref.: 2017-01-084813), the details contained in which are included herein by way of reference.

5.2. **Financial Covenants**

For details with respect to the financial covenants undertaken by the Company as part of the issuance of Series A Bonds carried out in July 2017, as of September 30, 2017, see Part 5 of the Board of Directors' Report included herein.

For details with respect to the fulfillment of the conditions set forth in Section 5.8.3 of the Deed of Trust required for the inapplicability of additional interest on Series A Bonds, see immediate report of November 1, 2017 (Ref.: 2017-01-095842), the details contained in which are included herein by way of reference.

6. **Section 6.7.20(a) of the Prospectus – Legal Proceedings; Section 6.2.19 – the Sale Agreement**

For details with respect to the Supreme Court's decision to deny the motion for leave to appeal filed by Delek Drilling – Limited Partnership ("**Delek Drilling**"), Noble Energy Mediterranean Ltd., Isramco Negev 2 – Limited Partnership and Dor Gas Exploration – Limited Partnership (the "**Motion for Leave to Appeal**" and the "**Petitioners**", respectively) on the District Court's decision denying the Petitioners' appeal for summary dismissal of the motion for class certification filed by a consumer of the Israel Electric Corp. Ltd. (the "**Certification Motion**" and the "**IEC**", respectively) concerning the price for which the Petitioners sell natural gas to the IEC, and to remand the case to the District Court for adjudication of the Certification Motion on the merits thereof, see immediate report of September 28, 2017 (Ref.: 2017-01-085783), the details contained in which are included herein by way of reference. Following the decision on the Motion for Leave to Appeal, a pretrial hearing was held at the District Court on October 18, 2017, in which dates for the cross-examination of experts and affiants in the case were scheduled for January and February 2018. On October 29, 2017, the Petitioners filed a motion to add evidence and a motion to summon witnesses. As of the date of

this report, the petitioner has not yet replied to such motions, and consequently a decision thereon has not yet been rendered. For further details see Note 7C to the Condensed Interim Financial Statements as of September 30, 2017, which are included herein. On November 15, 2017, the Company filed a motion to join in the aforesaid legal proceeding.

Date: November 15, 2017

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**Tamar Petroleum Ltd.**

Signed by: Yossi Abu, Chairman of the Board  
and Liami Vaisman, CEO

# **Tamar Petroleum Ltd.**

## **Board of Directors' Report** **For the period ended on September 30, 2017**

*This report is a translation of Tamar Petroleum Ltd.'s Hebrew-language Board of Directors Report, prepared solely for convenience purposes. Please note that the Hebrew version is the binding version, and in the event of any discrepancy, the Hebrew version shall prevail.*

The board of directors of Tamar Petroleum Ltd. (the “**Company**”) respectfully submits the Board of Directors’ Report for the three-month and nine-month periods ended on September 30, 2017.

### **Part One – Explanations of the Board of Directors of the State of the Corporation’s Business**

#### **1. General**

The Company was incorporated on November 4, 2015. Until the date of fulfillment of the conditions precedent in the sale agreement, as described in Note 4 to the condensed interim financial statements as of September 30, 2017 attached hereto (the “**Sale Agreement**”), the Company was fully owned and controlled by Delek Drilling – Limited Partnership (the “**Partnership**” or “**Delek Drilling**”). In the course of July 2017, the Company raised financial sources by way of a public offering of bonds and shares, which served as part of the consideration for the purchase of a working interest of 9.25% (out of 100%) in the Tamar and Dalit Leases (the “**Leases**”) from Delek Drilling, according to the terms of the Sale Agreement. The remaining consideration to Delek Drilling was given by allotment of shares in the Company, to Delek Drilling, at a rate of 40% of the issued and paid-up share capital. According to an irrevocable waiver provided by Delek Drilling to the Company on the eve of the Company's prospectus for supplementation and shelf prospectus of July 4, 2017 (the “**Prospectus**”), and which took effect upon the completion of the share issuance, Delek Drilling unilaterally waived all of the voting rights attached to all of the shares held thereby other than with respect to shares in an amount equal to up to 12% of the issued and paid-up share capital of the Company after the closing of the issuance.

Whereas the Company purchased rights in the Leases from Delek Drilling, which was a controlling shareholder in the Company at the eve of the purchase, the purchase does not constitute a business combination within the application of IFRS3. Therefore, the transaction of purchase of 9.25% of the Leases was accounted for using the As Pooling method. Accordingly, the Company prepared the financial statements to reflect therein the purchase of 9.25% of the

Leases as if it was closed on January 1, 2014, while carrying out the adjustments specified in Note 2A to the financial statements as of September 30, 2017.

As explained in Note 2A to the financial statements as of September 30, 2017, the Company started recording financing expenses related to the issuance of the bonds as well as taxes on income commencing from Q3/2017. The proforma statements on the comprehensive income were included in Note 8 to the financial statements as of September 30, 2017, and were made under the assumptions specified in the said Note 8 including the recording of financing expenses and income tax expenses for all of the reported periods.



## 2. Results of Operations

### a. Analysis of income statements

Below are main figures with regard to the Company's income statements, as well as the proforma net income and the total proforma comprehensive income for the period (see Note 8 to the Financial Statements attached hereto) in dollars in thousands:

	For the nine-month period ended on		For the three-month period ended on		For the year ended on
	30.9.2017	30.9.2016	30.9.2017	30.9.2016	31.12.2016
Revenues from gas and condensate sales	131,094	119,366	46,091	43,673	159,850
Net of royalties	20,473	18,698	7,283	6,860	24,843
Net revenues	110,621	100,668	38,808	36,813	135,007
<b><u>Expenses and costs</u></b>					
Cost of production of natural gas and condensate	8,813	8,520	2,926	2,352	11,638
Depreciation, depletion and amortization expenses	13,100	12,763	4,038	4,753	16,156
G&A expenses	1,032	900	432	300	1,200
Total costs and expenses	22,945	22,183	7,396	7,405	28,994
Profit from ordinary activities	87,676	78,485	31,412	29,408	106,013
Finance costs	(7,596)	(192)	(7,447)	(65)	(342)
Finance income	136	15	48	5	131
Finance expenses, net	(7,460)	(177)	(7,399)	(60)	(211)
Profit before taxes on income	80,216	78,308	24,013	29,348	105,802
Taxes on income	5,619	-	5,619	-	-
<b>Net profit and total comprehensive income for the period</b>	<b>74,597</b>	<b>78,308</b>	<b>18,394</b>	<b>29,348</b>	<b>105,802</b>
<b>Proforma net income and total proforma comprehensive income for the period</b>	<b>49,837</b>	<b>44,654</b>	<b>17,822</b>	<b>17,215</b>	<b>60,180</b>
<b>Gas sales in BCM<sup>1</sup></b>	<b>7.4</b>	<b>7.0</b>	<b>2.5</b>	<b>2.5</b>	<b>9.4</b>
<b>Condensate sales in thousands of barrels<sup>2</sup></b>	<b>345</b>	<b>340</b>	<b>119</b>	<b>126</b>	<b>448</b>

**Revenues net of royalties** in the nine-month period ended on September 30, 2017 (the "Report Period") amounted to approx. \$110.6 million compared with approx. \$100.7 million in the same period last year, an increase of approx. 9.8%. The increase in revenues in the Report Period compared with the same period last year mainly derives from an increase in the quantities of natural gas and condensate sold in the Tamar Project.

Revenues net of royalties in Q3/2017 amounted to approx. \$38.8 million compared with approx. \$36.8 million in the same period last year.

**The cost of production of natural gas and condensate** mainly includes the operation expenses of the Tamar Project, which include, *inter alia*, expenses of shipping and transportation, payroll, consulting, maintenance and insurance. The cost of gas production in the Report Period amounted to approx. \$8.8

<sup>1</sup> The figures refer to sales of natural gas by all of the Tamar partners, rounded off to one tenth of BCM.

<sup>2</sup> The figures refer to condensate sales (100%) from the Tamar project, rounded off to thousands of barrels.

million compared with approx. \$8.5 million in the same period last year.

The cost of gas production in Q3/2017, amounted to approx. \$2.9 million compared with approx. \$2.4 million in the same period last year. The increase in the cost of producing mainly derives from the reimbursement of tax expenses with respect to salaries of some of the foreign employees of the operator in the same period last year.

**Expenses of depreciation, depletion and amortization** amounted in the Report Period to approx. \$13.1 million compared with approx. \$12.8 million in the same period last prior year. The depreciation expenses include depletion depreciation in the Tamar Project. The increase mainly derives from an increase in the quantity of gas produced compared with the same period last year due to the increase in the demand for natural gas in the Israeli market. On the other hand, the increase was offset mainly as a result of an increase in the estimate of the proven reserves in the Tamar reservoir, which caused an update of the rate of depletion accordingly.

Expenses of depreciation, depletion and amortization in Q3/2017 amounted to approx. \$4 million compared with approx. \$4.8 million in the same period last year.

**G&A expenses** for the periods preceding July 1, 2017 included according to the management's estimate, the part attributed to the Tamar project as described in Note 2A to the Financial Statements attached hereto. General and Administrative expenses amounted during the Report period to a sum of approx. \$1 million compared with a sum of approx. \$0.9 million in the same period last year. General and Administrative expenses for Q3/2017 amounted to a sum of approx. \$0.4 million compared with a sum of approx. \$0.3 million in the same period last year.

**Finance costs** amounted in the Report Period to approx. \$7.6 million compared with a sum of approx. \$0.2 million in the same period last year. Most of the financing costs in the Report Period resulted from costs of interest for the bonds which were issued during July 2017.

**Taxes on Income** amounted during the Report Period and in Q3/2017 to a sum of approx. \$5.6 million. As explained in Note 2A(6) to the Financial Statements attached hereto, the purchase of 9.25% of the Tamar and Dalit Leases by the Company was accounted for under the As Pooling method, and therefore, until June 30, 2017 the Financial Statements do not include taxes on income since the Company's operations up to that date were carried out within an entity which is not subject to an income tax liability.

**Income from Ordinary Activities of the Company** for the Report Period amounted to approx. \$87.7 million compared with a sum of approx. \$78.5 million in the same period last year, an increase of approx. 11.7% deriving mainly from an increase in the revenues from the sale of natural gas to the customers of the Tamar Project. The net income for the Report Period amounted to approx. \$74.6 million. In the same period last year, financing costs for the bonds were not recorded, neither were tax costs recorded, as specified above, and the **net income** amounted to approx. \$78.3 million.

The income from ordinary activities of the Company in Q3/2017 amounted to approx. \$31.4 million compared with a sum of approx. \$29.4 million in the same period last year. The net income for Q3/2017 amounted to approx. \$18.4 million. In the same period last year, no financing costs were recorded with respect to the bonds neither were tax costs recorded as specified above, and the net income amounted to approx. \$29.3 million.

### 3. **Financial position, liquidity and financing sources**

#### a. **Financial position**

Following is a specification of the main changes in the sections of the statement of financial position as of September 30, 2017, compared with the statement of financial position as of December 31, 2016:

**The total assets in the condensed statement of the financial position** as of September 30, 2017 amounted to approx. \$552.9 million compared with approx. \$408.3 million as of December 31, 2016.

**The current assets** increased from approx. \$21.8 million as of December 31, 2016 to approx. \$23.7 million as of September 30, 2017. The change mainly derives from the factors specified below:

- (1) **Trade receivables and cash equivalents** amounted to a sum of approx. \$5.4 million as of September 30, 2017. As of December 31, 2016 there was no trade receivables and cash equivalents balance.
- (2) **Other receivables** decreased from approx. \$6.1 million as of December 31, 2016 to approx. \$2.4 million as of September 30, 2017. The decrease mainly derives from a decrease in the balance of the operator of the joint venture.

**The non-current assets** increased from approx. \$386.5 million as of December 31, 2016 to approx. \$529.2 million as of September 30, 2017. The change mainly derives from the factors specified below:

- (1) **Deferred taxes** amounted to a sum of approx. \$133.4 million as of September 30, 2017. As explained above, until June 30, 2017, the financial statements do not include tax on income because the Company's operations up to that date were carried out within an entity which is not subject to income tax liability, and therefore, as of December 31, 2016, there was no deferred taxes balance. The tax asset recognized in the financial statements is attributed to the difference between the cost of purchasing the Leases for tax purposes and the cost recorded in the books. On June 29, 2017, a tax ruling was obtained from the tax authority in an agreement regarding the manner of reducing the cost of purchasing the Leases for tax purposes.
- (2) **Restricted deposit** amounted as of September 30, 2017 to a sum of approx. \$9.9 million. These amounts were deposited in the safety cushion account for the payment of the principal and the interest to the bondholders which was pledged in favor of the bond trustee.

**The current liabilities** as of September 30, 2017 amount to a sum of approx. \$32.5 million compared with a sum of approx. \$12.2 million as of December 31, 2016. The change mainly derives from the factors specified below:

- (1) **Current maturities of bonds** which were issued in July 2017 in the amount of approx. \$11.3 million.
- (2) **Trade and other payables** as of September 30, 2017 amounted to a sum of approx. \$21.1 million compared with a sum of approx. \$12.2 million as of December 31, 2016. The increase derives mainly from expenses due regarding interest to the bondholders in an amount of approx. \$6.9 million, from a loan balance from Delek Drilling – Limited Partnership, in an amount of approx. \$4.6 million (see also Note 4 to the financial statements as of September 30, 2017). On the other hand the increase was offset mainly from a decrease of the Company's share in the liabilities of the joint transaction regarding to the Tamar reservoir in an sum of approx. \$3.4 million.

**The non-current liabilities** as of September 30, 2017 amounted to a sum of approx. \$638.8 million compared with a sum of approx. \$9.2 million as of December 31, 2016. The increase derives mainly from the bonds issued during July 2017 and are presented net of issuance expenses and current maturities.

**The Company's equity** as of September 30, 2017 amounts to a negative sum of approx. \$118.4 million compared with a positive capital in the amount of \$386.8 million as of December 31, 2016. The decrease in the capital derives from the accounting treatment of the purchase of the Leases according to the As Pooling method, and recognition of a premium and a negative capital reserve in a total negative amount of approx. \$523.6 million and on the other hand, an increase in the retained earnings in an amount of approx. \$18.4 million from profits which were recorded for the Tamar Project, net of distribution to shareholders.

**b. Cash flow**

The cash flows derived to the Company from operating activities, amounted in the Report Period to approx. \$79.6 million compared with approx. \$90.3 million in the same period last year. The decrease mainly derived from the effect of a decline in the net working capital items in an amount of approx. \$11.6 million.

The net cash flows used for investment activity amounted in the Report Period to approx. \$19.9 million compared with approx. \$6 million in the same period last year. The increase mainly derived from an increase in the investment in oil and gas assets in a sum of approx. \$10.2 million and from a deposit of \$9.9 million in a restricted deposit which serves as a safety cushion for the bondholders. On the other hand, the increase was offset by a decrease of approx. \$6.2 million in the joint transaction operator balance.

The net cash flows used for financing activity amounted in the Report Period to approx. \$54.3 million, and included payments in a total sum of approx. \$931.4 million (payment for the purchase of the Leases - \$845.3 million, distribution to the shareholders - \$49.1 million, payment of short-term credit - \$29.5 million,

repurchase of bonds - \$7.5 million) and proceeds in an amount of approx. \$877.1 million (consideration from the issuance of bonds, net - \$648 million, consideration from the issuance of shares, net - \$195.1, receipt of short-term credit - \$34 million). The cash flows used for financing activity in the same period last year amounted to approx. \$84.4 million and were used for distribution to shareholders.

c. **Projected Cash Flow**

As of September 30, 2017, the Company has a deficit in the equity in the amount of approx. \$118.4 million deriving from the accounting treatment in the purchase of the Leases according to the As Pooling method as specified above and the recognition of a negative capital reserve. A deficit in the equity constitutes one of the "warning signs" as defined in Regulation 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Note that as of September 30, 2017, the Company has a deficit in the working capital in a sum of approx. \$8.8 million. However, the Company's board of directors determined that the said working capital deficit does not indicate a liquidity problem in the Company, for the following reasons: the Company's cash flow from current operations in the last quarter amounted to approx. \$18 million, exceeding the said working capital deficit, and that according to the estimate of the Company's board of directors, based on the discounted cash flow included in Section 6.7.2(n)(1)c of the Prospectus (the "**Discounted Cash Flow**"), the Company's cash flow from current operations is expected to service all of the Company's expected liabilities.

In view of the aforesaid, the Company attaches a projected cash flow for a period of two years commencing on October 1, 2017. In the projected cash flow, the Company included forward-looking information, as defined in the Securities Law, 5728-1968. Such information includes, *inter alia*, projections, estimates, assumptions and other information pertaining to future events or matters, the materialization of which is not certain and is beyond the Company's control.

The said forward-looking information is based on estimates of the Company's management based, *inter alia*, on information known to the Company's management on the date of preparing the projected cash flow statement pertaining to its business and on the estimates of the Company's management regarding the market in which the Company operates.

The said information might not materialize, in whole or in part, or materialize substantially differently than expected. The factors which might affect this are, *inter alia*, changes and developments in the economic environment and in the market in which the Company operates, regulatory changes, the formulation of liabilities which are currently unknown and the materialization of all or part of the risk factors typical to the Company's operations, as specified in the Prospectus.

Following is a projected cash flow of the Company for the period commencing on October 1, 2017 until September 30, 2019.

<b>Cash flow projection (Dollars in Millions)</b>	<b>October 1 to December 31, 2017</b>	<b>January 1 to December 31, 2018</b>	<b>January 1 to September 30, 2019</b>
Cash and cash equivalents balance for beginning of the period	5.4	29.3	51.6
<b><u>Expected sources -</u></b>			
<b>Cash flow from current operations</b>	30.0	122.8	94.5
<b>Total sources in the period</b>	<b>35.4</b>	<b>152.1</b>	<b>146.1</b>
<b><u>Expected uses:</u></b>			
<b>Cash flow for investment activity:</b>			
Capital investments in Tamar reservoir	(1.5)	(2.6)	(4.0)
Deposit of money in a safety cushion in favor of the bondholders	-	(4.0)	(6.2)
<b>Cash flow for financing activity:</b>			
Bond principal payment	-	(12.6)	(51.6)
Payment of interest for bonds	-	(34.7)	(29.3)
Payment of principal and interest on loan from Delek Drilling Limited Partnership	(4.6)	-	-
Dividend payment	-	(46.6)	*(19.7)
<b>Total uses in the period</b>	<b>(6.1)</b>	<b>(100.5)</b>	<b>(110.8)</b>
<b>Cash and cash equivalents balance for end of the period</b>	<b>29.3</b>	<b>51.6</b>	<b>35.3</b>

\* Excluding dividend expected to be distributed in Q4/2019.

**Notes and principal assumptions underlying the cash flow projection:**

1. Cash flow from current operations is based on the discounted flow.
2. The capital investments in the Tamar reservoir are based on the capital investments included in the discounted cash flow.
3. Payment of the dividend is based on an estimate of retained earnings to be created for the Company based on the discounted cash flow, the assumption that the Company will not have any operational expenses

and/or capital investments and/or other liabilities beyond what is specified in the discounted cash flow, the assumption that the Company will not have material financing expenses beyond the financing expenses related to the bonds, and that no contingent liabilities will be created for the Company which are unexpected at this stage and which would adversely affect the Company's compliance with the criteria required for distribution under the Companies Law, 5759-1999.

## **Part Two – Purchase Plan**

See immediate report of July 17, 2017 for a Series A Bonds' repurchase plan which was adopted by the board of directors (reference number 2017-01-061543), the information in which is hereby brought by way of reference. Up to the Report Date, the Company completed the performance of the purchase plan in full as specified in the immediate reports of July 26, 2017 (reference number 2017-01-0645543), July 26, 2017 (reference number 2017-01-064789), July 27, 2017 (reference number 2017-01-065281) and of August 21, 2017 (reference number 2017-01-084813), the information appearing in which is brought hereby by way of reference.

## **Part Three – Exposure to and Management of Market Risks**

### **A. A description of the main market risks to which the corporation is exposed**

#### **(1) Exchange rate risk**

The main activity, assets and liabilities of the Company are in US Dollar and therefore the Company's currency of operation is US Dollar. The exchange rate risk derives mainly from assets and liabilities stated in ILS.

#### **(2) Natural Gas and Condensate prices risk**

The gas prices stated in the agreements for the sale of natural gas from the Tamar project are based on different price formulas including, *inter alia*, linkage to the American price index, the electricity production tariff as set from time to time by the Public Utility Authority – Electricity (the "**Electricity Production Tariff**" and the "**Electricity Authority**" respectively) and the price of a Brent oil barrel. Notwithstanding the aforesaid, the exposure of the Company to fluctuations in the Electricity Production Tariff and the price of a Brent oil barrel in the agreements for the sale of natural gas from the Tamar project, is limited to a minimal threshold set in those agreements, since all of the agreements attached to such components, include a "bottom price". Therefore, an additional decrease in the price of the Brent oil barrel or the Electricity Production Tariff as aforesaid, has a relatively moderate effect on the Company's revenues by virtue of agreements to which it is party.

B. **Report according to linkage bases, as of September 30, 2017 (dollars in thousands)**

	Financial Balances			
	In dollar or linked to the dollar	In Shekels	Non- financial balances	Total
<b><u>Assets</u></b>				
Cash and cash equivalents	5,144	248	-	5,392
Trade Receivables	15,897	-	-	15,897
Other Receivables	522	-	1,897	2,419
Investments in gas and oil assets	-	-	383,605	383,605
Deferred taxes	-	-	133,389	133,389
Restricted deposit	9,940	-	-	9,940
Other long-term assets	2,090	-	202	2,292
Total assets	33,593	248	519,093	552,934
<b><u>Liabilities</u></b>				
Trade and other payables	18,465	313	2,364	21,142
Bonds	640,740	-	-	640,740
Other long-term liabilities	-	-	9,414	9,414
Total liabilities	659,205	313	11,778	671,296
Total balance sheet balance, net	(625,612)	(65)	507,315	(118,362)

C. **Sensitivity tests for changes in Dollar/Shekel exchange rate (Dollars in Thousands)**

Sensitive Instrument	Profit/(loss) from the changes		Fair Value	Profit/(loss) from the changes	
	10%	5%		-5%	-10%
	3.882	3.705		3.353	3.176
Cash and cash equivalents	(25)	(12)	248	12	25
Trade and other payables	31	16	(313)	(16)	(31)
<b>Total</b>	<b>6</b>	<b>4</b>	<b>(65)</b>	<b>(4)</b>	<b>(6)</b>



## Part Four – Disclosure in Connection with the Corporation's Financial Reporting

### A. Events subsequent to the date of the Condensed Interim Financial Statement

On October 31, 2017, the Petroleum Commissioner at the Ministry for National Infrastructures, Energy and Water (the "**Commissioner**") gave his approval for the registration of the pledges in favor of the bond trustee, and with respect of which the Commissioner's approval is required, and on November 2, 2017, the pledges specified in Section 5.8.3 of the trust deed executed on July 5, 2017 between the Company and the bond trustee, which had not been registered up to such date, were registered. Therefore, the Company is not subject to the additional interest set in the trust deed in the event of non-registration of the pledges, all as specified in Section 5.8.3 of the trust deed.

## Part Five – Details regarding bonds issued by the Company (ILS in thousands)

<b><u>Bonds</u></b>	<b><u>Series A</u></b>
Par value on issue date	2,315,668
Issue date	9.7.2017
Par value as of September 30, 2017	2,289,300
Linked par value as of September 30, 2017	2,293,850
Value in the Company's books as of September 30, 2017	2,261,171
Stock exchange value as of September 30, 2017	2,354,774
Accrued interest amount as of September 30, 2017	24,463
Fixed interest rate per year	4.69%
Principal payment dates	See <b>Annex A</b> to this Report
Interest payment dates	Semi-annual payments, on February 28 and on August 30 of each of the years 2018 to 2028 (inclusive)
Linkage basis, Base rate	Linked to the US Dollar; the base rate – 3.522 ILS/Dollar
Conversion right	None
Right for early payment	<ul style="list-style-type: none"> <li>Regarding early redemption of the bonds initiated by the Stock Exchange see Section 9.1 of the trust deed attached as Annex A to the supplementary notice released on July 6, 2017 (reference number 2017-01-057724) (the "<b>Trust Deed</b>").</li> </ul>

	<ul style="list-style-type: none"> <li>Regarding right for early, full or partial, redemption of the bonds initiated by the Company, see Section 9.2 of the Trust Deed.</li> <li>Regarding the obligation of early redemption of the bonds see Section 9.3 of the Trust Deed.</li> </ul>
Guarantee for payment of the liability	None
Name of Trustee	Strauss Lazer, Trust Company (1992) Ltd.
Name of responsible person at the trust company	CPA and Adv. Ori Lazer
Address and E-mail of the trustee	17 Yitzhak Sadeh st., Tel Aviv, NIP Tower, 677775 ori@slcpa.co.il
Name of company rating the bonds	Midroog Ltd.
Rating as of the issue date	A1.il
Rating as of the Report Date	A1.il
Has the Company complied with all of the conditions and undertakings under the Trust Deed until September 30, 2017 and during the three months which ended on such date	Yes
Have conditions establishing grounds for acceleration of the bonds or enforcement of collateral given to secure the payment to the bondholders been fulfilled?	No
Pledges for securing the bonds	<ul style="list-style-type: none"> <li>For pledges given for securing the bonds see Section 5.8.1 of the Trust Deed.</li> <li>As of September 30, 2017, all of the pledges set forth in Section 5.8.1 of the Trust Deed have been registered and are valid according to any law and the Company's incorporation documents.</li> <li>For restrictions regarding the transfer and pledging of the Company's assets see Section 5.9 of the Trust Deed.</li> <li>For details regarding the Company's right to issue additional Series A Bonds by way of expansion of a series, and its right to issue bonds of other series and an additional other debt, subject to certain conditions, see Section 2.2 of the Trust Deed.</li> </ul>
Financial Covenants as of September 30, 2017	<ul style="list-style-type: none"> <li>Equity (including minority rights) net of capital reserve and with the addition of the loans inferior to the rights of the bondholders (as specified</li> </ul>

	<p>in Section 5.10.1 of the Trust Deed) - \$590 million<sup>3</sup>.</p> <ul style="list-style-type: none"> <li>• Expected debt service coverage ratio (as defined in Section 5.10.2 of the Trust Deed) – is 2.3<sup>4</sup>.</li> <li>• Economic equity (as defined in Section 5.10.3 of the Trust Deed) – is \$540 million<sup>5</sup>.</li> </ul>
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Sincerely,

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Yossi Abu  
Chairman of the Board

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Liami Vaisman  
CEO

Date of signing: November 15, 2017

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<sup>3</sup> According to the conditions of the Trust Deed, the said equity will be no less than \$250 million.

<sup>4</sup> According to the conditions of the Trust Deed, the said ratio will be no less than 1.05.

<sup>5</sup> According to the conditions of the Trust Deed, the said economic equity will be no less than \$250 million.

# Annex A

<b>Payment Date</b>	<b>Rate of Principal Paid</b>
30/08/2018	1.932%
28/02/2019	3.954%
30/08/2019	3.992%
28/02/2020	4.130%
30/08/2020	3.940%
28/02/2021	4.053%
30/08/2021	3.019%
28/02/2022	3.142%
30/08/2022	2.018%
28/02/2023	2.111%
30/08/2023	2.532%
28/02/2024	2.636%
30/08/2024	2.432%
28/02/2025	2.520%
30/08/2025	2.828%
28/02/2026	2.944%
30/08/2026	2.984%
28/02/2027	3.106%
30/08/2027	3.175%
28/02/2028	3.304%
30/08/2028	39.248%
<b>Total</b>	<b>100.00%</b>

**Tamar Petroleum Ltd.**

**Condensed Interim Financial Statements as of September 30, 2017**

**Expressed In U.S. Dollars in Thousands**

**Unaudited**

*This report is a translation of Tamar Petroleum Ltd.'s Hebrew-language Condensed Interim Financial Statements, prepared solely for convenience purposes. Please note that the Hebrew version is the binding version, and in the event of any discrepancy, the Hebrew version shall prevail.*

**Tamar Petroleum Ltd.**  
**Condensed Interim Financial Statements as of September 30, 2017**  
**Expressed In U.S. Dollars in Thousands**  
**Unaudited**

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## **Auditors' Review Report to the Shareholders of Tamar Petroleum Ltd.**

### **Introduction**

We have reviewed the accompanying financial information of Tamar Petroleum Ltd. (the “Company”), which includes the Condensed Statement of Financial Position as of September 30, 2017 and the Condensed Statements of Comprehensive Income, Changes in Equity and Cash Flows for the nine-month and three-month periods ended on the same date. The Company’s board of directors and management are responsible for the preparation and presentation of financial information for such interim periods in accordance with International Accounting Standard 34 “Interim Financial Reporting”, and they are further responsible for the preparation of financial information for such interim periods pursuant to Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on financial information for such interim periods 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 Information Performed by the Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for the 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 will 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 is not prepared, in all material respects, in accordance with IAS 34 – “Interim Financial Reporting”.

In addition to the abovementioned, based on our review, nothing has come to our attention which causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure provisions under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Kost, Forrer, Gabbay & Kasierer  
Accountants

Ziv Haft  
Accountants

Tel Aviv, November 15, 2017

## **Auditors' Review Report to the Shareholders of Tamar Petroleum Ltd.**

### **Introduction**

We have reviewed the accompanying proforma financial information of Tamar Petroleum Ltd. (the “**Company**”), which includes the Condensed Proforma Statements of Comprehensive Income, for the nine-month and three-month periods ended on the same date. The Company’s board of directors and management are responsible for the preparation and presentation of proforma financial information for such interim periods in accordance with the accounting policy specified in Note 3 and the assumptions specified in Note 8 to the proforma financial information, and they are also responsible for the preparation of proforma financial information for such interim periods in accordance with Regulation 38B of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the proforma financial information for such interim periods 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 Information Performed by the Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for the 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 proforma financial information is not prepared, in all material respects, in accordance with the accounting policy specified in Note 3 and the assumptions specified in Note 8 to the proforma financial information.

In addition to the abovementioned, based on our review, nothing has come to our attention which causes us to believe that the accompanying interim proforma financial information does not comply, in all material respects, with the provisions of Regulation 38B of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Kost, Forrer, Gabbay & Kasierer  
Accountants

Ziv Haft  
Accountants

Tel Aviv, November 15, 2017



**Tamar Petroleum Ltd.****Condensed Interim Statements of Financial Position (Dollars in thousands)**

	30.9.2017	30.9.2016	31.12.2016
	Unaudited		Audited
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and cash equivalents	5,392	-	-
Trade receivables	15,897	13,812	15,692
Trade and other receivables	2,419	7,328	6,134
	<u>23,708</u>	<u>21,140</u>	<u>21,826</u>
<b>Non-current assets:</b>			
Investments in petroleum and gas assets	383,605	382,660	384,488
Deferred taxes	133,389	-	-
Restricted deposit	9,940	-	-
Other long-term assets	2,292	1,873	1,968
	<u>529,226</u>	<u>384,533</u>	<u>386,456</u>
	<u>552,934</u>	<u>405,673</u>	<u>408,282</u>
<b>Liabilities and equity (equity deficit):</b>			
<b>Current liabilities:</b>			
Current maturities of bonds	11,346	-	-
Trade and other payables	21,142	11,111	12,229
	<u>32,488</u>	<u>11,111</u>	<u>12,229</u>
<b>Non-current liabilities:</b>			
Bonds, net of current maturities	629,394	-	-
Other long-term liabilities	9,414	8,452	9,228
	<u>638,808</u>	<u>8,452</u>	<u>9,228</u>
<b>Total liabilities</b>	<u>671,296</u>	<u>19,563</u>	<u>21,457</u>
<b>Equity (equity deficit):</b>			
Ordinary share capital	1,399	*	*
Share premium	570,662	386,110	386,825
Retained earnings	18,394	-	-
	<u>590,455</u>	<u>386,110</u>	<u>386,825</u>
Capital reserve	(708,817)	-	-
	<u>(118,362)</u>	<u>386,110</u>	<u>386,825</u>
	<u>552,934</u>	<u>405,673</u>	<u>408,282</u>

\*Less than \$1,000

**The attached notes constitute an integral part of the Condensed Interim Financial Statements.**

November 15, 2017			
Date of approval of the Financial Statements	Yossi Abu Chairman of the Board	Liami Vaisman CEO	Yuval Raikin CFO

**Tamar Petroleum Ltd.****Condensed Interim Statements of Comprehensive Income (Dollars in thousands)**

	For the nine-month period ended		For the three-month period ended		For the year ended
	30.9.2017	30.9.2016	30.9.2017	30.9.2016	31.12.2016
	Unaudited		Unaudited		Audited
Revenues from natural gas and condensate sales	131,094	119,366	46,091	43,673	159,850
Net of royalties	20,473	18,698	7,283	6,860	24,843
Net revenues	110,621	100,668	38,808	36,813	135,007
<b>Costs and expenses:</b>					
Cost of production of natural gas and condensate	8,813	8,520	2,926	2,352	11,638
Depreciation, depletion and amortization expenses	13,100	12,763	4,038	4,753	16,156
G&A expenses	1,032	900	432	300	1,200
Total costs and expenses	22,945	22,183	7,396	7,405	28,994
<b>Profit from ordinary activities</b>	<b>87,676</b>	<b>78,485</b>	<b>31,412</b>	<b>29,408</b>	<b>106,013</b>
Finance costs, see Note 2A(4)	(7,596)	(192)	(7,447)	(65)	(342)
Finance income	136	15	48	5	131
Finance costs, net	(7,460)	(177)	(7,399)	(60)	(211)
Profit before taxes on income	80,216	78,308	24,013	29,348	105,802
Taxes on income, see Note 2A(6)	5,619	-	5,619	-	-
Net profit and total comprehensive income for the period	74,597	78,308	18,394	29,348	105,802
Basic and diluted profit per share (in \$)	1.49	1.57	0.37	0.59	2.12
Weighted number of shares for the purpose of the aforesaid calculation	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000

**The attached notes constitute an integral part of the Condensed Interim Financial Statements.**

**Tamar Petroleum Ltd.**
**Condensed Interim Statements of Changes in Equity (Dollars in thousands)**

	Ordinary Share Capital	Share Premium	Capital Reserve	Retained Earnings	Total
	Unaudited				
<b>For the nine-month period ended September 30,2017:</b>					
<b>Balance as of January 1, 2017 (audited)</b>	*	386,825	-	-	386,825
Comprehensive income for the period	-	-	-	74,597	74,597
Shareholders' investment (distribution to shareholders)	-	7,112	-	(56,203)	(49,091)
Transaction with former controlling shareholder, see Note 4	-	(17,050)	(708,817)	-	(725,867)
Share offering	1,399	193,775	-	-	195,174
<b>Balance as of September 30, 2017</b>	1,399	570,662	(708,817)	18,394	(118,362)
	Ordinary Share Capital	Share Premium	Capital Reserve	Retained Earnings	Total
	Unaudited				
<b>For the nine-month period ended September 30,2016:</b>					
<b>Balance as of January 1, 2016 (audited)</b>	*	392,174	-	-	392,174
Comprehensive income for the period	-	-	-	78,308	78,308
Distribution to shareholders	-	(6,064)	-	(78,308)	(84,372)
<b>Balance as of September 30, 2016</b>	*	386,110	-	-	386,110
	Ordinary Share Capital	Share Premium	Capital Reserve	Retained Earnings	Total
	Unaudited				
<b>For the three-month period ended September 30,2017:</b>					
<b>Balance as of July 1, 2017</b>	*	393,937	-	-	393,937
Comprehensive income for the period	-	-	-	18,394	18,394
Transaction with former controlling shareholder, see Note 4	-	(17,050)	(708,817)	-	(725,867)
Share offering	1,399	193,775	-	-	195,174
<b>Balance as of September 30, 2017</b>	1,399	570,662	(708,817)	18,394	(118,362)

\*Less than \$1,000

**The attached notes constitute an integral part of the Condensed Interim Financial Statements.**

**Tamar Petroleum Ltd.****Condensed Interim Statements of Changes in Equity (Dollars in thousands)**

	Ordinary Share Capital	Share Premium	Capital Reserve	Retained Earnings	Total
	Unaudited				
For the three-month period ended September 30,2016:					
Balance as of July 1, 2016	*	389,023	-	-	389,023
Comprehensive income for the period	-	-	-	29,348	29,348
Distribution to shareholders	-	(2,913)	-	(29,348)	(32,261)
Balance as of September 30, 2016	*	386,110	-	-	386,110

	Ordinary Share Capital	Share Premium	Capital Reserve	Retained Earnings	Total
	Unaudited				
For the year ended December 31, 2016:					
Balance as of January 1, 2016	*	392,174	-	-	392,174
Comprehensive income for the period	-	-	-	105,802	105,802
Distribution to shareholders	-	(5,349)	-	(105,802)	(111,151)
Balance as of December 31, 2016	*	386,825	-	-	386,825

\*Less than \$1,000

The attached notes constitute an integral part of the Condensed Interim Financial Statements.

# **Tamar Petroleum Ltd.**

## **Condensed Interim Statements of Cash Flows (Dollars in thousands)**

	For the nine-month period ended		For the three-month period ended		For the year ended
	30.9.2017	30.9.2016	30.9.2017	30.9.2016	31.12.2016
	Unaudited				Audited
<b><u>Cash flows – operating activities:</u></b>					
Net profit for the period	74,597	78,308	18,394	29,348	105,802
<b>Adjustments required to present the cash flows for operating activities:</b>					
Depreciation, depletion and amortization	13,100	12,763	4,038	4,753	16,156
Income taxes	4,069	-	4,069	-	-
Net finance costs	386	167	331	56	197
<b>Changes in assets and liabilities items:</b>					
Decrease (increase) in trade receivables	(18,445)	(816)	(15,897)	885	(2,696)
Decrease (increase) in trade and other receivables	(3,025)	(429)	(2,100)	483	50
Increase (decrease) in trade and other payables	8,931	332	9,212	(194)	483
<b>Net cash deriving from operating activities</b>	<b>79,613</b>	<b>90,325</b>	<b>18,047</b>	<b>35,331</b>	<b>119,992</b>
<b><u>Cash flows – investment activities:</u></b>					
Deposit in restricted deposits	(9,940)	-	(9,940)	-	-
Investments in petroleum and gas assets	(16,497)	(6,289)	(823)	(2,955)	(10,383)
Decrease (increase) in respect of the balance of the joint venture operator	6,500	336	3,301	(115)	1,543
<b>Net cash used for investment activities</b>	<b>(19,937)</b>	<b>(5,953)</b>	<b>(7,462)</b>	<b>(3,070)</b>	<b>(8,840)</b>
<b><u>Cash flows – financing activities:</u></b>					
Payment to former controlling shareholder in respect of the sale agreement, see Note 4B	(845,299)	-	(845,299)	-	-
Net proceeds from a bonds issue	647,955	-	647,955	-	-
Net proceeds from a share offering	195,174	-	195,174	-	-
Repurchase of bonds	(7,523)	-	(7,523)	-	-
Receipt of short-term credit from a former controlling shareholder, see Note 4C	34,000	-	34,000	-	-
Repayment of short-term credit to former controlling shareholder	(29,500)	-	(29,500)	-	-
Distribution to shareholders	(49,091)	(84,372)	-	(32,261)	(111,152)
<b>Net cash used for financing activities</b>	<b>(54,284)</b>	<b>(84,372)</b>	<b>(5,193)</b>	<b>(32,261)</b>	<b>(111,152)</b>
Increase in cash and cash equivalents	5,392	-	5,392	-	-
Balance of cash and cash equivalents as of the beginning of the period	-	-	-	-	-
<b>Balance of cash and cash equivalents as of the end of the period</b>	<b>5,392</b>	<b>-</b>	<b>5,392</b>	<b>-</b>	<b>-</b>
<b><u>Annex A – Investment activity not involving cash flows</u></b>					
Investments in petroleum and gas assets against liabilities	1,248	1,395	1,248	1,395	5,141
Investment in other long-term assets	42	1,138	42	1,138	1,615
Liability in respect of asset retirement against petroleum and gas assets	-	-	-	-	635
<b><u>Annex B – Additional information on cash flows</u></b>					
Income taxes paid	1,550	-	1,550	-	-
Interest received	25	15	6	5	21

**The attached notes constitute an integral part of the Condensed Interim Financial Statements.**

## **Tamar Petroleum Ltd.**

### **Notes to the Condensed Interim Statements as of September 30, 2017**

#### **Note 1 – General:**

- A.** Tamar Petroleum Ltd. (the “**Company**”) was incorporated on November 4, 2015 under its previous name Karish Tanin Management Ltd.

Until the date of fulfillment of the conditions precedent in the sale agreement (see Note 4 below), the Company was inactive and was wholly owned and fully controlled by Delek Drilling, Limited Partnership (the “**Partnership**” or “**Delek Drilling**”). The Company’s operations commenced upon the fulfillment of the conditions precedent of the sale agreement, retroactively from July 1, 2017. The Company’s articles of association provide that the Company shall only carry out activities of exploration, development, production and transmission to the target markets in connection with the I/12 “Tamar” and I/13 “Dalit” leases (collectively: the “**Leases**” or the “**Tamar and Dalit leases**” and/or the “**Joint Venture**”).

The address of the Company's head office is 11 Galgalei Haplada Street, Herzliya.

- B.** During the course of July 2017, the Company raised financial sources by way of a public offering of bonds (Series A) and shares (see Notes 5 and 6 below), which was used as part of the consideration for the purchase of working interests at a rate of 9.25% (out of 100%) in the Leases from Delek Drilling, according to the terms of the sale agreement signed between the parties as described in Note 4 below. Following the completion of the share offering, the holdings of Delek Drilling in the Company decreased to 40% in equity rights (for the voting rights of such shares, see Note 6 below). The trade in the Company's shares on Tel Aviv Stock Exchange Ltd. (“**TASE**”) began on July 24, 2017.
- C.** The Company is engaged in the sale of natural gas produced from the Tamar reservoir within the area of the Tamar lease (the “**Tamar Project**”) to various customers, and primarily the Israel Electric Corp. Ltd. (the “**IEC**”), industrial customers (such as Oil Refineries Ltd., etc.), private electricity producers and natural gas marketing firms. The Company is also engaged in the sale of condensate produced from the Tamar Project to Paz Ashdod Refinery, promotion of the expansion of the production system of the Tamar Project and examination of the geological potential in the deep-water targets within the area of the Tamar lease.

The Company’s revenues from gas sales are mainly affected by the scope of consumption of natural gas by the IEC. See Note 9B of the Company’s Annual Proforma Financial Statements as of December 31, 2016 (the “**Annual Financial Statements**”).

#### **Note 2 - Basis for Preparation of the Condensed Interim Financial Statements:**

- A.** In the context of the sale transaction, as set forth in Note 4 below, Delek Drilling sold to the Company 9.25% of its holding in the Leases. Since the Company purchased the rights in the Leases from Delek Drilling, the purchase does not constitute a business combination that is subject to IFRS3. Therefore, the transaction of the purchase of 9.25% of the Leases was treated by the Company in the financial statements according to the “as pooling” method. Accordingly, the Company prepared the Condensed Interim Financial Statements such that they would reflect the purchase of a working interest in 9.25% of the Leases as if it were closed on January 1, 2014, while making the following adjustments:

**Tamar Petroleum Ltd.**

**Notes to the Condensed Interim Statements as of September 30, 2017**

**Note 2 - Basis for Preparation of the Condensed Interim Financial Statements (Contd.):**

- 1) On the dates preceding July 1, 2017, the Company did not partake in the assets and liabilities deriving from differences in the rate of royalties to the State and to third parties deriving from the disagreement between the partners in the Joint Venture and the Ministry of National Infrastructures, Energy and Water (see Note 9E of the Annual Financial Statements).
- 2) On the dates preceding July 1, 2017, the Company did not partake in the assets and liabilities deriving from disagreements between the Tamar partners and several customers with respect to the gas price linked to the Electricity Production Tariff (see Note 9A5 to the Annual Financial Statements).
- 3) G&A expenses for the periods preceding July 1, 2017, were included according to the management's estimate at the amount of the portion attributed to the Tamar Project out of the total G&A expenses of the Partnership.
- 4) On July 6, 2017, as set forth in Note 5 below, the Company issued Series A Bonds that bear interest at an annual rate of 4.69%. The Company began to apply finance costs related to such bonds as of the date of issue thereof. Proforma Statements of Comprehensive Income in which finance costs in respect of the aforesaid bonds were applied also in respect of the periods preceding July 9, 2017 are included in Note 8 below.
- 5) The balance of the equity of the transferred operation was classified in the Statement of Changes in Equity under the share premium. Distributions made to the shareholders prior to the date of transfer of the Leases were applied in the Statement of Changes in Equity to premium and retained earnings.
- 6) Until June 30, 2017, the financial statements do not include income taxes, since the Company's operations included in such financial statements was carried out in the framework of the Partnership, which is not subject to tax liability and therefore its financial statements did not include income taxes. The tax liability in respect of the Partnership's profits was imposed on the holders of the Partnership. Proforma Statements of Comprehensive Income in which income tax expenses were applied also in respect of periods preceding June 30, 2017 are included in Note 8 below.
- 7) As set forth in Note 6 below, on the date of closing of the purchase transaction, the Company issued 49,990,000 shares. Such share offering was taken in the calculation of profit per share for all periods presented as if they were issued on January 1, 2014.

**B.** The financial figures in the Condensed Interim Financial Statements are based on books of accounts, accounting figures and documents provided to the Israeli participants by the operator of the Joint Venture and by the Partnership.

## **Tamar Petroleum Ltd.**

### **Notes to the Condensed Interim Statements as of September 30, 2017**

#### **Note 2 - Basis for Preparation of the Condensed Interim Financial Statements (Contd.):**

- C. The Company's Condensed Interim Financial Statements should be read in conjunction with the Annual Proforma Financial Statements and the notes attached thereto (the "**Annual Financial Statements**"). Therefore, notes regarding updates that are insignificant relatively to the information already reported in the Annual Financial Statements have not been 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 comply with the disclosure provisions under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

#### **Note 3 - Significant Accounting Policies:**

The Condensed Interim Financial Statements were prepared according to the same accounting policy and calculation methods applied in the Annual Financial Statements, with the exception of the following:

##### **A. Cash and cash equivalents:**

Short-term investments of high liquidity, which include, *inter alia*, short-term unrestricted deposits in banks, are deemed as cash equivalents. Such investments are easily convertible into known amounts of cash and are exposed to an insignificant risk of changes in value, with the period for repayment being up to three months as of the investment date.

##### **B. Financial instruments – financial liabilities:**

Financial liabilities are first recognized at fair value when the Company becomes a party to the contractual provisions of the instrument. The financial liabilities are recognized net of transaction costs that may be directly attributed to the undertaking or issuance of a financial liability. After the initial recognition, accounting treatment of financial liabilities is based on their classification. Financial liabilities such as bonds are measured at their reduced cost according to the effective interest method.

A financial liability is written-off when it is settled, i.e. when the liability is repaid, revoked or expired. A financial liability is settled when the debtor (the Company) repays the liability by payment in cash, in other financial assets or is legally released from the liability.

##### **C. Employee benefits:**

###### **1) Short-term employee benefits:**

Short-term employee benefits, which include salaries, recuperation pay, sick leave and deposits with the National Insurance Institute of Israel, are recognized as an expense upon the provision of the services. When a reliably assessable legal or implied obligation for the granting of bonuses to employees is established for the Company, the Company recognizes such obligation on the date on which the obligation is established. The Company classifies employee benefits under current liabilities when the benefit is expected to be fully discharged before the lapse of 12 months as of the end of the reporting period in which the employees provide the relevant service.



**Note 3 - Significant Accounting Policies (Contd.):**

**2) Post-employment employee benefits:**

According to employment laws and employment agreements in Israel, the Company is liable for the payment of severance pay to employees who are dismissed, and, under certain conditions, to employees who resign or retire from their work. The Company's obligation to pay severance pay to its employees is pursuant to Section 14 of the Severance Pay Law (the Company makes fixed payments without having a legal or implied obligation to make further payments, even if the amounts accrued in the plan are insufficient to pay all employee benefits related to the employee's work during the current period and previous periods) and is treated as a plan for a defined deposit. The Company recognizes the amount required to be deposited as an expense concurrently with the receipt of work services from the employee.

**D. Income taxes**

The tax results in respect of current or deferred taxes are recognized in profit and loss, except if referring to items carried to other comprehensive income or to equity. Liability in respect of current taxes is determined while using the tax rates and tax laws that were legislated or whose legislation has *de facto* been completed until the reporting date, as well as required adjustments in connection with the tax liability payable for previous years. Deferred taxes are calculated in respect of temporary differences between the amounts included in the financial statements and the amounts taken into account for tax purposes. The balances of deferred taxes are calculated according to the tax rate expected to apply when the asset is liquidated or the liability is settled, based on the tax laws that were legislated or whose legislation has *de facto* been completed until the reporting date. On every reporting date, deferred tax assets are examined according to their expected use. Carried losses and temporary differences deductible in respect thereof have not been recognized. Deferred tax assets are examined on every reporting date and an appropriate deferred tax asset is recognized in respect thereof if they are expected to be used. Deferred taxes are offset if there is a legal right to offset a current tax asset against a current tax liability and the deferred taxes are related to the same taxable entity and the same tax authority.

**E.** In Note 2N to the Annual Financial Statements, the Company noted that it was examining the accounting treatment with respect to the petroleum and gas profits levy and the implications thereof on its financial position and the results of its operations. In early August 2017, the Company, together with the other Israeli partners in the Tamar reservoir (the "**Reporting Entities**"), expressed their position on the matter before the Israel Securities Authority (ISA) staff, including on the issue of whether the levy is governed by IAS 12 or possibly governed by IFRIC No. 21 of the International Financial Reporting Interpretations Committee – "Levies" ("**IFRIC 21**"), as well as the timing at which recognition of the levy in the financial statements will be required. After the Reporting Entities examined the treatment of the levy, and particularly the question whether the provisions to be implemented in this case, in view of the unique characteristics of such levy, are the provisions of IFRIC 21 or those of IAS 12, the Reporting Entities have reached the conclusion that in the case in question it would be more reliable and more relevant to implement the provisions of IFRIC 21 with respect to such levy, and the ISA staff has decided not to intervene in their decision. Therefore, in practice, the Company will

## **Tamar Petroleum Ltd.**

### **Notes to the Condensed Interim Statements as of September 30, 2017**

#### **Note 3 - Significant Accounting Policies (Cont.):**

recognize an expense in respect of the levy according to the “event establishing the liability” approach, i.e., only on the date on which the obligation of payment thereof arises (namely, only as of the date of commencement of actual payment thereof). The accounting treatment of such levy bears no effect on these financial statements, as the obligation to pay the levy has not yet arisen.

- F. Further to Note 2P to the Annual Financial Statements, the Company has continued to examine the implications of the application of International Financial Reporting Standard No. 15 regarding Revenue from Contracts with Customers on the mandatory adoption date (January 1, 2018). In accordance with such examination, at this stage, the Company has arrived at the conclusion that the new standard is expected to have no material effect on its financial statements. The Company will continue to examine relevant publications and developments, and insofar as the aforesaid conclusion changes, the Partnership will report thereof in the subsequent financial statements.

#### **Note 4 – The Sale Agreement:**

On July 2, 2017, a conditional sale agreement was signed between Delek Drilling as the seller of the first part and the Company as the buyer of the second part (in this section: the “**Sale Agreement**” and the “**Parties**”), the principal points of which are as follows:

- A. Delek Drilling undertook, subject to the fulfillment of Conditions Precedent (regarding the fulfillment of the Conditions Precedent, see Section K below), to sell and transfer to the Company, working interests at the rate of 9.25% (out of 100%) in the Leases, subject to the existing obligations of payment of overriding royalties to related parties and third parties, and the pro rata share (9.25%) of the rights and obligations under the Joint Operating Agreement, the agreements for the sale of gas from the Tamar lease, the Usage Agreement in the Yam Tethys Facilities, the shares of Tamar 10-Inch Ltd., the operating approval of the Tamar platform, and the export approvals from Tamar (above and below: the “**Object of Sale**”).
- B. In consideration for the Object of Sale, the Company undertook to pay Delek Drilling all of the amounts that will be raised in the framework of the Company's debt and capital raising, net of any amount that will be raised, if any, in the issuance of the debt over and above the amount in ILS that is equal to the product of the multiplication of \$650 million by the representative dollar rate as being at the end of the trading day in foreign currency on the date of the institutional tender, which will remain in the Company's possession. Pursuant to the Sale Agreement, insofar as all of the shares of the Company, to be offered in the Company's capital raising (under a shelf offering), are not sold to the public, the completion of the consideration for the Object of Sale shall be done by way of allocating to Delek Drilling the remaining shares of the Company which will not be sold in the offering (at a rate which shall not exceed 40% of the Company's capital). See Notes 5 and 6 below in relation to bond and share offerings performed by the Company.
- C. The agreement provides that out of the amount of cash consideration due to Delek Drilling, the Company may retain a sum of up to \$40 million, according to its discretion, as a loan bearing annual interest at a rate of 3%.

**Tamar Petroleum Ltd.**

**Notes to the Condensed Interim Statements as of September 30, 2017**

**Note 4 – The Sale Agreement (Cont.):**

- D.** Subject to the fulfillment of the conditions precedent and the closing of the transaction contemplated in the Sale Agreement, the effective date for the purpose of calculation of the consideration amount and transfer of the responsibility due to the Object of Sale was determined to be July 1, 2017.
- E.** The Company undertook that subject to the closing of the transaction and starting from the effective date it will assume and bear all of the debts and liabilities pertaining to the Object of Sale vis-à-vis the royalty holders.
- F.** The Company undertook vis-à-vis Delek Drilling, that subject to the closing of the transaction and starting from the effective date it will pay and bear, according to its *pro rata* share, all of the expenses, payments, guaranties, collateral and liabilities that apply in respect of the Object of Sale and pursuant to the provisions of any law, including any liability, debt or claim in connection with the period prior to the date of execution of the Sale Agreement, and any tax, compensation, fine or other expense that will apply in connection with such undertaking, other than the undertakings which were explicitly determined to remain under the responsibility of Delek Drilling also after the effective date, as specified in Section H below.
- G.** Delek Drilling shall indemnify the Company for any damage or liability that will be caused to the Company in connection with any claim, argument or other legal proceeding of a governmental authority or third party as a result of Delek Drilling's breach of representations in the framework of the agreement. Delek Drilling shall not be responsible for any damage incurred by the Company as a result of a breach of the representations until such damage total exceeds U.S. \$500 thousand.
- H.** The agreement provides that Delek Drilling shall continue to be responsible with respect to the following issues, also after the effective date: The arbitration due to the production component tariff, the appeal in the matter of the royalties with respect to the sale of gas from the Tamar Project to the Yam Tethys project customers, including with respect to any liability in connection with these proceedings that will be caused in the period following the effective date; the motion for class certification as specified in Note 7C above with respect to amounts that were received by Delek Drilling in the period before the effective date; liability due to taxes and royalties to the State with respect to the period before the effective date, or with respect to any profit, income or revenues of Delek Drilling in relation to the Object of Sale (also if such tax assessment was made after the closing date), other than taxes which refer to reports that were filed with the tax authorities prior to the effective date, in relation to the Taxation of Profits from Natural Resources Law, 5771-2011; taxes that apply to Delek Drilling in relation to the transfer of the Object of Sale to the Company; liabilities in respect of claims by suppliers or customers of Delek Drilling due to the Object of Sale which refer to the period before the effective date, other than if provisions were made due to such claims in the Company's financial statements; and liabilities, if any, in relation to Delek & Avner (Tamar Bond) Ltd.
- I.** Each party shall bear any tax, levy or fee imposed thereon pursuant to any law due to its engagement in the Sale Agreement and the consummation thereof.

**Note 4 – The Sale Agreement (Contd.):**

- J.** The Company shall bear all of the payments, expenses and fees that are required to be paid to the State (other than taxes as aforesaid) that were used for the purpose of transfer of the Object of Sale to the Company. In addition, the Company shall bear all expenses and costs related to the issue of the bonds. Delek Drilling shall bear the expenses and costs of the consultants and experts in relation to the Prospectus and the expenses in relation to the offering of the Company's shares.
- K.** The performance of the transaction contemplated in the Sale Agreement was contingent on the fulfillment of conditions precedent which were fully met on July 20, 2017, including the receipt of the Petroleum Commissioner's approval for the transfer of the interests in the Tamar and Dalit Leases and the registration thereof in the Petroleum Register and consequently thereto, the transaction which is the subject matter of the Sale Agreement was closed, i.e.: interests at the rate of 9.25% (out of 100%) in the Leases were transferred to the Company, against payment of consideration in cash of approx. \$845 million (approx. ILS 2,985 million) and against allotment of 19,990,000 ordinary shares of the Company of ILS 0.1 par value each (which constitute 39.98% of the Company's issued and paid-up share capital) to Delek Drilling. It is noted that according to Delek Drilling's letter of waiver described in Note 6 below, and according to the Company's articles of association, the Company's shares held by Delek Drilling, for as long as they are held thereby at a rate exceeding 12% of the Company's issued and paid-up share capital, do not confer any voting rights.

As aforesaid, the Sale Agreement provides that out of the amount of cash consideration due to Delek Drilling, the Company may retain a sum of up to \$40 million, according to its discretion, as a loan bearing annual interest at a rate of 3%. As of the date of the Condensed Interim Statement of Financial Position, the balance of the aforesaid loan, including the interest accrued thereon, is approx. \$4.6 million (as of the date of approval of the interim financial statements, such loan has been fully repaid).

**Note 5 – Public Offering of Series A Bonds:**

On July 6, 2017, the Company raised the amount of approx. \$658 million (approx. ILS 2,316 million) through a public offering of ILS 2,315,668,000 par value of Series A bonds, according to a prospectus for supplementation and a shelf prospectus of the Company dated July 4, 2017 (the "**Prospectus**") and a supplemental notice dated July 6, 2017.

Series A bonds bear annual interest at the rate of 4.69% (the "**Base Interest**"), and are linked (principal and interest) to the dollar. Approx. 60.75% of the principal of the bonds are payable in 20 semi-annual unequal installments, starting from August 2018 until February 2028, and the balance of approx. 39.25% of the principal of the bonds is payable in August 2028. The interest is paid every six months, starting from February 2108 until the final date of payment of the principal. Midroog Ltd. issued a rating of A1.il with a stable outlook for the bonds (the "**Base Rating**"). The effective interest rate, taking the costs of the offering into account, is approx. 4.9%.

## **Tamar Petroleum Ltd.**

### **Notes to the Condensed Interim Statements as of September 30, 2017**

#### **Note 5 – Public Offering of Series A Bonds:**

In relation to the Series A Bonds, the Company assumed the following main undertakings:

- A.** To secure Series A Bonds, the Company undertook to encumber in favor of the trustee for Series A Bonds, by a single first-ranking fixed charge: 1) Its rights in the Tamar reservoir; 2) Its rights in the operation approval of Tamar reservoir 3) The Company's present and future rights in respect of property insurance policies of the Tamar lease; 4) The Company's present and future rights in the Tamar agreements (with the exception of spot agreements and gas sale agreements for a period that does not exceed 12 months, the quantity of the gas to be sold pursuant to which does not exceed 0.1 BCM); 5) The Company's rights in the Joint Operating Agreement (JOA) including present and future contractual rights in the common equipment and the production system of the Tamar reservoir; 6) The Company's rights in the agreement that regulates the Tamar partners' use of Yam Tethys facilities; 7) The Company's present and future rights in the Company's bank account for the project (the "**Operation Account**") ; and 8) The Company's rights in the safety cushion account for payment of the principal and interest. It is noted that the aforesaid security interests are subject to the State's royalty rights and to rights of other royalty holders entitled to receive royalties from the Company. As of the date of approval of the financial statements, all of the aforesaid security interests have been registered and are in force and effect. The Company will not be able to encumber the encumbered assets with another security interest. In the event of the sale of an encumbered asset, provisions have been determined with respect to the prepayment of the bonds to be made by the Company out of the amount received for the sale.
- B.** The interest rate to be borne by Series A Bonds shall be adjusted in consequence of changes in the rating of the Bonds, such that if the rating of Series A Bonds is updated and the rating determined therefor is lower than the Base Rating by two notches or more (the "**Reduced Rating**"), the annual interest rate borne by the balance of the unpaid principal of the Bonds shall increase by 0.5%, and in the event of any additional notch drop - the annual interest rate shall increase by 0.25%. Notwithstanding the aforesaid, the increase of the interest rate due to such rating drop shall be limited such that the annual interest rate added to the Base Interest shall not exceed 1.25%.
- C.** In addition, the Company shall pay added interest at the rate of 0.25% insofar as the Company's equity (as defined in the trust deed) falls below U.S. \$320 million. In any event, for a rating drop according to both Subsection B and Subsection C above, the Company shall not pay a rate exceeding 1.25% above the Base Interest.
- D.** The undertaking of additional debt by the Company through the expansion of Series A Bonds and/or the undertaking of other debt, other than the receipt of financing and/or the opening of a line of credit from a financial institution in a sum up to \$5 million to be used to take out bank guaranties which the Company will be required to deposit by law or pursuant to the Tamar agreements, shall be subject to the fulfillment of conditions set forth in the trust deed and, *inter alia*, that the undertaking of the additional debt shall not cause the rating of the Bonds to decrease compared with the rating of the Bonds prior to the undertaking of the additional debt.

**Tamar Petroleum Ltd.**

**Notes to the Condensed Interim Statements as of September 30, 2017**

**Note 5 – Public Offering of Series A Bonds (Contd.):**

- E. The Company may carry out a dividend distribution upon fulfillment of conditions that were determined in the trust deed, including that the “record date” for the dividend distribution shall fall on a date that shall be no later than 60 days from the date on which a principal and/or interest payment shall have been performed to holders of Series A bonds; the expected and historic debt service coverage ratio, as defined in the trust deed, shall be no less than 1:1.20 (the historic ratio shall be examined starting from the date of release of the Company’s financial statements as of December 31, 2018, and with respect to two consecutive examination dates); the full amount required for the debt service shall have been deposited in the safety cushion. As of September 30, 2017, the Company has deposited in the safety cushion the full amount required at this time, approx. \$9.9 million, which are presented in the Statement of Financial Position under non-current assets within the item “restricted deposit”.
- F. The Company undertook to irrevocably instruct all of the parties to the gas sale agreements to pay the amounts that are due from them to the Company, to a bank account as defined in the trust deed which was pledged in favor of the bondholders as aforesaid (the “**Operation Account**”). It was determined that all of the payments that will be deposited in the Operation Account shall serve exclusively for the making by the Company of payments that were explicitly determined in the trust deed as permitted to be paid out of the Operation Account and according to the order of payments that was determined in the trust deed. The Company shall be entitled to withdraw money from the Operation Account not for the purpose of payments as aforesaid, only in the amount that will be in the Operation Account on the date which is one day following the making of a principal and/or interest payment to the bondholders (and after the other payments that were determined as aforesaid shall have been made). Regarding payments that were withdrawn from the Operation Account, no limitation shall apply to the Company regarding the use thereof including making of “distributions” subject to the other conditions that are stated in the trust deed.
- G. The trust deed defines events of default, the occurrence of which shall establish for the Series A bondholders grounds for acceleration of Series A Bonds, which include, *inter alia*, the following main events: Non-payment of amounts due to the lenders; breach of the Company’s undertaking to meet financial covenants including an undertaking to equity (as defined in the trust deed) of no less than \$250 million (for two consecutive quarters), a debt service coverage ratio (within its definition in the trust deed) that shall be no less than 1.05:1 (during two consecutive quarters) (the expected debt service ratio for the 12-month period beginning on January 1, 2018 is 2.3), and minimum financial equity (as defined in the trust deed) of no less than \$250 million (for two consecutive quarters) (the financial equity as of September 30, 2017 is approx. \$540 million); breach of obligations and representations; insolvency events; failure to release financial statements which the Company is obligated to release within 30 days of the last date on which it is obligated to release the same; a material adverse change in the Company’s business compared with its situation on the offering date and the existence of concrete concern that the Company will be unable to timely repay the bonds; other debts of the Company are accelerated (cross-default) in the amount specified in the trust deed; there is concrete concern that the Company will fail to meet its material obligations to the holders of Series A Bonds; the bond rating being lower than Baa3; a “going concern” note is added to the Company’s financial statements.

## **Tamar Petroleum Ltd.**

### **Notes to the Condensed Interim Statements as of September 30, 2017**

#### **Note 5 – Public Offering of Series A Bonds (Contd.):**

An amount of \$650 million of the proceeds of the offering of Series A Bonds was used by the Company to finance the purchase of the Object of Sale pursuant to the Sale Agreement (described in Note 4 above). The Company undertook that the proceeds of the offering of Series A Bonds over and above \$650 million shall be used for the repurchase or prepayment of Series A Bonds. Accordingly, on July 17, 2017, the Company's board of directors approved a repurchase plan in the sum of ILS 26,368,000 par value of Series A Bonds. As of the date of the Condensed Interim Statement of Financial Position, the Company has completed the repurchase of all of the aforesaid bonds in consideration for approx. \$7.5 million.

Trade in Series A Bonds on TASE commenced on July 10, 2017.

#### **Note 6 – Public offering of shares:**

Pursuant to the Prospectus and a shelf offering report dated July 18, 2017, the Company allotted to institutional investors that are incorporated in Israel and overseas 30,000,000 ordinary shares of the Company of ILS 0.1 par value each which constitute 60% of the Company's issued and paid up share capital, at the price of ILS 23.20 per share (and in the total amount of approx. ILS 696 million; approx. \$195 million). Furthermore, in accordance with the Sale Agreement, 19,990,000 ordinary shares of the Company of ILS 0.1 par value each were additionally allotted to Delek Drilling, which shares, together with the shares held by Delek Drilling prior to the aforesaid allotment, constitute 40% of the Company's issued and paid up share capital. According to an irrevocable letter of waiver which Delek Drilling delivered to the Company prior to the Prospectus and which took effect upon completion of the share offering, Delek Drilling unilaterally waived all of the voting rights attached to all of the shares held thereby, other than with regard to shares in a quantity that is equal to up to 12% of the Company's issued and paid up share capital after the completion of the offering (the "**Surplus Shares**"). For the avoidance of doubt it was clarified that all of the equity rights attached to the shares held by Delek Drilling shall remain in full force and effect, including: the right to receive dividends, bonus shares, rights, and the right to receive surplus assets upon the Company's liquidation. In addition, Delek Drilling undertook to sell the Surplus Shares (which after the sale thereof, will confer on the buyer all of the rights attached thereto including voting and equity rights as aforesaid) first, and also undertook that for as long as it does not sell the Surplus Shares it shall not purchase additional shares of the Company.

#### **Note 7 – Additional Information:**

##### **A. The "Michal Matan" Joint Venture (the "Tamar" and "Dalit" leases):**

##### **1) Evaluation of the natural gas and condensate reserves in the "Tamar" gas field:**

According to a report of July 2, 2017 by Netherland Sewell & Associates Inc. ("NSAI", a certified, expert and independent reserve and resource evaluator), according to the SPE-PRMS rules, as of June 30, 2017, the amount of natural gas reserves in the Tamar Project (which includes the Tamar and Tamar SW reservoirs) classified as reserves on production are as follows: Reserves classified as proved reserves are approx. 226.8 BCM and the quantity of reserves classified as proved + probable reserves is approx. 318.1 BCM.

**Note 7 – Additional Information (Contd.):**

According to the said report, the condensate reserves in the Tamar and Tamar SW reservoirs classified as reserves on production, as of June 30, 2017, which are classified as proved reserves, are approx. 10.4 million barrels and the quantity of reserves classified as proved + probable reserves is approx. 14.6 million barrels. The aforesaid reserves do not include the reserves that overflow into the “Eran” license. See Section 3 below with respect to uncertainty in the evaluation of reserves. In view of the update of the reserves estimate, the depletion rate was updated accordingly.

**2) The “Dalit” well:**

According to a report of May 2017 by NSAI, according to the SPE-PRMS rules, the amount of contingent resources in the “Dalit” lease classified under the “development pending” stage, as of March 31, 2017, ranges between approx. 6.1 BCM (low estimate) and approx. 9.5 BCM (high estimate).

The resources report indicates that the contingent resources are contingent upon the approval of a project that includes an approved development plan and a reasonable expectation of natural gas sales. See Section 3 below with respect to uncertainty in the evaluation of reserves.

- 3)** The aforesaid evaluations regarding the reserves of natural gas and condensate in the Leases are based, *inter alia*, on geological, geophysical, engineering and other information received from the wells and from the Operator in the said rights. The aforesaid evaluations constitute professional conjectures and estimations by NSAI, with respect to which there is no certainty. The quantities of natural gas and condensate that will actually be produced may differ from such estimations and conjectures, *inter alia* as a result of operating and technical conditions and/or regulatory changes and/or supply and demand conditions in the natural gas and/or condensate market and/or commercial conditions and/or as a result of the actual performance of the reservoirs. The aforesaid estimations and conjectures may be updated insofar as additional information accrues and/or as a result of a gamut of factors related to petroleum and natural gas exploration and production projects.
- 4)** October 2016 saw the commencement of the drilling of the “Tamar-8” production and development well, which is designated, *inter alia*, to allow for optimal production from the Tamar reservoir. The drilling was completed (including completion and connection to the production system) in April 2017 and the piping of natural gas therefrom has commenced. The cost of the drilling and development of “Tamar-8” as of September 30, 2017, including the completion and development of the subsea system and connection of the well to the existing infrastructure at Tamar, is approx. \$240 million (100%, the Company’s share is approx. \$22 million).



**Note 7 – Additional Information (Contd.):**

**B. Royalties to the State**

In February 2017, a letter was received from the Ministry of Energy with respect to advance payments of royalties for 2017, whereby it was determined that the effective royalty rate to be paid as advance payments in 2017 in the Tamar Project would be 11.65%. It was also clarified that such rate is determined as an advance payment only. The position of the Operator and the other Tamar partners is that the calculation of the actual rate of State royalties in respect of the revenues from the Tamar Project should reflect the complexity of the project, the risks involved therein and the amount of investment in the project compared to the Yam Tethys project (also see Note 4H above).

**C.** As stated in Note 9H to the Annual Financial Statements with respect to a class action certification motion filed in June 2014 with the Tel Aviv District Court by an IEC consumer against the Tamar partners as of such time, on September 28, 2017, the Supreme Court issued its judgment on the motion for leave to appeal the decision of the District Court whereby the certification motion should not be summarily dismissed, according to which the decision of the District Court was upheld and the appeal was denied. In November 2017, the Company filed a motion to join in this legal proceeding. In the Company's estimation, based on a legal opinion, the prospects of the motion for class certification being accepted are lower than 50% (see Note 4H above).

**D.** As stated in Note 9I to the Annual Financial Statements, in April 2017, in a notice they sent to the Minister of Energy, the Budget Commissioner at the Ministry of Finance and the Antitrust Commissioner, the Tamar Partners clarified as follows:

- 1) In the event of delay in the supply of gas for the first time by a new gas supplier, the Tamar Partners will allow their customers, in accordance with gas supply agreements signed between the date of the Gas Framework and the lapse of 4 years as of the date on which the Commissioner approved the transfer of the rights in the "Karish" and "Tanin" gas reservoirs (the Date of Opening of the Options), which customers were supposed to fully or partially switch to the new supplier for gas purchases, to extend the contract therewith until such time as the new supplier is able to supply gas in commercial quantities (but no more than 8 years as of the date of signing the agreement therewith), without changing the terms and conditions of the agreement.
- 2) The Tamar Partners also clarified that they will grant a consumer who is an electricity producer, or another consumer seeking to construct new facilities and compelled to sign a long-term gas supply agreement due to the requirements of the entities financing the facilities, the option to sign an agreement therewith for a term exceeding 8 years, and in accordance with the supply capacity of the Tamar Project.

## **Tamar Petroleum Ltd.**

### **Notes to the Condensed Interim Statements as of September 30, 2017**

#### **Note 7 – Additional Information (Contd.):**

**E.** On September 20, 2017, the operator began to perform upgrade and improvement work in the Tamar platform and in the terminal (the “**Upgrade Work**”), in the course of which the natural gas flow was planned to be performed from the Tamar field to the Tamar project production platform through only one pipe of two, and in the scope of one half of the maximum production capacity. In the course of the Upgrade Work, a crack was discovered in the emission pipe that is used to release natural gas and pressure from the platform in times of routine and emergency (the “**Malfunction**”), pursuant to which, and in accordance with the Tamar platform procedures, the supply of natural gas from Tamar reservoir was discontinued in a controlled manner on September 21, 2017. Following a comprehensive engineering analysis, the operator decided to continue the planned Upgrade Work concurrently with the repair of the Malfunction. Upon completion of the repair of the Malfunction by the operator, on September 27, 2017, the natural gas flow from Tamar reservoir was resumed, simultaneously with the continued performance of the Upgrade Work. On October 10, 2017, the Upgrade Work ended as planned. The cost of repair of the Malfunction and its effect on the profit for the Report Period amount to immaterial sums.

#### **F. Terms and Conditions of Employment of the Company's CEO**

On June 25, 2017, the Company's board of directors approved the appointment of Mr. Liami Vaisman (“**Mr. Vaisman**”) as the Company's CEO. According to the employment agreement, Mr. Vaisman's monthly salary is ILS 80 thousand, gross (100%) (the monthly salary will be updated every 3 months according to the Consumer Price Index). Mr. Vaisman is entitled to the standard related benefits on the market for executives, all in accordance with the Company's policy. Mr. Vaisman is entitled to an annual bonus every calendar year during the term of the employment agreement, in accordance with the Company's compensation policy. Furthermore, the Company may grant Mr. Vaisman a one-time bonus as well as equity-based compensation according to the provisions of the Company's compensation policy. In the event of termination of his employment, Mr. Vaisman will be entitled to an adaptation grant and a retirement bonus, according to the Company's compensation policy.

#### **G. Guaranties**

In accordance with the directives of the Petroleum Commissioner for the provision of collateral in relation to petroleum rights, the Company has provided bank guaranties with respect to the Tamar and Dalit Leases in the amount of approx. \$3.3 million and \$0.7 million, respectively.

#### **H. Fair Value of Financial Instruments**

The fair value of the financial instruments presented in the financial statements matches or approximates their book value, with the exception of bonds that were issued, whose fair value as of September 30, 2017 is approx. \$667 million (Level 1) and whose book value is approx. \$648 million (the book value includes the interest payable in respect of the bonds).

**Tamar Petroleum Ltd.**

**Notes to the Condensed Interim Statements as of September 30, 2017**

**Note 8 – Additional Financial Information – Proforma Comprehensive Income:**

Further to Note 2 above, the Company has prepared a Condensed Interim Proforma Statement of Comprehensive Profit based on the following assumptions:

1. As stated in Note 5 above, on the date of closing of the purchase transaction, the Company issued dollar-linked bonds payable in installments as of 2018 and bearing annual interest at the rate of 4.69%. Such interest for the principal of the bonds in the amount of \$650 million was applied in the Proforma Statements of Comprehensive Income in this Note also for the period preceding July 9, 2017.
2. For the period preceding June 30, 2017, income taxes were calculated in the Proforma Statements of Comprehensive Income in this Note based on the Company's accounting profit in dollars according to the statutory tax rate in each of the presented periods (2017: 24%, 2016: 25%).
3. The Company's revenues constitute 9.25% of the revenues of all Tamar partners, taking into consideration Note 5K to the Annual Financial Statements in relation to the commercial arrangement between the Yam Tethys partners and the Tamar partners.

Following are the Condensed Interim Proforma Statements of Comprehensive Income, considering the above assumptions (dollars in thousands):

**Tamar Petroleum Ltd.****Notes to the Condensed Interim Statements as of September 30, 2017****Note 8 – Additional Financial Information – Proforma Comprehensive Income (Contd.):**

	<b>For the nine-month period ended</b>		<b>For the three-month period ended</b>		<b>For the year ended</b>
	<b>30.9.2017</b>	<b>30.9.2016</b>	<b>30.9.2017</b>	<b>30.9.2016</b>	<b>31.12.2016</b>
	<b>Unaudited</b>		<b>Unaudited</b>		<b>Audited</b>
Revenues from natural gas and condensate sales	132,472	124,222	46,091	45,130	165,679
Net of royalties	20,687	19,459	7,283	7,091	25,749
Net revenues	111,785	104,763	38,808	38,039	139,930
<b><u>Costs and expenses:</u></b>					
Cost of production of natural gas and condensate	8,813	8,520	2,926	2,352	11,638
Depreciation, depletion and amortization expenses	13,100	12,763	4,038	4,753	16,156
G&A expenses	1,032	900	432	300	1,200
Total costs and expenses	22,945	22,183	7,396	7,405	28,994
Profit from ordinary activities	88,840	82,580	31,412	30,634	110,936
Finance costs	(23,590)	(23,056)	(8,199)	(7,686)	(30,827)
Finance income	136	15	48	5	131
Finance costs, net	(23,454)	(23,041)	(8,151)	(7,681)	(30,696)
Profit before taxes on income	65,386	59,539	23,261	22,953	80,240
Taxes on income	(15,549)	(14,885)	(5,439)	(5,738)	(20,060)
Net profit and total comprehensive income	49,837	44,654	17,822	17,215	60,180
Basic and diluted profit per share (in \$)	1.00	0.89	0.36	0.34	1.20
Weighted number of shares for the purpose of the aforesaid calculation	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000