



Tamar Petroleum Ltd.

Annual Report
2017

Table of Contents

- Chapter A Description of the Company's Business**
- Chapter B Board of Directors Report for the year ended December 31, 2017**
- Chapter C Financial Statements as of December 31, 2017**
Proforma Financial Statements as of December 31, 2017 on the Transaction for Acquisition of a 7.5% Interest in the Tamar and Dalit Leases
- Chapter D Additional Details regarding the Company**



Tamar Petroleum Ltd.

Chapter A

Description of the Company's Business

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

Chapter A – Description of the Company's Business

1. Description of the General Development of the Company's Business¹

- 1.1 Tamar Petroleum Ltd. (the “**Company**”) was incorporated on November 4, 2015 as a private company limited by shares under the Companies Law,57591999 (the “**Companies Law**”). The Company’s name was changed to its current name on May 21, 2017.
- 1.2 Pursuant to Israeli Government Resolution No. 476 from August 16, 2015 (which was readopted by the Government with certain changes on May 22, 2016) regarding “a framework for the increase of the natural gas quantity produced from the ‘Tamar’ natural gas field and the rapid development of the natural gas fields ‘Leviathan’, ‘Karish’ and ‘Tanin’ and other natural gas fields” (the “**Framework**” or the “**Gas Framework**”), the Company entered into an agreement with Delek Drilling LP (“**Delek Drilling**”) on July 2, 2017 (the "Sale Agreement with Delek Drilling"), whereby the Company acquired on July 20, 2017, retroactively effective from July 1, 2017, from Delek Drilling a 9.25% working interest (out of 100%) in the I/12 “Tamar” and I/13 “Dalit” leases (the “**Tamar and Dalit Leases**”), subject to the existing obligations of payment of overriding royalties to related parties and to third parties (the “**Royalties**” and the “**Royalty Holders**”, respectively)as well as the proportionate 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 agreement for the use of the Yam Tethys facilities, the shares of Tamar 10 Inch Ltd, the operating permit for the Tamar Platform, and the permits for export from Tamar (the “**Rights Acquired from Delek Drilling**”), for the consideration of USD 845 million in cash (of which USD 650 million was funded by the Company's initial public offering of bonds (Series A) and the remaining USD 195 million by the Company's initial public offering of ordinary shares of NIS 0.1 par value each ("**Ordinary Shares**") and the allotment of 19,900,000 ordinary shares of the Company to Delek Drilling. Under an irrevocable letter of waiver provided by Delek Drilling to the Company, which took effect

¹ For definitions of some of the professional terms included in this chapter, see the Professional Terms Annex at the end of this chapter.

upon completion of the issuance of the shares, Delek Drilling unilaterally waived all the voting rights attached to all of the shares held by it, except in respect of shares in an amount equal to up to 12% of the Company's issued and paid up share capital after completion of the issuance (the "**Excess Shares**")². For details regarding the Gas Framework see Section 7.16.1 below. For further details regarding the Sale Agreement with Delek Drilling see Section 7.17.1 below.

- 1.3 Until the acquisition date of the Rights Acquired from Delek Drilling, the Company was inactive, and wholly owned and controlled by Delek Drilling.
- 1.4 The Company's Series A Bonds started trading on the Tel Aviv Stock Exchange Ltd. (the "**TASE**") on July 10, 2017, and the Company became a reporting company, within its meaning in the Securities Law, 5728-1968. The Company's Ordinary Shares started trading on the TASE on July 24, 2017, and the Company became a publicly traded company within its meaning in the Companies Law, 5759-1999.
- 1.5 Pursuant to the Gas Framework, the Company entered into an agreement with Noble Energy Mediterranean Ltd. ("**Noble**") on January 29, 2018, whereby the Company acquired on March 14, 2018, retroactively effective from January 1, 2018, a 7.5% working interest (out of 100%) in the Tamar and Dalit Leases and a pro rata share (7.5%) of the rights and obligations under the Joint Operating Agreement, the agreements for the sale of gas from the Tamar Lease, the agreement for the use of the Yam Tethys facilities, the shares of Tamar 10 Inch Ltd., the operating permit for the Tamar Platform, and permits for export from Tamar (the "**Rights Acquired from Noble**"), for the consideration of USD 478 million in cash (funded by a first issuance of Bonds (Series B)) and a private placement of 38,495,576 ordinary shares of the Company to Noble (accounting for 43.5% of the Company's issued share capital) (hereinafter: the "**Sale Agreement with Noble**"). Prior to the said private placement date, Noble provided the Company with an irrevocable letter of waiver, whereby it waives all the voting rights attached to all the shares allotted to it³. It should be noted that the Rights Acquired from Noble are identical to the Rights Acquired from Delek Drilling as stated in Section 1.2 above, except for the commitment to pay overriding royalties to interested parties and third parties that applies to the Rights Acquired from Delek Drilling, as set out in Section 7.19 below, but does not apply to the Rights Acquired from Noble. For further details regarding the Sale Agreement with Noble, see

² For the avoidance of doubt, all of the capital 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 dissolution. In addition, Delek Drilling has undertaken to sell the Excess Shares first (which after being sold, will confer on the purchaser all of the rights attached thereto, including voting and equity rights as aforesaid), and it has also undertaken that as long as it has not sold the Excess Shares it will not purchase additional shares of the Company.

³ The letter of waiver signed by Noble is essentially similar to the one signed by Delek Drilling.

Section 7.17.2 below. Likewise, see the pro forma financial statements in respect of the transaction for the acquisition of 7.5% of the rights in the Tamar and Dalit Leases as at December 31, 2017.

2. **Sector of Operations**

- 2.1 The Company's articles of association provide that the Company shall only carry out exploration, development, production and transport to the target markets with respect to the Tamar and Dalit Leases. It should be noted that the amendment of such section is subject to approval by the general meeting of the Company's shareholders to be adopted by special resolution.^{4,5}
- 2.2 As of the Report's approval date, the Company is engaged in the sale of natural gas produced from the Tamar reservoir within the area of the Tamar Lease ("Tamar Project") to various customers, and primarily to the Israel Electric Corporation Ltd. ("IEC"), industrial customers, private electricity producers and natural gas marketing firms. The Company is also engaged in selling condensate produced from the Tamar Project primarily to the Paz Ashdod Refinery ("PAR"), and in promoting the expansion of the production system of the Tamar Project.
- 2.3 In view of the limited demand for natural gas in the domestic market, and in light of the significant volume of resources found off the shores of the State of Israel, the Company, besides supplying the demand for natural gas in the domestic market, is working to supply some of the reserves for export to neighboring countries and/or to other foreign markets, as specified in Sections 7.4.2 and 7.4.5 below. Regarding restrictions on gas exports, see Section 7.16.7(A) below.

For additional information regarding the quantities of natural gas supplied pursuant to the Company's agreements to supply natural gas for the domestic market and for export, see Section 7.4.4 below.

⁴ A special resolution is a resolution passed by a 75% majority of those present and entitled to vote in the vote. This notwithstanding, during the period up to the end of five years from the date of the initial public offering of the Company's shares or up to the date at which Delek Drilling's stake in the Company's shares drops below 5% of the Company's issued and paid up share capital, whichever the earlier, amendment of this section shall require approval of the General Meeting of the Company's shareholders by a 95% majority of the Company's shareholders, unless the amendment of the section concerns the engagement in oil or gas exploration, development or production under a petroleum right or preliminary permit with a priority right to obtain a license, within the meaning of these terms in the Petroleum Law, 5712-1952, which is to be explicitly defined under the section on the Company's goals in the Articles of Association, in which case the amendment will require the approval of the General Meeting of the Company's shareholders by special resolution.

⁵ In addition, it should be noted that in accordance with the Deed of Trust for Series A Bonds (as published in the Company's Immediate Report from July 5, 2017, Ref. No. 2017-01-057226) (hereinafter: "**Deed of Trust for Series A Bonds**") and the Deed of Trust for Series B Bonds (as published in the Company's shelf offering report from March 12, 2018 (Ref. No. 2018-01-019125) (hereinafter: "**Deed of Trust for Series B Bonds**"), the Company undertakes to obtain the approval of the rating company whereby a change in the Company's exclusive field of business will not lead to a downgrade of the Company's rating, and to receive prior approval from the bondholders, which is to be passed, to the extent it is passed, by ordinary resolution of the General Meeting of bondholders. If the Company changes its field of business contrary to the above undertaking, this will constitute grounds for immediate repayment of Series A and B Bonds.

3. Investments in the Company's Capital and Transactions in its Securities

From the date of the Company's incorporation until the date of the Report, no investments were made in the Company's capital nor any substantive transactions outside the framework of the TASE with the Company's shares, by interested parties in the Company, and known to the Company, except for the share allotment to Delek Drilling and share acquisitions by shareholders that have become interested parties under a prospectus supplement and shelf prospectus of the Company from July 4, 2017 (Ref. No. 2017-01-056551) (hereinafter: the "**Prospectus**") and a shelf offering report from July 18, 2017, as well as a private placement of the Company's shares to Noble under the Sale Agreement with Noble (for details see Section 7.17.2 above).

4. Distribution of Profits

- 4.1 No profits were distributed by the Company from the date of the Company's incorporation until the date of the Report.
- 4.2 The Company's Articles of Association provide that the Company shall distribute profits twice a year, based on semi-annual financial statements for the period ended June 30 and on annual financial statements for the period ended December 31. The sum of profits to be distributed shall be equal to 100% of the distributable profits, as defined in the Companies Law, based on said financial statements, subject to compliance with the distribution tests, as defined in the Companies Law, subject to compliance with the provisions of the TASE Regulations, and net of sums required for the Company at the discretion of its Board of Directors, for all of the following purposes:(1) the Company's compliance with the restrictions applicable thereto under financing agreements to which it is a party at the time of the declaration; (2) the Company's compliance with its undertakings in respect of Petroleum Assets held thereby at that time; (3) financing of the Company's ongoing business including its investment plans in respect of the Petroleum Assets held by the Company; (4) sums required, in the opinion of the Board of Directors, to meet unforeseen expenses, which shall total no more than USD 5 million.
- 4.3 As of December 31, 2017, the Company has distributable profits amounting to USD 32 million.
- 4.4 On March 20, 2018, the Company's Board of Directors decided to distribute profits for the first time in the amount of USD 0.36186 per share, totaling overall USD 32 million. The profit distribution will be effected on April 11, 2018.
- 4.5 For details regarding profit distribution restrictions that are prescribed in the Deeds of Trust for the Company's Series A and B Bonds, see Notes 9E and 23B5 to the financial statements.

5. Financial Information on the Sector of Operations of the Company

- 5.1 For data on revenues, costs, profit derived from ordinary operations in the sector of operations, see the statements of comprehensive income that are included in the financial statements (Chapter C of this report).
- 5.2 For details regarding all of the Company's assets and liabilities as of December 31, 2017 and December 31, 2016, see the statements of financial position that are included in the financial statements (Chapter C of this report).
- 5.3 For explanations regarding the aforementioned financial data, see the first part of the Board of Directors' Report (Chapter B of this report).
- 5.4 For details regarding the impact of the Sale Agreement with Noble on the Company's financial results, see the Pro Forma Financial Statements Regarding the Transaction for the Purchase of 7.5% of the Rights in the Tamar and Dalit Leases as at December 31, 2017, which are attached to this report.

6. General Environment and the Effect of External Factors

- 6.1 As described above, the Company's sole operating segment as of the report's date is exploration, development and production of oil, natural gas and condensate in the area of the Tamar Lease. The Petroleum Law, 5712-1952 (the "**Petroleum Law**") regulates oil and natural gas exploration, development and production in Israel and provides, inter alia, that oil and gas exploration activities in Israel can be conducted in geographical areas in which the exploring entity was granted a gas and petroleum right under the Petroleum Law. In addition, the Natural Gas Sector Law, 5762-2002 (the "**Natural Gas Sector Law**") mainly governs the issue of transmission, distribution, marketing and storage of natural gas and/or liquefied natural gas ("LNG") within the State of Israel. For further details regarding the Petroleum Law and the Natural Gas Sector Law, see Sections 7.16.5(a) and 7.16.5(d) below, respectively.
- 6.2 The economic viability of investments in exploration and development of natural gas reservoirs is greatly affected by global prices of petroleum and gas, demand for natural gas in the global, regional and local markets and the ability to export natural gas (whether by pipeline, in compressed form or in liquid form), which requires, inter alia, considerable gas resources and long-term agreements for the sale of natural gas in substantial amounts, to justify the high investments required for construction of the appropriate infrastructures. The sale of petroleum, to the extent found, may be made to various consumers in Israel and around the world based on the global oil prices at such time.
- 6.3 Development of the natural gas sector in Israel began in 1999-2000 with the discovery of the Noa reservoir in the Noa Lease and the Mari B reservoir in the Ashkelon Lease. The overall consumption of natural gas in Israel has increased concurrently with the progress

in construction of the transmission infrastructure of Israel Natural Gas Lines Ltd. ("INGL") and the connection of consumers (including power plants) to the transmission system.

- 6.4 In recent years, the natural gas sector in Israel has been undergoing significant changes. Within a few years, natural gas has become a major component of Israel's fuel basket for electricity production and a significant energy source for industry in Israel. The natural gas resources that were discovered in Israel can provide all of the gas needs of the local economy during the upcoming decades, and thus substantially reduce the dependence of the State of Israel on foreign energy sources.
- 6.5 According to figures from the Ministry of Energy, the extent of use of natural gas in Israel increased from 7.6 BCM in 2014 (one year after commencement of the piping of natural gas from the Tamar Project) to 8.4 BCM in 2015, and to 9.6 BCM in 2016⁶. In the Company's estimation, natural gas use in Israel in 2017 totaled 10.4 BCM, which represents an average annual increase in consumption of 8.3%. It is noted that during the years 2016-2017, at certain times, mainly during peak electricity demand hours in the winter and summer, Israeli market demand was higher than the maximum hourly production capacity of the Tamar Project, and therefore the partners in the Tamar Project ("Tamar Partners") were unable to supply the full demand at such times.
- 6.6 The Company's assessment is that, the consumption of natural gas in Israel is expected to continue increasing, as more gas suppliers connect to the national transmission system, given the government policy to increase the use of natural gas for the production of electricity and reduce the generation of electricity by polluting coal-fired plants; to make natural gas accessible to additional industrial enterprises throughout Israel; to transition vehicles, including buses and heavy vehicles, to use of natural gas; to develop and fully exploit industries based on natural gas as a raw material; and to take policy actions supporting increased natural gas consumption through the construction of more seawater desalination plants; all this over and above the natural increase in demand for natural gas and electricity in the Israeli economy. Regarding the decision of the Minister of Energy to reduce the use of coal, see Section 7.16.7(g) below. Regarding orders having to do with increasing the excise tax on coal and compressed natural gas (CNG), see Section 7.16.7(h) below.
- 6.7 The principal external factors affecting this operating segment:
 - 6.7.1 Fluctuations in the US CPI, in the Electricity Production Tariff, and in the price of a Brent-type oil barrel

⁶ From the Ministry of Energy, Natural Resources Administration, **Report on the Natural Resources Administration Revenues** (2016).

The gas prices set in the agreements for the sale of natural gas from the Tamar Project are based on various pricing formulas including, inter alia, linkage to the U.S. Consumer Price Index (“U.S. CPI”), to the electricity production tariff as determined from time to time by the Public Utilities Authority-Electricity (the “**Electricity Production Tariff**” and “**Electricity Authority**”, respectively), and to the price of a Brent-type oil barrel. Nonetheless, the exposure of the Company to fluctuations in the Electricity Production Tariff and the Brent-type oil barrel price in agreements for the sale of natural gas from the Tamar Project is restricted by a lower limit, as all the agreements which are linked to such components include a “floor price.” Therefore, an additional drop in the Brent-type oil barrel price or the Electricity Production Tariff has only a circumscribed effect, limited to the aforesaid “floor price,” on the Company’s revenues under the agreements to which it is a party.

However, a change in each one of the above linkage components and/or in the prices of the alternative fuels and/or the aforesaid regulatory changes may affect the economic viability of development or expansion of existing reservoirs and/or new reservoirs discovered and/or to be discovered in the future (if any) by the Company and on the scope of production therefrom, and as a consequence thereof, on the Company’s decisions in connection with the foregoing.

For details regarding the sensitivity analysis performed by the Company on the main linkage components of the gas price according to the gas sale agreements entered into by the Tamar Partners(the U.S. CPI and Electricity Production Tariff), see the Company's Supplementary Immediate Report from March 6, 2018 (Ref. No. 2018-01-018141) regarding publication of a discounted cash flow, with the information appearing there included herein by reference.

6.7.2 Regulation

The oil and natural gas exploration, development and production sector in Israel is subject to extensive regulation with respect to petroleum assets (including rules for granting, transferring and pledging the same), conditions for development, production and supply (including the construction of transmission and distribution and consumer connection infrastructures), royalties, taxation, environmental regulation, restrictive trade practices and so forth.

In recent years, in the wake of the gas discoveries made in the economic waters of the State of Israel, there has been a significant increase in the extent of regulation of the energy sector in Israel, as a consequence of a series of significant

regulatory moves taken by the government and the state authorities. Prominent examples of this are: the enactment of the Taxation of Natural Resource Profits Law, 5771-2011⁷ (the "**Taxation of Natural Resource Profits Law**") including its amendments; the Israeli government's decision to adopt the principles of the report of the Committee for Examination of the Government's Policy on the Issue of Israel's Natural Gas Sector and the Future Development Thereof (the "**Tzemach Committee**", and the "**Government Resolution on Export**", respectively); the declaration by the Antitrust Commissioner (the "**Antitrust Commissioner**") that the Tamar Partners are owners of a monopoly in natural gas supply to Israel; the promulgation of various directives by the Petroleum Commissioner at the Ministry of Energy⁸ (the "**Petroleum Commissioner**"); the announcement of the Marine Areas Bill, 5778-2017 (the "**Marine Areas Bill**"); the government resolution in the matter of the Gas Framework, as part of an attempt to create a stable regulatory environment which encourages investments, as specified in Section 7.16.1(c)(7) below; the national outline plan for the reception and processing of natural gas, and so forth. For details regarding restrictions on and supervision of oil and natural gas exploration, development and production activities in Israel, see Section 7.16 below.

⁷ On November 7, 2017, the Ministry of Finance announced a Memorandum of the Taxation on Natural Resource Profits Law (Amendment No.), 5778-2017 (the "**Memorandum**"), which included several proposed amendments to the provisions of the Taxation on Natural Resource Profits Law, pursuant to the Gas Framework. The amendments the subject of the Memorandum concern, inter alia, an amendment to the definition of the term "receipt" in the Taxation on Natural Resource Profits Law, so that it will include also payments for elements associated with the sale as determined in the Gas Framework; the establishment of several provisions that augment the Israel Tax Authority's ability to inspect and enforce the Taxation on National Resource Profits Law; and the grant of incentives to certain owners of rights in petroleum enterprises with a size of up to 50 BCM.

⁸ Various directives which were issued by the Petroleum Commissioner on this matter: applications for rights in a petroleum asset, the provision of collateral in connection with petroleum rights, the transfer of rights and approval of export. For further details, see Section 7.16.6 below.

7. **Description of the Company's Business by Operating Segment**

7.1 **General information about the operating segment**

7.1.1 **Structure of the operating segment and changes occurring therein**

The operation of exploration, development and production of oil and natural gas is complex and dynamic, involving substantial costs and greatly significant uncertainty with respect to costs, timetables, the presence of oil or natural gas and the ability to produce them while maintaining economic viability. As a result, despite considerable investments, drilling often does not accomplish positive results and does not generate any revenues or even leads to the loss of most or all of the investment.

Activities of exploration, development and production of oil and natural gas are usually conducted in the framework of joint ventures between several partners who sign a Joint Operating Agreement (JOA), whereby one of the partners is appointed as the operator of the joint venture (for a description of a joint operating agreement, see Section 7.2.13 below).

7.1.2 **Restrictions, legislation and standards and special constraints applicable to the operating segment**

For details, see Section 7.16 below.

7.1.3 **Developments in markets or changes in customer characteristics**

As of the publication date of the report, the Company supplies natural gas from the Tamar Project to various customers in the local market and mainly to the IEC, and also exports natural gas from the Tamar Project to Jordan. The Company also supplies condensate from the Tamar Project chiefly to the Paz Ashdod Refinery Ltd. ("**Paz Ashdod Refinery**"). For a description of the Company's agreements with its major customers, see Section 7.4.57.4 below.

In view of the significant volume of resources already discovered off the shores of the State of Israel, primarily in the Tamar and Leviathan natural gas reservoirs, the Tamar Partners are working to seek out markets and customers in the domestic market and in neighboring countries and/or in European and Asian markets, subject to gas export restrictions, as set out in Section 7.16.7(a) below, while the Company is examining the use of existing infrastructures and/or those that will exist in the foreseeable future and/or that will be built especially for natural gas export purposes.

7.1.4 Material technological changes

Recent decades have seen technological changes in the field of oil and natural gas exploration, development and production, both in information collection and analysis and in the drilling and production methods. These changes have improved the quality of the data available to oil and natural gas explorers and have allowed for more advanced identification of potential oil and natural gas reservoirs, and therefore may also reduce the risks of drilling. Furthermore, the technological improvements have made the drilling and production work more efficient, allowing today the performance of activities in tougher conditions than before, including at significant water depths. Accordingly, corporations exploring for oil and natural gas are able to undertake exploration efforts in areas where drilling was not feasible in the past, or was feasible but at very high costs and at greater risks. Moreover, technological changes in the production and marketing of natural gas, such as technologies for converting natural gas into liquefied natural gas (“LNG”), compressed natural gas (“CNG”) and liquid (“GTL”), may assist in more efficiently conveying and commercializing natural gas.

7.1.5 Critical success factors in the operating segment

- (a) Identification and receipt of exploration rights (purchase or farm-in) in areas with a potential for a commercial discovery.
- (b) Financial abilities and a capacity to raise considerable financial resources.
- (c) Use of advanced technologies (such as 3D seismic surveys and advanced information processing) for the purpose of identifying and preparing drilling prospects, for evaluating drilling results and for formulating an offshore development plan.
- (d) Joining forces with entities possessing extensive knowledge and experience in the sector, to carry out complex development plans and/or drillings, thereby being assisted by the latter's professional knowledge and by their contribution to the considerable financial investments.
- (e) Success of the exploration activity.
- (f) In the event of a natural gas discovery, entry into agreements for the sale of gas in appropriate quantities and for appropriate prices.
- (g) Existence of knowledge, experience and engineering, geological, financial and commercial ability to manage exploration, development and production projects on a financial scale of billions of dollars, including the construction of production and export infrastructures.

7.1.6 Changes in the raw materials and suppliers setup

For details see Section 7.11 below.

7.1.7 Entry and exit barriers

The main entry barriers in the operating segment are the need for permits and licenses for oil and natural gas exploration, development and production; meeting the legal and regulatory requirements, including directives and criteria laid down by the Petroleum Commissioner; the ability to transfer and/or purchase rights in petroleum assets, which includes presenting the applicant's financial soundness and the operator's technical ability to obtain said rights; and the existence of a financial and technical capacity to make the extensive, relatively high-risk investments involved in exploration, development and production activities.

The significant barriers to exit in the operating segment in Israel are mainly undertakings by virtue of long-term gas supply agreements entered into by the Tamar Partners. In addition, there is a duty to plug abandoned wells and to dismantle production facilities before abandoning lease areas, as specified in the lease deeds.

It should be noted, that exiting existing projects by way of partial or full sale may involve exit barriers arising from regulatory requirements that will apply to the purchaser and from the substantial monetary amount of such sale.

7.1.8 Alternatives to the products of the operating segment

Natural gas is used as a raw material in energy production and is sold in Israel chiefly to electricity producers and industrial customers. In general, the alternatives for the use of natural gas are other fuels, mainly diesel oil, fuel oil, coal, LPG, LNG, pet coke and renewable energy sources, such as solar and wind energy. Each of these alternative fuels and energy production methods has advantages and disadvantages and they are subject to price volatility, availability, technical and statutory constraints, etc. The switch from using one type of energy to another type of energy usually involves large investments. The principal advantages of natural gas, compared to coal or liquid fuels, are that the energy efficiency of power plants operated on natural gas is significantly higher than that of power plants operated on coal and fuel oil, and that the emission of particles and nitrogen and sulfur oxides from the combustion of natural gas is significantly lower than that of coal and fuel oil.

7.1.9 Structure of the competition in the operating segment

(a) Natural gas discoveries in Israel

As a rule, due to the complexity and high costs of transmitting natural gas other than via a transmission pipeline (e.g., by setting up an LNG facility which requires natural gas reserves of a significant volume and huge financial investments), the natural market for the supply of natural gas is the market in the country in which the natural gas reservoir was discovered as well as in neighboring countries, to which the natural gas may be transmitted by pipes. Therefore, the Company's gas reservoirs in Israel compete primarily against holders of petroleum assets that operate in Israel and in neighboring countries, as well as LNG importers.

With the commencement of piping of natural gas from the Tamar reservoir and the termination of regular production from the Yam Tethys reservoirs, the vast majority of the natural gas currently supplied to the Israeli market originates in the Tamar reservoir, which is the only developed substantial reservoir within the territory of the State of Israel. In addition to the Tamar reservoir, small quantities of natural gas are supplied via the regasification vessel and the offshore buoy set up by INGL (the "**offshore buoy for LNG import**").

To fulfill the provisions of the Gas Framework (as set out in Section 7.16.1 below): (a) the rights of Delek Drilling, Avner Oil Exploration – Limited Partnership ("**Avner**") and Noble in the Karish and Tanin reservoirs were sold to Energean Israel Ltd. ("**Energean**"); (b) Delek Drilling commenced a process of selling off its holdings in the Tamar and Dalit Leases, in which framework the 9.25% interest of Delek Drilling in the Tamar and Dalit Leases was sold to the Company, as detailed in Section 1.2 above; (c) a transaction for the sale of a 3.5% interest of Noble in the Tamar and Dalit Leases to Everest Infrastructures – Limited Partnership ("**Everest**") was completed; and (d) a transaction for the sale of a 7.5% interest of Noble in the Tamar and Dalit Leases to the Company was completed on March 14, 2018, as detailed in Section 1.5 above.

In the Company's estimation, in view of the approval of the Gas Framework, at least two additional reservoirs will be developed in the upcoming years, which are expected to serve as additional substantial suppliers of natural gas together with the producing Tamar Reservoir, such

potential reservoirs for development being: the Leviathan Reservoir, which to the best of the Company's knowledge, as announced by the holders of rights in the reservoir, contains 21.4 TCF of resources (probable reserves and best estimate contingent resources)⁹; and the Karish and/or Tanin Reservoirs, which, to the best of the Company's knowledge, according to data released in the prospectus for issuance and listing on the London Stock Exchange of Energean Oil & Gas plc (to the best of the Company's knowledge, the controlling shareholder in Energean) from March 2018, contain 2.4 TCF of best estimate (2C) contingent resources and 2.4 TCF of best estimate prospective resources¹⁰. It should be noted that according to the provisions of the Gas Framework, the Karish and Tanin reservoirs have been designated solely for the domestic market.

Furthermore, to the best of the Company's knowledge, under the conditions of the licenses previously granted by the Petroleum Commissioner to several other entities, several exploration wells are intended to be drilled in the future.

In addition, on November 15, 2016, the Minister of Energy declared the opening of the sea for oil and natural gas exploration by a competitive proceeding (the "**Competitive Proceeding**"), in view of the findings of an independent research study which was carried out for the Ministry of Energy, in which it was determined that additional undiscovered resources of natural gas may be found in the sea basin of Israel, comprising a total volume of 6.6 billion barrels of oil and 2,137 BCM of natural gas. In the framework of the Competitive Proceeding, 24 exploration areas have been offered, with a maximum size of 400 square km each, at a distance of at least 7 km from the shoreline, all in accordance with the directives of the Ministry of Energy. According to the terms and conditions of the tender, in order to encourage competition in the Israeli gas market, an entity holding more than 25% of the rights (directly or indirectly) in an offshore license with a reserve volume exceeding 200 BCM (2C) on the tender publication date will be barred from submitting a bid in the tender.

⁹ On February 23, 2017, the project's partners made a final investment decision (FID) for the development of the Leviathan reservoir, aimed at enabling the start of the piping of gas therefrom by the end of 2019.

¹⁰ It should be noted that said reservoirs contain also quantities of condensate. To the best of the Company's knowledge, as of the report date, the plan for the development of the Karish and Tanin Reservoirs has been approved by the Ministry of Energy.

In accordance with the Competitive Proceeding that ended mid-November 2017, on January 15, 2018 the Ministry of Energy granted licenses for oil and natural gas exploration in Israel's economic waters (Blocks 12, 21, 22, 23, 31) to Greek Energean. According to the announcement of the Ministry of Energy, the license will be granted for a period of 3 years. At the end of the period, it will be renewable for another 3 years, provided its holder has implemented the work plan and undertakes to drill a well during the extension period. Likewise, the Israeli Petroleum Commission members recommended that the Petroleum Commissioner award an exploration license for one block to a consortium of Indian companies. As of the report publication date, according to announcements issued by the Ministry of Energy, the consortium of Indian companies has not yet completed the process for obtaining the license required by the Ministry of Energy under the Competitive Proceeding.¹¹

Insofar as future wells drilled in the areas of existing and/or new licenses as described above lead to significant natural gas findings, and insofar as these discoveries (if any) are developed, these reservoirs may also constitute competitors operating in the domestic market and in neighboring countries.

Additionally, as far as is known to the Company, the British Gas Group (today Shell) discovered over 15 years ago off the Gaza coast a natural gas reservoir with a similar volume to that of the Mari-B reservoir, and in the future this reservoir may possibly be developed and marketed to the domestic market and to the Palestinian Authority.

LNG import to the domestic market started in January 2013, using the LNG terminal off the shore of Hadera (the “**Terminal**”). The Terminal is designated for the berthing of an LNG tanker, which converts LNG to gas. The Terminal is designed to receive re-gasified gas, as mentioned above, in an amount of up to 0.5 BCF per day. The Terminal was built to enable short-term gas supply to the domestic market, in light of the shortage created at the time, due to the cancellation of the agreement with East Mediterranean Gas Ltd. ("EMG") for the supply of gas from Egypt, and to

¹¹ In order to complete the license obtaining process, and to finalize approval of the proposals, the company ONGC – the operator in the group of Indian companies, must complete technical details such as, payment of the signing bonus and license fee, and must forward to the Ministry guarantees for the license. Likewise, ONGC must appoint an official representative in Israel and register as a foreign company in Israel. ONGC was supposed to have completed the requirements within 30 days of dispatch of notice of being awarded a license.

provide the IEC with strategic redundancy in the supply of natural gas. LNG is used chiefly as a backup fuel for the IEC, and thus, as of the report publication date, poses no significant competition to the natural gas supplied by the Company.

Furthermore, and with respect to the consumption of natural gas by the IEC, natural gas suppliers are in competition with coal (a polluting yet relatively inexpensive alternative fuel for electricity production), and therefore the level of consumption and the price of natural gas may be affected by the global price of coal.¹²

Additionally, on June 29, 2017, IEC issued a request for information (“RFI”) for the supply of natural gas to IEC from 2020 (the “**Request**”). According to the details of the Request, IEC is interested in purchasing between 0.5 BCM and 2 BCM per year, with no obligation to purchase a minimum annual quantity (Take or Pay).

Furthermore, the natural gas supplied by the Company to industrial customers replaces the use of liquid fuels, such as diesel oil, fuel oil and LPG. The price of petroleum distillates is generally higher than the price of the natural gas supplied by the Tamar Partners, yet despite their being polluting, a downturn in oil prices around the world could render these fuels competitive relative to the natural gas supplied to these consumers. In addition, the wish to increase the production of electricity from renewable and clean energies, such as wind energy or solar energy, could also lead to competition with natural gas. For additional details on alternatives to natural gas, see Section 7.1.8 above.

Petroleum, to the extent discovered in the future, is easier to market and can be sold to both the domestic and international markets, which means greater competition but also more extensive opportunities for sales. Yet, at the same time, petroleum is a commodity whose prices are determined by global supply and demand fluctuations.

(b) Natural gas discoveries in the Eastern Mediterranean Basin

To the best of the Company's knowledge, the volume of proven reserves in Egypt is estimated at 65.2 TCF, with a potential for additional significant discoveries.¹³ The year 2015 saw the discovery of the Zohr natural gas

¹² For details regarding the decision of the Minister of Energy to reduce coal use, see Section 7.16.7(g) below.

¹³ BP Statistical Review of World Energy 2017.

reservoir in Egypt; as of the report publication date, the volume of its recoverable reserves was not yet reported, but to the best of the Company's knowledge, based on external consulting companies, it is estimated to be 22.14 TCF. The Zohr reservoir completed its first development phase and commenced production of natural gas in December 2017, and is designated, to the best of the Company's knowledge, for the supply of natural gas to the local Egyptian market. The expected production volume of the reservoir in the present and first stage is estimated at 9.3 BCM, with the production volume expected to increase up to 26 BCM per year. Such volume renders the Zohr reservoir a significant supplier of natural gas to the Egyptian market. For further details regarding the possible key target markets for natural gas export from the Tamar Project, see Section 7.5.2(b) below.

7.2 Details regarding the Tamar and Dalit Project

As of December 31, 2017, the Company held a 9.25% working interest in the Tamar and Dalit Leases. As stated in Section 1.5 above, under the Sale Agreement with Noble, the Company acquired from Noble on March 14, 2018 (effective January 1, 2018) an additional 7.5% interest in the Tamar and Dalit Leases and currently holds a 16.75% working interest in the Tamar and Dalit Leases. Therefore, if not otherwise stated, wherever information is given in this report regarding the Company's holdings in the Tamar and Dalit Leases, in respect of the period up to December 31, 2017 (including financial data), said information relates to the 9.25% working interest, while wherever information is given regarding the Company's holdings in the Tamar and Dalit Leases for the period effective from January 1, 2018, said information relates to the 16.75% working interest.

7.2.1 General

| <u>The Tamar Lease</u> | |
|-------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| <u>General Details Regarding the Petroleum Asset</u> | |
| Name of the petroleum asset: | Tamar Lease ¹⁴ |
| Location: | An offshore asset approximately 90 km west of the Haifa coast, at a water depth of 1,670 meters. |
| Area: | Approximately 250 km ² . |
| Type of petroleum asset and description of the activities permitted for such type: | Lease; Permitted activities under the Petroleum Law – exploration and production. |
| Original conferral date of the petroleum asset: | December 2, 2009 |
| Original expiration date of the petroleum asset: | December 1, 2038 |

¹⁴ The Tamar and Tamar SW natural gas fields were discovered in the area of the Tamar Lease in 2009 and 2013, respectively.

| The Tamar Lease | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| General Details Regarding the Petroleum Asset | |
| Dates on which extension of the term of the petroleum asset was decided: | - |
| Current expiration date of the petroleum asset: | December 1, 2038 |
| Is there another opportunity for extension of the term of the petroleum asset? If so, indicate the possible term of extension: | Subject to the Petroleum Law, by 20 additional years. |
| Name of the operator: | Noble |
| Names of the direct partners in the petroleum asset and their direct share in the petroleum asset, and, to the best of the Company's knowledge, the names of the controlling shareholders in said partners: | <ul style="list-style-type: none"> ▪ Noble (25%) – Noble is a wholly-owned subsidiary of Noble Energy Inc. (“Noble Inc.”), a publicly traded company on the NYSE. To the best of the Company's knowledge, there is no controlling shareholder in Noble Inc. ▪ Isramco Negev 2, Limited Partnership (“Isramco”) (28.75%) To the best of the Company's knowledge, the general partner in Isramco, Isramco Oil & Gas Ltd., is a private company indirectly controlled by Mr. Haim Tsuff¹⁵. ▪ Delek Drilling¹⁶ (22%) – General partner in Delek Drilling, Delek Drilling Management (1993) Ltd., is a private company owned by Delek Energy Systems Ltd. (“Delek Energy”) (the controlling shareholder of which (indirectly) is Mr. Yitzhak Sharon (Tshuva)). ▪ Dor Gas Exploration, Limited Partnership (“Dor Exploration”) (4%) – To the best of the Company's knowledge, the general partner in Dor Exploration is Alon Gas Exploration Management Ltd., a private company controlled by Alon Natural Gas Exploration Ltd., which is a public company, whose controlling shareholder is “Alon” Israel Fuel Company Ltd., which is a private company. ▪ Everest Infrastructures – Limited Partnership (“Everest”)¹⁷ 3.5%. To the best of the Company's knowledge, Everest is a limited partnership, the partners in which are Harel Insurance Co. Ltd. and other institutional bodies owned thereby, as well as partners from the Israel Infrastructure Fund group. ▪ The Company (16.75%). (Will be called above and hereafter, jointly with the Dalit partners described below, the “Tamar Partners”). |

| The Tamar Lease | |
|-----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| General Details Regarding the Company's Share in the Petroleum Asset | |
| For a holding in a purchased petroleum asset –the purchase date: | A 9.25% interest was acquired on July 20, 2017, effective from July 1, 2017, under the Sale Agreement with Delek Drilling. |

¹⁵ As of the publication date of the report, corporations controlled by Mr. Haim Tsuff hold approximately 22.26% of the participation units issued by Isramco Management (1988) Ltd. (the limited partner in Isramco). In addition, Mr. Haim Tsuff directly holds 0.43% of the participation units issued by the limited partner in Isramco.

¹⁶ According to the Gas Framework, Delek Drilling must sell all of its rights in the Tamar and Dalit Leases to an unrelated third party by the Effective Date for Tamar (i.e.: December 17, 2021) (as defined in Section 7.16.1(a)(1) below).

¹⁷ In December 2016, a transaction was closed between Noble and Everest, the partners in which are Harel Insurance Co. Ltd. and other institutional bodies owned thereby, together with partners from the Israel Infrastructure Fund group, for the sale of 3.5% of Noble's rights in the Tamar Lease to Everest.

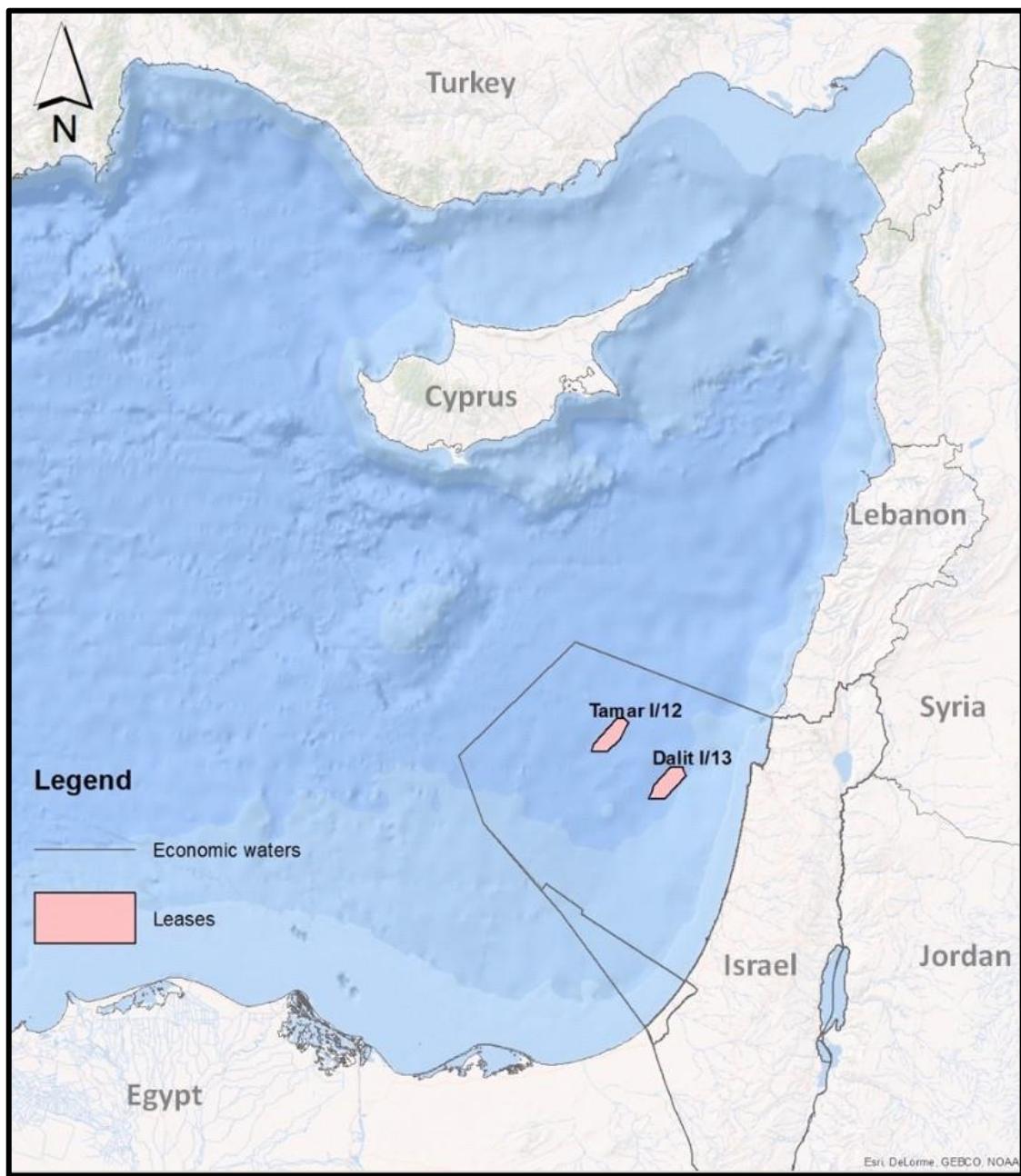
| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | A 7.50% interest was acquired on March 14, 2018, effective from January 1, 2018, under the Sale Agreement with Noble. |
| Description of the nature and manner of the Company's holding in the petroleum asset: | The Company directly holds 16.75% of the Lease. |
| The actual share in the revenues from the petroleum asset attributable to the holders of the equity interests of the Company: | <p><u>As of December 31, 2017</u> Before return on investment – 7.64%. After return on investment – 7.17%.</p> <p><u>As of the report publication date</u> Before return on investment – 14.21%. After return on investment – 13.74%.</p> |
| The total share of the holders of the equity interests of the Company in the aggregate investment in the petroleum asset during the three years preceding the last day of the year of the report (whether recognized as an expense or as an asset in the financial statements): | <p>As consideration for the 9.25% interest from the Tamar and Dalit leases, the Company paid a cash consideration of USD 845 million and against an allotment of 19,900,000 ordinary shares of the Company.</p> <p>As consideration for the 7.5% interest from the Tamar and Dalit leases, the Company paid a cash consideration of USD 478 million and against an allotment of 38,495,576 ordinary shares of the Company.</p> |

| The Dalit Lease | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| General Details Regarding the Petroleum Asset | |
| Name of the petroleum asset: | Dalit Lease ¹⁸ |
| Location: | An offshore asset approximately 50 km west of the Haifa coast. |
| Area: | Approximately 250 km ² . |
| Type of petroleum asset and description of the activities permitted for such type: | Lease; Permitted activities under the Petroleum Law – exploration and production. |
| Original conferral date of the petroleum asset: | December 2, 2009 |
| Original expiration date of the petroleum asset: | December 1, 2038 |
| Dates on which an extension of the term of the petroleum asset was decided: | - |
| Current expiration date of the petroleum asset: | December 1, 2038 |
| Is there another opportunity for extension of the term of the petroleum asset? If so, indicate the possible term of extension: | Subject to the Petroleum Law, by 20 additional years. |
| Name of the operator: | Noble |
| Names of the direct partners in the petroleum asset and their direct share in the petroleum asset, and, to the best of the Company's knowledge, the names of the controlling holders of such partners: | <ul style="list-style-type: none"> ▪ Noble (25%). ▪ Isramco (28.75%). ▪ Delek Drilling (22%). ▪ Dor (4%). ▪ Everest (3.5%) ▪ The Company (16.75%). |

| The Dalit Lease | |
|-----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| General Details Regarding the Company's Share in the Petroleum Asset | |
| For a holding in a purchased petroleum asset –the purchase date: | <p>A 9.25% interest was acquired on July 20, 2017, effective from July 1, 2017, under the Sale Agreement with Delek Drilling.</p> <p>A 7.50% interest was acquired on March 14, 2018, effective from January 1, 2018, under the Sale Agreement with Noble.</p> |

¹⁸ The Dalit gas reservoir was discovered in the area of the Dalit Lease in 2009.

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Description of the nature and manner of the Company's holding in the petroleum asset: | The Company directly holds 16.75% of the Lease. |
| The actual share in the revenues from the petroleum asset attributable to the holders of the equity interests of the Company: | <p><u>As of December 31, 2017</u> Before return on investment – 7.64%. After return on investment – 7.17%.</p> <p><u>As of the report publication date</u> Before return on investment – 14.21%. After return on investment – 13.74%.</p> |
| The total share of the holders of the equity interests of the Company in the aggregate investment in the petroleum asset during the three years preceding the last day of the year of the report (whether recognized as an expense or as an asset in the financial statements): | <p>As consideration for the 9.25% interest from the Tamar and Dalit leases, the Company paid a cash consideration of USD 845 million and against an allotment of 19,900,000 ordinary shares of the Company.</p> <p>As consideration for the 7.5% interest from the Tamar and Dalit leases, the Company paid a cash consideration of USD 478 million and against an allotment of 38,495,576 ordinary shares of the Company.</p> |

7.2.2 Map of the petroleum asset

7.2.3 The principal terms and conditions of the Tamar and Dalit Leases

(a) **The Lease Holders**

- (1) The terms and conditions of the Tamar and Dalit Leases (in this section: the "Leases") are for the most part identical. The description set forth below pertains to the main issues in the Tamar and Dalit Leases.
- (2) The facilities of the production system and transmission system (in this section: the "Facilities") will be constructed and operated through Noble (in this section: the "Operator"), which will manage the activities required under the Lease deed and under the Petroleum Law on behalf of the Lease holder. The Operator's actions will be binding on the Lease holder and notices from the Petroleum Commissioner or anyone on his behalf to the Operator will be binding on the Lease holder. Nothing stated in this section shall derogate from the obligations and liability of each of the Tamar Partners, jointly and severally, to act in accordance with the provisions of the Lease deed and the provisions of any law.
- (3) The Lease holder may replace the Operator only with a company approved in advance and in writing by the Petroleum Commissioner.

(b) **Scope of Lease**

- (1) The Lease holder has the exclusive right to explore and produce oil and natural gas in the Lease area alone, throughout the entire term of the Lease, subject to the other provisions of the Lease deed and to any law.
- (2) It is the sole responsibility of the Lease holder to plan, finance, construct and operate the Lease holder's production system and transmission system, and to maintain these systems to ensure their ongoing operation, all via the Operator, contractors, planners and consultants who have knowledge and experience in their fields, in such manner as to enable the regular, proper and safe supply of oil and natural gas from the reservoir.

(c) **Term of Lease**

The term of the Lease is divided into two sub-terms:

- (1) **Development period** – the period during which the Lease holder performs all of the activities for the purpose of reaching the

commercial production stage, including development drillings, and constructs the Lease holder's production system and transmission system, subject to the provisions of the Lease deed.

- (2) Commercial production period – the period from the end of the development period until the end of the term of the Lease, during which the Lease holder carries out commercial production from the Lease area, subject to the provisions of the Lease deed and any law.

If the term of the Lease ends or the Lease is revoked under the provisions of the Petroleum Law, including Section 29 of the Petroleum Law, or under the provisions of the Lease deed, the right of the Lease holder to act by virtue of the Lease deed will expire.

- (d) Sale to consumers in Israel

The Lease holder must reliably, efficiently and properly supply oil and natural gas and must not unreasonably refuse to supply oil and natural gas to consumers in Israel.

- (e) Construction of facilities

- (1) The Lease holder may construct the production system only after the Petroleum Commissioner grants the Lease holder a construction permit, and subject to the terms and conditions of the permit.
- (2) The Lease holder must construct the production system and the transmission system in a manner enabling a total commercial production capacity from the area of the Tamar Lease and the area of the Dalit Lease of no less than 7 billion standard cubic meters of natural gas per year, as of the commencement of the commercial production period, subject to approval of the northern terminal¹⁹.
- (3) If economically justifiable, the Lease holder is entitled, subject to receipt of approval from the Petroleum Commissioner and the Director General of the Natural Gas Authority, appointed under the Natural Gas Sector Law, to increase the capacity of the production system and transmission system and add facilities and wells to them, including the construction of a pipeline to an additional terminal so as to enable the flow of larger quantities of natural gas, reliably and efficiently, to consumers in Israel.

¹⁹ Production is conducted by means of a platform set-up off the shores of Ashdod and by means of the Terminal.

(f) Supervising company

The planning and construction of the production system must be made under the supervision of companies experienced in supervising the planning or construction of production systems, with whom the Lease holder will contract, subject to approval by the Petroleum Commissioner. In accordance with this requirement, appropriate supervising companies, approved by the Petroleum Commissioner, were chosen to accompany the planning and construction of the production system, including the Tamar-8 well.

(g) Commercial production

Commercial production from the Lease area must be conducted according to the following principles:

- (1) Production must be carried out with proper diligence, without waste, and in such way as not to harm the characteristics of the reservoir situated in the Lease area;
- (2) Production must be carried out in accordance with the minimum and maximum outputs to be approved by the Petroleum Commissioner from time to time, taking into account reservoir characteristics and data;
- (3) The Lease holder is required to maintain the quality of the gas piped by it into the National Transmission System, in accordance with the gas specification to be established;
- (4) The Lease holder must perform commercial production with proper diligence, in accordance with the instructions of the competent authorities and with any law, and in accordance with the provisions of any license, permit, or similar governing document required for such purpose under any law;
- (5) The Lease holder must not commence commercial production and conveyance of natural gas into the Lease holder's transmission system until after it has submitted an application for approval of the operation to the Petroleum Commissioner and the Petroleum Commissioner has approved the application;
- (6) At the end of each year (at least 30 days prior to the end of each calendar year), the Lease holder must submit to the Petroleum Commissioner a detailed annual work plan and a cost forecast for

the performance of the activities in the plan, and a production rate forecast for the following year;

- (7) The Lease holder must notify the Petroleum Commissioner of the dates on which it intends to commence construction of additional facilities in order to comply with the provisions of the Lease deed.

(h) Natural gas storage

The Petroleum Commissioner is entitled to instruct the Lease holder to carry out operations for the transfer of natural gas from the reservoir, for storage in authorized reservoirs, to the extent that compliance with such instructions does not incur any costs to the lease holder for transmission, injection, storage or extraction of the gas, and compliance with the instructions does not harm the reservoir. Royalty in respect of the stored natural gas will apply at the time of removal of the gas from the storage reservoir, and not at the time of its production from the reservoir.

If the lease holder, on its own initiative, requests to store gas in authorized storage reservoirs, it shall be done at the Lease holder's expense and in accordance with the provisions of any applicable law or criteria, if any.

(i) Revocation or restriction of the Lease

The Lease will expire upon termination of the Lease period, upon expiration under Section 29 of the Petroleum Law, upon revocation under Section 55 of the Petroleum Law, or upon the occurrence of either of the following conditions:

- (1) The Lease holder substantially deviated from a material provision of the Lease deed or from the instructions of the Petroleum Commissioner by virtue of the Lease deed;
- (2) The guarantee or a part thereof was forfeited and the Lease holder failed to supplement the amount of the guarantee as required under the provisions of the Lease deed.

(j) Abandonment plan

- (1) Within 30 months of the date of commencement of the production period, the Lease holder must submit for approval by the Petroleum Commissioner a general plan for the abandonment of the production system's facilities and for the sealing of wells at the conclusion of their use, whether during or after the Lease period (the "**General Abandonment Plan**").

- (2) No later than the date on which the Lease holder produces one hundred and seventy billion cubic meters of gas from the Lease area, the Lease holder must submit for approval by the Petroleum Commissioner a detailed plan to dismantle the facilities, in accordance with the provisions of the General Abandonment Plan (the “**Abandonment Plan**”), which was approved by the Petroleum Commissioner, as well as an estimate of the dismantling costs. If the Lease holder does not timely submit an Abandonment Plan, or if the Petroleum Commissioner finds that the submitted Abandonment Plan is not suitable and is unable to reach agreement on a suitable Abandonment Plan with the Lease holder, the Petroleum Commissioner will determine the Abandonment Plan.
 - (3) On the date of approval of the Abandonment Plan by the Petroleum Commissioner, the Petroleum Commissioner will set out a plan for the Lease holder, whereby the Lease holder will provide a collateral or make a deposit into an “abandonment fund” on the dates, in the format and under the accrual method stipulated by the Petroleum Commissioner, with the purpose of ensuring that the Lease holder has the means required to carry out the Abandonment Plan.
 - (4) With regard to the abandonment of existing wells, the Lease holder must notify the Petroleum Commissioner of its wish to seal a single well site at least three months in advance. The notice to be submitted must include an explanation of the need to seal the well and the sealing plan. Sealing of the well requires prior approval by the Petroleum Commissioner.
- (k) Guarantees
- The Lease deed prescribes provisions for the furnishing of an irrevocable unconditional autonomous bank guarantee by the Lease holder, in order to secure compliance with the terms and conditions of the Lease deed, the term thereof and grounds for forfeiture of the guarantee. For details regarding such guarantee, as well as the provisions of the Petroleum Law and the directives of the Petroleum Commissioner concerning the furnishing of such guarantee, see Section 6.1.3(a)(6) below.

(I) Miscellaneous

In addition, the Lease deed includes additional provisions which address, inter alia, conditions for operation of the facilities, safety, handling of malfunctions, tests, inspections, supervision, liability, insurance and indemnification.

7.2.4 Compliance with the conditions of the work plan for the Tamar Project and Dalit Lease²⁰

Beyond that stated in the conditions of the Tamar and Dalit Lease deeds, as specified in Section 7.2.3 above, no binding work plan has been determined for the Tamar Project.

7.2.5 Work executed and work planned in the Tamar Project and Dalit Lease²¹

The following is a brief description of the main operations performed in the Tamar project from January 1, 2015 until the publication date of the Report, as well as a summary of planned operations:

| <u>The Tamar Lease</u> | | | | |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| <u>Period</u> | <u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u> | <u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u> | <u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)²²</u> | |
| 2015 | <ul style="list-style-type: none"> • Continued production from the Tamar project, ongoing operation and maintenance. • Upgrades and improvements in the production system, acquisition of equipment and spare parts, and additional completion works in the framework of the Tamar project's development. • Completion of installation and commencement of trial run of the Compressors Project. • Continued execution of procurement operations to connect the Tamar SW well to the Tamar project facilities. • Performance of operations related to the expansion of the supply capacity of the Tamar project (beyond the Compressors Project), including planning and preparations for additional well drillings and examination of alternatives for gas export from the Tamar project to neighboring countries. • Continued updating of the geological model and the | - 17,057 52,053 36,434 9,721 | - 1,578 4,815 3,370 899 | |

²⁰ As of the report's publication date, a detailed development plan was submitted only in respect of the Tamar Lease.

²¹ The costs specified for the years 2015-2017 in the work plan below do not include ongoing operating and maintenance costs of the Tamar Project, which were included in Section 7.2.14 below.

²² The data for the years 2015-2017 relate to the 9.25% working interest, while the data for 2018 and onward relate to the 16.75% working interest.

| <u>The Tamar Lease</u> | | | |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Period</u> | <u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u> | <u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u> | <u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)²²</u> |
| | <p>flow model, inter alia, based on well drilling and production data.</p> <ul style="list-style-type: none"> Mapping and defining of additional prospects in the Lease area, including a deep-water prospect in the Lease area and an oil prospect. | | |
| 2016 | <ul style="list-style-type: none"> Continued production from the Tamar project, ongoing operation and maintenance. Completion of operational trial run of the Compressors Project. For further details, see Section 7.2.6 below. Drilling of an additional development and production well, the "Tamar-8" well, and construction of associated infrastructures to connect the well to the existing Tamar subsea production system.²³ Upgrading and improving the production system at the Tamar platform and at the Terminal, including purchasing equipment and spare parts, improving operating and maintenance systems,²⁴ and carrying out operations in connection with the expansion of the supply capacity of the Tamar project, including planning and preparations for additional well drillings and examination of alternatives for exporting gas from the Tamar project to neighboring countries. Preparing the Tamar 10-Inch pipeline for natural gas transmission and obtaining a license for transmission via this pipeline.²⁵ Continued updating of the geological model and the flow model, inter alia, based on well drilling and production data, and planning and preparations for additional well drillings. Mapping and defining additional prospects, including a deep-water prospect in the Lease area. | <p>-</p> <p>101,884²⁶</p> <p>38,403²⁷</p> | <p>-</p> <p>9,424</p> <p>3,552</p> |
| 2017 ²⁸ | <ul style="list-style-type: none"> Continued production from the Tamar Project, ongoing operation and maintenance. Completion of the Tamar-8 well, connection of well to the production system and commencement of piping of | - | - |

²³ Following completion of the Tamar-8 well and its connection to the production system, piping of natural gas from the well commenced in April 2017.

²⁴ The budget includes USD 19.1 million (100%), in accordance with the agreement signed between the Tamar Partners and the Operator in connection with indirect expenses of the Operator in the Tamar and Dalit Leases in respect of previous years. For further details see Section 8.2.13 below.

²⁵ The transmission license was granted to Tamar 10-Inch Ltd., a company owned by the holders of the rights in the Lease.

²⁶ The budget does not include costs of equipment purchased in 2015 for the development of SW Tamar, totaling USD 33.4 million (100%) (the Company's share is USD 3.1 million), part of which was used for the Tamar-8 well.

²⁷ The costs detailed in 2016 do not include a budget update (decrease) of USD 41.4 million (100%).

²⁸ The costs detailed in 2017 do not include a budget update of USD 12.4 million (100%) (the Company's share is USD 1.14 million).

| <u>The Tamar Lease</u> | | | |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Period</u> | <u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u> | <u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u> | <u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)²²</u> |
| | <p>natural gas therefrom.</p> <ul style="list-style-type: none"> • Upgrading and improving the Tamar platform and Terminal, including the addition of structures and replacement of the main shut-off valves on the platform with new ones of a different type to improve function.²⁹ • Reprocessing of seismic surveys by the company Western Geco. • Commencement of the installation of emission reduction systems on the Tamar Platform. • Continued updating of the geological model and the flow model, <i>inter alia</i>, based on well drilling and production data, and planning and preparations for additional well drillings. • Mapping and defining additional prospects, including a deep-water prospect in the Lease area. | 101,094 28,012 1,083 | 9,351 2,591 100 |
| 2018 and onward ^{30,31} | <ul style="list-style-type: none"> • Continued production from the Tamar Project, ongoing operation and maintenance³². • Construction of a facility for the treatment of MEG fluid (MRU) (to the extent its construction is decided on), during the years 2019 to 2021. • Completion of the connection of the Tamar SW Well to the facilities of the Tamar Project. For further details, see Section 7.2.8 below. | 144,000 ³³ 125,000 ³⁴ | 24,120 20,938 |

²⁹ On September 20, 2017, the Operator of the Tamar Project began upgrade and improvement works on the Tamar Platform and Terminal (the "Upgrade Works"), which were carried out in two periods, during each of which natural gas was piped from the Tamar field to the Tamar Project production platform through only one pipeline out of two, at half of the maximum production capacity. During the Upgrade Works, a crack was discovered in the vent stack used to release natural gas and pressure from the platform during routine and emergency operations (the "Crack" or the "Fault"). Following the location of the Crack, and in accordance with procedures in place on the Tamar Platform, the supply of natural gas from the Tamar Reservoir was shut down in a controlled manner on September 21, 2017. The Operator notified the Tamar Partners that there was no safety or environmental exposure. Following a comprehensive engineering analysis, the Operator decided to continue with the planned upgrade works concurrently with repairing the Fault. The Tamar Partners acted to notify their customers as required, in accordance with the terms and conditions of the gas supply agreements signed with them, and also remained in constant touch and acted in full coordination with the various government ministries. It should be noted that piping of natural gas from the Tamar Reservoir was resumed on September 27, 2017, after completion of the Fault's repair the night before. The costs of repairing the Fault and the Fault's impact on the Company's revenues from the sale of natural gas are not material. It should be further noted that the Upgrade Works were completed on October 10, 2017 as planned. The Upgrade Works did not materially affect the Company's revenues from the sale of natural gas in the third and fourth quarters of 2017.

³⁰ The included costs do not include indirect expenses paid to the Operator. For a calculation of the Company's participation rate, see Section 8.2.13 below. The amounts specified below are nominal amounts.

³¹ The following table does not include reservoir abandonment operations including the expenses in respect thereof.

³² For details of the operation costs of the Tamar Project attributed to the Company, see figures for the discounted cash flow attributed to the Company's share of the reserves in the Tamar Project, as specified in Section 7.2.15(a) below.

³³ This budget has not yet been approved by the Tamar partners.

³⁴ This budget has not yet been approved by the Tamar partners.

| <u>The Tamar Lease</u> | | | |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Period</u> | <u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u> | <u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u> | <u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)²²</u> |
| | <ul style="list-style-type: none"> • Completion of reprocessing of seismic surveys by the company Western Geco, and renewed analysis of seismic surveys. • Continued updating of the geological model and the flow model, <i>inter alia</i>, based on well drilling and production data, and planning and preparations for additional well drillings and supplemental works. • Additional well drillings and supplemental works, if needed, based on actual production data and market demand. • Mapping and definition of additional prospects, including a deep-water prospect in the Lease area. • Completion of installation of emission reduction systems on the Tamar Platform. • Upgrade and improvement of the Tamar Platform and Terminal, including the addition of structures and improvement of security measures. | 640,000 ³⁵ | 107,200 |
| | | 28,928 ³⁶ | 4,858 |
| | | 12,000 ³⁷ | 2,010 |

³⁵ This budget has not yet been approved by the Tamar partners.

³⁶ This budget has not yet been fully approved by the Tamar partners.

³⁷ This budget has not yet been fully approved by the Tamar partners.

| <u>The Dalit Lease</u> | | | |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| <u>Period</u> | <u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u> | <u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)³⁸</u> | <u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)</u> |
| 2015 ³⁹ | <ul style="list-style-type: none"> • Examination of development alternatives, taking into consideration the development plans of the adjacent reservoirs and the production data from the Tamar reservoir. • Updating mapping and analysis of the Dalit reservoir based on the seismic survey and on data from adjacent reservoirs, including production data from the Tamar reservoir. • Mapping and definition of additional prospects in the Lease area. | 53 | 5 |
| 2016 ⁴⁰ | <ul style="list-style-type: none"> • Examination of development alternatives, taking into consideration the development plans of the adjacent reservoirs and the production data from the Tamar reservoir. • Updating mapping and analysis of the Dalit reservoir based on the seismic survey and on data from adjacent reservoirs, including production data from the Tamar reservoir. • Mapping and definition of additional prospects in the Lease area, including a deep-water prospect in the Lease area. | - | - |
| 2017 | <ul style="list-style-type: none"> • Examination of development alternatives, taking into consideration the development plans of the adjacent reservoirs and the production data from the Tamar reservoir. • Updating mapping and analysis of the Dalit reservoir based on the seismic survey and on data from adjacent reservoirs, including production data from the Tamar reservoir. • Mapping and definition of additional prospects in the Lease area, including a deep-water prospect in the Lease area. | - | - |
| 2018 and onward | <ul style="list-style-type: none"> • Examination of development alternatives, taking into consideration the development plans of the adjacent reservoirs and the production data from the Tamar reservoir. • Updating mapping and analysis of the Dalit reservoir based on the seismic survey and on data from adjacent reservoirs, including production data from the Tamar reservoir. • Mapping and definition of additional prospects in the Lease area, including a deep-water prospect in the Lease area. | - | - |

³⁸ For details of the budgets approved by the Tamar partners, see Section 8.2.6 below.

³⁹ The costs listed in 2015 do not include a budget update (decrease) in the amount of USD 1,779 thousand (in terms of 100%).

⁴⁰ In 2016, the Operator was paid indirect expenses totaling about USD 270,000 (in terms of 100%) in respect of previous years.

| <u>The Dalit Lease</u> | | | |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| <u>Period</u> | <u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u> | <u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)³⁸</u> | <u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)</u> |
| | <ul style="list-style-type: none"> Completion of the Dalit-1 well, drilling additional wells to the extent needed, and connecting the reservoir to the subsea production system of the Tamar project. | | |

7.2.6 Development plan for the Tamar Project⁴¹

The development plan for the Tamar Project (the “**Development Plan**”) primarily includes five wells⁴², each of which is able to produce approximately 250 MMCF per day. Gas flows through two 16-inch pipes from the Tamar field to a treatment platform constructed offshore Ashkelon (the “**Tamar Platform**”), approximately 2 km north of the platform of the Yam Tethys project.⁴³ From the Tamar Platform the natural gas flows in a 30-inch pipe to the Terminal and from there to the national transmission system of INGL.

In order to increase the supply capacity from the Tamar reservoir, work on installing three compressors and associated ancillary systems was completed (the “**Compressors Project**”) in July 2015. The operational running-in period of the compressors system ended during the second quarter of 2016.

On August 29, 2016, the Minister of Energy granted the Tamar Partners⁴⁴ a license to operate a 10-inch pipe(originally designated for the transmission of condensate from the Tamar Platform) for the transfer of natural gas, to increase the gas supply capacity.

In April 2017, natural gas started to be piped from the Tamar-8 well, newly drilled and completed in 2017, for the purpose, *inter alia*, of increasing the redundancy

⁴¹ The development plan for the Tamar Project submitted to the Petroleum Commissioner by the Operator, in the name of the Tamar and Dalit Leases, included, *inter alia*, a consideration of the development of the Dalit Lease. Likewise, the Company together with the other partners in the Tamar and Dalit Leases are currently updating the mapping of the Dalit reservoir and conducting an analysis of the reservoir, based on a seismic survey that was carried out.

⁴² Today, the reservoir comprises 6 wells, including the Tamar-8 well. For details regarding the Tamar-8 well, see Section 7.2.5.

⁴³ On November 26, 2012 and on June 3, 2013 the Petroleum Commissioner granted approval to the Tamar Partners to erect and operate the Tamar Platform, respectively.

⁴⁴ The license was granted to Tamar 10-Inch Ltd., in which the Tamar Partners hold a percentage stake equal to their percentage stake in the Tamar Lease.

in the production system and enabling maximum supply from the Tamar reservoir at times of peak demand.

The gas supply capacity from the Tamar Project (which includes the Tamar Project facilities, the compressors systems and the transmission and treatment systems of the Yam Tethys project, which were upgraded and adapted for use in the Tamar Project) to the INGL transmission system is approximately 1.1 BCF per day at maximum production. Average natural gas production per day for the last two years (January 1, 2016 to December 31, 2017) totaled about 917 MMCF (0.917 BCF).

The Tamar Project's production system, since its commercial operation, has a very high operational reliability (of more than 99% up-time).

The total cost invested in the Tamar Project, as described above, as of December 31, 2017 is approximately USD 4.5 billion (100%) (including exploration costs in the Tamar and Dalit Leases, and excluding disposal and abandonment costs).

7.2.7 Examining the possibility of expanding the Tamar project's supply capacity

As of the report's publication date, and in light of the export agreement signed by Delek Drilling and Noble with Dolphinus (as described in Section 7.4.5(b) below), the non-binding letter of intent to negotiate an agreement for the supply of natural gas from the Tamar project to the company Union Fenosa Gas SA⁴⁵ (“UFG”), which was signed in 2014 between the Tamar Partners and UFG, is no longer relevant (as described in Section 6.7.4(e)(3) of the Prospectus). As of the report's publication date, the Tamar Partners are examining various natural gas supply possibilities for feeding the existing UFG liquefaction plants in Egypt, on an interruptible or firm basis.

In view of the foregoing, the Tamar Partners are examining possibilities for the expanding the supply capacity from the Tamar project, to the extent required.

Expansion of the supply capacity may include several additional production wells, which will be connected to the existing production system, and an additional supply pipe from the Tamar field to the Tamar and Mari B platforms. In addition, the need for upgrade of the Tamar and Mari B platforms and the manner of upgrade required are being examined.

⁴⁵ To the best of the Company's knowledge, UFG is owned by Spanish company Gas Natural and Italian company ENI and is part of a group of affiliated companies from Spain, which engage in LNG, with assets throughout the gas supply chain, including exploration, production, liquefaction, transmission, regasification, and marketing of natural gas and LNG.

7.2.8 Development of the Tamar SW reservoir

According to the development plan of the Tamar SW reservoir, which was submitted to the Petroleum Commissioner in April 2014, the Tamar SW reservoir is to be connected to the subsea facilities of the Tamar Project. The development cost of the Tamar SW reservoir in this proposed format was partially approved by the Tamar Partners during January 2014.

On June 4, 2014, the Petroleum Commissioner rejected this plan for the development of the Tamar SW reservoir in the above format, in view of the fact that a small part of the Tamar SW reservoir extends into the Eran license. For details regarding the legal proceeding in connection with the Petroleum Commissioner's rejection of said development plan, see Section 7.21.2 below.

As specified in Section 7.16.1(c)(3) below, the Gas Framework provides that the Petroleum Commissioner will approve the development plan of the Tamar SW reservoir, subject to its production of natural gas from the Tamar SW reservoir not yielding revenues in excess of USD 575 million. This production limit will be cancelled by the Petroleum Commissioner once an agreement is reached between the Accountant General at the Ministry of Finance and the Tamar Leaseholders on all issues relating to the rights of the Tamar Partners in the Tamar SW reservoir. As of the report's publication date, the approval of the Petroleum Commissioner for the Tamar SW development plan has not yet been received and the consent for removing the production limit has not yet been obtained.

It should be noted that the drilling of the Tamar-8 well as stated in Section 7.2.5 above, enabled postponement of the development of the Tamar SW reservoir, in accordance with the project's development and production plan. The Tamar Partners estimate that development of the Tamar SW reservoir and its connection to the production system will be done in 2021.

For details regarding the operations and budget for the completion and development of the Tamar SW reservoir, see Section 7.2.5 above.

7.2.9 Commercial arrangement of the operation and production from the Yam Tethys Project and from the Tamar Project

As of May 2013, natural gas is supplied to customers of the Yam Tethys project (in accordance with the project's sale agreements) from the Tamar reservoir. The consideration for the sale is distributed among the Tamar Partners such that the partners in the Tamar Project that are not partners in the Yam Tethys project receive a price for natural gas that is equal to the average monthly price of natural

gas that was supplied during the relevant month to customers of the Tamar Project. The cash balance that remains is distributed among the Yam Tethys Partners that are partners in the Tamar Project proportionately to each partner's share in the Tamar Project.

Such division allows for the gas quantity balance in the Tamar Project to be preserved between its partners according to their share.

Starting from May 2013 until September 2017, natural gas was supplied from the Tamar reservoir (instead of the Yam Tethys reservoir) under gas supply agreements between the Yam Tethys partners and their customers (the "**Final Customers**" and the "**Early Agreements**," respectively). Said gas supply was effectuated by Tamar partners who are also partners in the Yam Tethys project, and have obligations under said agreements, as well as by Tamar partners that are not partners in the Yam Tethys project (and who are not bound under said agreements). The consideration received from the Final Customers, plus the consideration reflecting the share of Delek Group Ltd. (the "**Delek Group**"), who is a holder of rights in Yam Tethys but not a holder of direct rights in Tamar, was distributed such that Tamar partners that are not Yam Tethys partners, received a natural-gas price equal to the average monthly price of natural gas supplied during the relevant month, by virtue of agreements signed between the Tamar Partners and their customers, with the remaining cash balance distributed among the Yam Tethys Partners with rights in the Tamar Project, in proportion to their share in the Tamar Project.

Such an accounting mechanism enabled maintaining the balancing of gas quantities in the Tamar Project among its partners according to their share.

As of October 2017, with the expiration of some of the agreements for the sale of natural gas from the Yam Tethys reservoir, the Yam Tethys Partners have been supplying natural gas in accordance with the Early Agreements, from the Yam Tethys reservoir alone. As of the publication date of this report, the Yam Tethys Partners plan to enter into an agreement with the Tamar Partners (that are not partners in the Yam Tethys Project) for the sale of production surpluses from the Yam Tethys reservoir (that are not material) to the Tamar Partners (that are not partners in the Yam Tethys Project), for the purpose of selling them to the Tamar Project customers. Said sale of surpluses is not expected to have a material impact on the Company's business results.

Caution regarding forward-looking information – The Company's estimates in this section regarding the planned operations, costs, timetables and execution of the planned operations, and production rates in the Tamar Project constitute forward-looking information, as defined in the Securities Law, based on the Company's estimates with respect to the planned operations, costs, timetables and execution of the planned operations, and production rates, all of which are based on estimates received from the Operator. Actual planned operations, costs, timetables and production rates may materially differ from the above estimates and are contingent, among other things, on the adoption of the appropriate decisions by the Tamar Partners, receipt of the approvals required under any law, completion of the detailed planning of the operations' components, receipt of bids from contractors, changes in the international raw materials and suppliers markets, the applicable regulations, technical ability and economic viability.

7.2.10 Actual rate of participation in the expenses and revenues of the Tamar Project

(a) As of December 31, 2017:

| <u>Participation Rate</u> | <u>Percentage Before Return on Investment</u> | <u>Percentage After Return on Investment⁴⁶</u> | <u>Rate Grossed-Up to 100% Before Return on Investment</u> | <u>Rate Grossed-Up to 100% After Return on Investment</u> | <u>Explanations</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------------|
| Actual rate in the petroleum asset attributable to the holders of the equity interests of the Company | 9.25% | 9.25% | 100% | 100% | See the description of the chain of holdings in Section 7.2 above. |
| Actual rate in the revenues from the petroleum asset attributable to the holders of the equity interests of the Company | 7.64% | 7.17% | 82.6% | 77.5% | See the calculation in Section 7.2.11(a) below. |
| Actual rate of participation in the expenses involved in exploration, development or production activities in the petroleum asset attributable to the holders of the equity interests of the Company | 9.34% | 9.34% | 101% | 101% | See the calculation in Section 7.2.12(a) below. |

⁴⁶ In the Company's estimation, the return on investment date ("ROI Date") is in December 2017. To the best of the Company's knowledge, the royalty owners are examining the ROI Date and Delek Drilling's controller is reviewing the computation of the ROI Date. A change in determining the ROI Date could affect the business results and financial position of the Company.

(b) As of the publication date of the Report:

| <u>Participation Rate</u> | <u>Percentage Before Return on Investment</u> | <u>Percentage After Return on Investment</u> | <u>Rate Grossed-Up to 100% Before Return on Investment</u> | <u>Rate Grossed-Up to 100% After Return on Investment</u> | <u>Explanations</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------------|
| Actual rate in the petroleum asset attributable to the holders of the equity interests of the Company | 16.75% | 16.75% | 100% | 100% | See the description of the chain of holdings in Section 7.2 above. |
| Actual rate in the revenues from the petroleum asset attributable to the holders of the equity interests of the Company | 14.21% | 13.74% | 84.84% | 82.03% | See the calculation in Section 7.2.11(b) below. |
| Actual rate of participation in the expenses involved in exploration, development or production activities in the petroleum asset attributable to the holders of the equity interests of the Company | 16.92% | 16.92% | 101% | 101% | See the calculation in Section 7.2.12(b) below. |

7.2.11 Explanation of the calculation of the rate actually attributable to holders of the equity interests of the Company in revenues from the Tamar Project(a) As of December 31, 2017:

| <u>Item</u> | <u>Before Return on Investment</u> | <u>After Return on Investment</u> | <u>Concise Explanation of How Royalties or Payments Are Calculated</u> |
|----------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Projected annual revenues of petroleum asset | 100% | 100% | |
| Specification of the royalties or payment (deriving from revenues post-finding) at the petroleum asset level: | | | |
| The State | (12.50%) | (12.50%) | As prescribed by the Petroleum Law, royalties are calculated according to market value at the wellhead. The actual royalty rate may be lower, as a result of the deduction of expenses due to the gas treatment and transmission systems up to the onshore gas delivery location. It should be noted that the Tamar partners, including the Company, are in discussions with the Petroleum Commissioner regarding the method for calculating market value of royalties in the Tamar Project. For further details, see Section 7.18 below. |
| Adjusted revenues at the petroleum asset level | 87.50% | 87.50% | |

| <u>Item</u> | <u>Before Return on Investment</u> | <u>After Return on Investment</u> | <u>Concise Explanation of How Royalties or Payments Are Calculated</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Share in the adjusted revenues deriving from the petroleum asset attributable to the holders of the equity interests of the Company (indirectly) | 9.25% | 9.25% | |
| Total share of the holders of the equity interests of the Company in the actual amount of revenues, at the petroleum asset level (and before other payments at the Company level) | 8.09% | 8.09% | |
| <u>Specification of royalties or payments (deriving from revenues post-finding) in connection with the petroleum asset at the Company level (the following percentages will be calculated according to the rate of the holders of the Company's equity interests in the petroleum asset):</u> | | | |
| The rate of the holders of the equity interests of the Company in the payment of royalties to related and third parties | 0.45% | 0.92% | The rate is calculated based on the principles underlying the calculation of the State's royalties; therefore, said rate may change to the extent that the method of calculating the State's royalties changes. For further details, see Section 7.18 below. For further details regarding the royalty rate for related and third parties, see Section 7.19 below. |
| | ----- | ----- | |
| Actual rate in revenues from the petroleum asset attributable to the holders of the equity interests of the Company | 7.64% | 7.17% | |

(b) As of the publication date of the Report:

| <u>Item</u> | <u>Before Return on Investment</u> | <u>After Return on Investment</u> | <u>Concise Explanation of How Royalties or Payments Are Calculated</u> |
|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------------|---------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Projected annual revenues of petroleum asset | 100% | 100% | |
| <u>Specification of the royalties or payment (deriving from revenues post-finding) at the petroleum asset level:</u> | | | |
| The State | (12.50%) | (12.50%) | As prescribed by the Petroleum Law, royalties are calculated according to market value at the wellhead. The actual royalty rate may be lower, as a result of the deduction of expenses due to the gas treatment and transmission systems up to the onshore gas delivery location. It should be noted that the Tamar partners, including the Company, are in discussions with the Petroleum Commissioner regarding the method for calculating market value of royalties in the Tamar Project. For further details, see Section 7.18 below. |
| Adjusted revenues at the petroleum asset level | 87.50% | 87.50% | |

| <u>Item</u> | <u>Before Return on Investment</u> | <u>After Return on Investment</u> | <u>Concise Explanation of How Royalties or Payments Are Calculated</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Share in the revenues deriving from the petroleum asset attributable to the holders of the equity interests of the Company | 16.75% | 16.75% | |
| Total share of the holders of the equity interests of the Company in the actual amount of revenues, at the petroleum asset level (and before other payments at the Company level) | 14.66% | 14.66% | |
| <u>Specification of royalties or payments (deriving from revenues post-finding) in connection with the petroleum asset at the Company level (the following percentages will be calculated according to the rate of the holders of the Company's equity interests in the petroleum asset):</u> | | | |
| The rate of the holders of the equity interests of the Company in the payment of royalties to related and third parties | 0.45% | 0.92% | The rate is calculated based on the principles underlying the calculation of the State's royalties; therefore, said rate may change to the extent that the method of calculating the State's royalties changes. For further details, see Section 7.18 below. For further details regarding the royalty rate for related and third parties, see Section 7.19 below. |
| | ----- -- | ----- -- | |
| Actual rate in revenues from the petroleum asset attributable to the holders of the equity interests of the Company | 14.21% | 13.74% | |

7.2.12 Explanation of the calculation of the actual participation rate of the holders of the equity interests of the Company in the exploration, development and production expenses of the Tamar Project

(a) As of December 31, 2017:

| <u>Item</u> | <u>Percentage</u> | <u>Concise Explanation of How Royalties or Payments Are Calculated</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------------------------------------------------------------------|
| Theoretical expenses of the petroleum asset (without the royalties described above) | 100% | |
| <u>Specification of the payments (derived from the expenses) at the petroleum asset level:</u> | | |
| The Operator | 1% | For details, see Section 7.2.13 below. |
| Total actual expense rate at the petroleum asset level | 101% | |
| Rate of the holders of the equity interests of the Company in the expenses of the petroleum asset (indirectly) | 9.34% | |
| Total actual rate of the holders of the equity interests of the Company in the expenses, at the petroleum asset level (and before other payments at the Company level) | 9.34% | |

| <u>Item</u> | <u>Percentage</u> | <u>Concise Explanation of How Royalties or Payments Are Calculated</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------------------------------------------------------------|
| <u>Specification of payments (derived from the expenses) in connection with the petroleum asset and at the Company level (the following percentage will be calculated according to the rate of the holders of the equity interests of the Company in the petroleum asset):</u> | | |
| Actual rate in the expenses entailed in exploration, development or production activities in the petroleum asset, attributable to the holders of the equity interests of the Company | 9.34% | |

(b) As of the publication date of the Report:

| <u>Item</u> | <u>Percentage</u> | <u>Concise Explanation of How Royalties or Payments Are Calculated</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------------------------------------------------------------|
| <u>Specification of the payments (derived from the expenses) at the petroleum asset level:</u> | | |
| The Operator | 1% | For details, see Section 7.2.13 below. |
| Total actual expense rate at the petroleum asset level | 101% | |
| Rate of the holders of the equity interests of the Company in the expenses of the petroleum asset | 16.92% | |
| Total actual rate of the holders of the equity interests of the Company in the expenses, at the petroleum asset level (and before other payments at the Company level) | 16.92% | |
| <u>Specification of payments (derived from the expenses) in connection with the petroleum asset and at the Company level (the following percentage will be calculated according to the rate of the holders of the equity interests of the Company in the petroleum asset):</u> | | |
| Actual rate in the expenses entailed in exploration, development or production activities in the petroleum asset, attributable to the holders of the equity interests of the Company | 16.92% | |

7.2.13 Joint operating agreement in respect of the Tamar and Dalit Leases(a) General

- (1) Exploration and production operations in the Tamar Project leases are carried out under a joint operating agreement (JOA) from November 16, 1999 (as amended from time to time), the current parties thereto being the Company and the other Tamar Partners as specified in Section 7.2 above (in this section: the “**Agreement**” or the “**JOA**”).

- (2) The purpose of the Agreement is to determine the parties' mutual rights and obligations in connection with operations in the areas of the Tamar Project leases (in this section, the "**Petroleum Assets**").
- (b) Manner of accounting
 - (1) Unless otherwise provided by the JOA, all the rights and interests in the Petroleum Assets, in the joint property and in all the hydrocarbons to be produced therefrom, will be subject to the terms and conditions of and the rules applicable to the Petroleum Assets, and in accordance with the parties' participation rates in the Petroleum Assets. Likewise, unless otherwise provided by the JOA, the parties' obligations under the JOA and the terms and conditions of the Petroleum Assets and any and all liabilities and expenses expended or undertaken by the Operator in connection with the joint operations,⁴⁷ and any and all the credits to the joint account,⁴⁸ will be borne by the parties, among themselves, in accordance with their participation rates in the Petroleum Assets, and each party will timely pay, in accordance with the provisions of the Accounting Procedure in the JOA (the "**Accounting Rules**") its share, according to its participation rate, of all expenses of the joint account, including advance payments and interest owed under the JOA. Payment dates are of essence of the Agreement. Payment of any charge by a party under the JOA does not negate its right to dispute such charge thereafter.
 - (2) According to the Accounting Rules, Noble is entitled to reimbursement of all direct expenses it expends in connection with the fulfillment of its function as operator. The amendment of June 30, 2016 to the JOA, prescribes the accounting method also in respect of Noble's indirect expenses, and determines that Noble will be entitled to payment at the rate of 1% of the total direct expenses, except with respect to marketing activities.

⁴⁷ According to the definitions of the JOA – the "joint operations" are the activities carried out by the Operator under the provisions of the JOA and the costs chargeable to each of the parties to the JOA.

⁴⁸ According to the definitions of the JOA – the "joint account" are accounts held by the Operator in favor of the joint project in accordance with rules set forth in the JOA and in the Accounting Rules.

(c) The identity, rights and obligations of the Operator

- (1) Noble serves as the operator of the Tamar Project Leases (in this section: the “**Operator**”).
- (2) Subject to the terms and conditions of the JOA, the Operator has been vested with all the powers and duties related to the management of the joint venture's matters, under the supervision and instructions of the joint operating committee.
- (3) The Operator is exclusively responsible for the management of the joint operations. The Operator may employ subcontractors and/or agents (which may be affiliates of the Operator) to execute such joint operations. The Operator will be responsible, *inter alia*, for preparing the work plans, budgets and payment authorizations, for executing the work plan by authorization of the joint operating committee, for planning and obtaining all the approvals and materials required for execution of same, and providing advisory services and technical services as required for efficient execution of the joint operation.
- (4) In the management of the joint operations the Operator will be required, *inter alia*, to carry out the joint operations in accordance with the terms and conditions of and the rules applicable to the Petroleum Assets, the JOA and the provisions of the operating committee. The Operator will fulfill its duties with proper diligence and in accordance with standard procedures in the petroleum industry.
- (5) The JOA lays down various provisions regarding the manner of the Operator’s entry into contracts with third parties (according to approved budgets) based on the amount of the proposed contract. Under said provisions, depending on the amount of the proposed contract, the Operator must consult with the other parties regarding the criteria by which the candidates for the tender will be chosen, report to the parties about the bids received and obtain the operating committee’s approval for selection of the candidate in the tender.
- (6) The Operator must acquire and maintain the insurance policies specified in the JOA in accordance with the provisions included therein. It is further required, that each of the parties to the JOA must

arrange for itself, at its own expense, additional insurance to cover the risks related to the joint operations.

- (7) The Operator is further required, after receipt of reasonable prior notice, to permit the representatives of any party, at any reasonable time and at their own expense and responsibility, access to the joint operations, including the right to observe joint operations, examine any joint property and conduct a financial audit in accordance with the Accounting Rules prescribed by the JOA.
- (8) Subject to the terms and conditions of the Petroleum Assets and the approved budget, the Operator will determine the number of employees and the number of contractors, choose them and determine their work hours and the consideration to be paid to them in connection with the joint operations.
- (9) The Operator will immediately notify the parties of any material and other claims filed as a result of the joint operations and/or related to the joint operations, as instructed by the operating committee. The Operator will represent the parties and defend against such claims. The Operator may, in its sole discretion, settle any claim or series of claims for an amount no greater than USD 75,000 (including legal expenses), and will seek authorization from the operating committee for any amount(s) exceeding such amount. No party will settle in respect of its relative share in any claim without first proving to the operating committee that it is able do so without compromising the interests of the joint operations.
- (10) Any non-operator party will immediately notify the other parties of any claim made against it by a third party, arising from the joint operations or liable to affect the joint operations, and the non-operator party will defend itself against or settle such claim in accordance with instructions to be given by the operating committee. The costs and damages incurred in connection with the defense or settlement, which may be attributed to the joint operations, will be debited to the joint account.
- (11) The Operator will not be liable toward the other parties to the Agreement for any claim, liability, loss or damage, directly or indirectly, whether under an agreement, tort (including negligence)

or otherwise, arising from the joint operation or in connection therewith, unless the claim, liability, loss or damage arise out of willful misconduct by the Operator or the Operator's failure to obtain the required insurance coverage (unless the Operator took all reasonable means to obtain such insurance coverage and notified the other parties thereof), and in any event will not be liable for consequential damage, including but not limited to inability to produce petroleum, production loss or loss of profits. The foregoing does not exempt the Operator from liability for its share according to its participation rate, in any damage, loss or other liability.

(d) Operating Committee

- (1) A joint operating committee (in this section: the "**Committee**") has been established to supervise and issue instructions with respect to the joint operations in the area of the Leases. The Committee's powers include, inter alia, making decisions with respect to policies, processes and operating methods, authorizing every public announcement related to the Agreement or the joint operation, approving all plans and budget requests, determining timetables, locations and depths of the wells' drilling and everything related thereto, making decisions with respect to applications for licenses and leases and replacement of the Operator. Each partner has one representative on the joint operating committee, whose voting rights are proportionate to the share in the Leases held by the partner that appointed him. The Operator's representative serves as Chairman of the Committee.
- (2) The joint operating committee's decisions are passed by a vote of two or more partners together holding at least 68% of the rights in the Lease (related parties as defined in the Agreement will be deemed a single party). Approval of a decision related to the termination of the Lease or the waiver of any part of the area of the Lease, requires a favorable vote by all parties.

(e) Work plans and budgets

- (1) The JOA sets procedures and processes for the submission and approval of work plans, budgets and authorizations for expenditure (AFE) for the performance of activities in the areas to which the JOA

applies. It should be noted that the Operator may deviate from the AFE approved for the work plan by a rate no higher than 10% of the approved sum or by USD 1 million, whichever the lower.

- (2) Exploration plan and budget – The work plan and the budget will be approved by the operating committee. Authorizations for expenditure (AFE) in the framework of the work plan and the budget will be approved in accordance with the provisions prescribed in the JOA, unless at least 20% of the parties to the Joint Operating Agreement deliver a notice to the Operator of their objection to the approval of the AFE. Prior to an expenditure or an undertaking totaling more than USD 250,000 for any item in the approved work plan and budget, the Operator will send all the other parties a request for an AFE. In the event that the Operator anticipates an AFE overrun for administrative purposes and for geological or geophysical activities that are not exclusive to a specific project, no AFE will be required, provided that the overrun does not exceed USD 50,000.
- (3) Development plan and budget – If the Committee decides after full deliberation that there is economic viability in any development proposal submitted thereto, the Operator will submit to the parties, as soon as possible after such decision is reached, a development plan and budget for the discovery, which will include, inter alia, the works required in connection with the development, any information that must be submitted according to the Agreement, the manner of management required for the development including details regarding the number of workers and the manpower needed, an estimate of the production commencement date and the annual production volume, and any other information required by the Committee. Before an expenditure or undertaking is made, in any amount, in respect of the preparation of a development plan and budget or in respect of any item in the approved development plan and budget, the Operator will send all the other parties a request for an AFE. In the event that the Operator anticipates an AFE overrun for administrative purposes and for geological or geophysical activities that are not exclusive to a specific project, no AFE will be required, provided that the overrun does not exceed USD 50,000.

- (4) Production plan and budget – Every year, the Operator will submit the proposed production plan for the following year to the parties. The proposed production plan must include, inter alia, the projects and the work to be performed, any information that must be submitted in accordance with the JOA, details regarding the number of workers and the required manpower, and an estimate of total production by quarters and the maximum daily production rate in each quarter, as well as any other information required by the Committee. Prior to an expenditure or an undertaking greater than USD 250,000 for any item in the approved work plan and budget, the Operator will send all the other parties a request for an AFE.
- (5) The development or production plan, as well as the proposed budgets, will be subject to reconsideration, revision, amendment and approval by the Committee, to be carried out as soon as possible and in accordance with the dates specified in the JOA.
- (6) If the Operator anticipates an AFE overrun for administrative purposes and for geological or geophysical activities that are not exclusive to a specific project, no AFE will be required, provided that the overrun does not exceed USD 50,000 in respect of the exploration, development and discovery stage, and that the overrun does not exceed USD 1 million in respect of the production stage.
- (f) Sole risk operations
- (1) Operations in which not all the parties take part (defined in the Agreement as "Exclusive Operations" and known in the oil exploration industry as "Sole Risk Operations") will not be carried out if they conflict with joint operations in which all of the partners participate. The Agreement provides framework rules for the performance of such operations.
- (2) The Agreement contains various provisions concerning Sole Risk Operations, such as drilling, testing and development, not unanimously agreed upon by the partners in the Leases, which, under certain conditions set out in the Agreement, may be carried out by some of the partners. Parties that do not join the Sole Risk Operations are given the option, subject to conditions and payments specified in the Agreement, to recover their share in such operations

and anything deriving therefrom. Likewise, parties who did not join the Sole Risk Operations, but decided to join after the joining date, will bear the fines and interest rates prescribed in the JOA.

(g) Resignation and removal of the Operator

- (1) The Operator may resign by a 180-day written notice or by shorter notice with the consent of the Operating Committee. In addition, subject to the provisions of the Agreement, the Committee may dismiss the Operator in the following cases: (1) If the Operator ceases to hold a working interest of at least 10% in the Tamar and Dalit Leases; (2) If a motion is filed for a court order or a valid decision for the reorganization of the Operator under bankruptcy laws; (3) If the Operator is being liquidated or otherwise terminates its existence; (4) If the Operator becomes insolvent, enters an arrangement in favor of its creditors or if a receiver is appointed for a significant part of its assets.
- (2) In addition, the Operator will be removed from its position upon receipt of a notice from the Petroleum Commissioner with regard to cancellation of the approval granted to the Operator, to the extent that such approval is required.
- (3) Furthermore, the Operator may be removed from its position by a decision of other (non-operator) parties to the JOA, if it has fundamentally breached the Agreement and does not remedy the breach within 28 days of the date of receiving a notice specifying such breach. Any decision by the other (non-operator) parties to the JOA to give notice of the breach to the Operator will require a vote in favor of the proposal by non-operator parties which are not related to the Operator, jointly holding at least 68% of the total working interests.

(h) Sanctions applicable to the partners and the conditions for imposition thereof

- (1) A party that fails to timely pay its proportionate share in the joint expenses, including advance payments and interest, will be deemed a breaching party (“**Breaching Party**”). The sum in arrears will bear compound interest on a daily basis. Any non-breaching party (“**Non-Breaching Party**”) is required to bear its *pro rata* share (according

to its share relative to the share of all the other Non-Breaching Parties) of the sum in breach (excluding interest), and must pay such sum to the Operator on the first day after 6 days of the Breaching Party being in breach, and failing to do so, will render it a Breaching Party itself.

- (2) For as long as the breach continues, the Breaching Party will not be entitled to participate in the meetings of the operating committee or vote at such meetings, nor will it be entitled to receive data and information pertaining to the joint operations. If the breach continues for more than 6 business days, within the definition of such term in the JOA, as of the day on which the Breaching Party was given a notice of breach, and for as long as the breach continues, the Breaching Party will not be entitled to receive the share of the output to which it is entitled, and such share will become the property of the Non-Breaching Parties and they may, while initiating the proceedings specified in the Agreement, collect therefrom what is due to them, until full payment of the sum in breach.
- (3) If the Breaching Party does not remedy the breach within 90 days of the date of the notice of breach, then, without derogating from any other right the Non-Breaching Parties may have under the JOA, each Non-Breaching Party will have the option (exercisable at any time until the breach is remedied in full) to demand the full exit of the Breaching Party from the JOA and the Petroleum Asset. If such option is exercised, the Breaching Party will be deemed to have transferred all of its rights under the JOA and in the Petroleum Asset to the Non-Breaching Parties, and it will be obligated, upon first demand, to sign any document and do everything required by law to validate such transfer of rights and remove any lien or pledge imposed on such rights. The rights and remedies of the Non-Breaching Parties resulting from such breach are in addition to all other rights and remedies available to the Non-Breaching Parties.
- (4) A party that becomes a Breaching Party waives any offset claim and may not raise the same vis-à-vis the Non-Breaching Parties that initiated against it the proceedings specified in the JOA in respect of the failure to timely pay the sums owed therefrom.

(i) Manner of Dilution of Partners' Holdings – Transfer of Rights

- (1) A party may transfer its rights to a third party, subject to approval by the other parties to the JOA, which approval shall not be unreasonably withheld.
- (2) A transfer of the working interests of a party in a Petroleum Asset, in whole or in part, will be valid only if it meets all the conditions of the JOA, including, *inter alia*, the following conditions:
 - a. Notwithstanding the transfer, the transferor will remain liable to the other parties to the JOA for all liabilities, financial and other, vested, matured or accrued under the terms and conditions of the Petroleum Asset or the JOA prior to the date of transfer, including, but not limited to, any and all expenses approved by the operating committee prior to the transferor giving notice of the transfer of rights to the other parties to the Agreement.
 - b. The transferee will have no rights under the terms and conditions of the Petroleum Asset, in the area of the Petroleum Asset or under the JOA, until after the required government approval is received, and the transferee expressly undertakes, in a written document to the satisfaction of the other parties, to perform the transferor's undertakings under the terms and conditions of the Petroleum Asset and the JOA with regard to the working interest being transferred thereto, and the transferor provides the guarantees required by the Government or under the Petroleum Asset terms.
 - c. The aforesaid shall not prevent a party to the JOA from pledging or otherwise encumbering, all or any of its interest in the area of the Petroleum Asset and under the JOA as collateral for financing, subject to such party remaining liable for all undertakings related to such interest; the encumbrance will be subject to any government approval required and will be explicitly subordinated to the rights of the other parties under the JOA.

(j) Withdrawal from the JOA

- (1) The JOA includes provisions that regulate the possibility for a full or partial withdrawal of a party from any Petroleum Asset in which it holds an interest (and from the applicable JOA) and that specify the cases in which withdrawal is possible, and the rights and obligations of the withdrawing party vis-à-vis the other partners in the license.
- (2) A party seeking to withdraw from the JOA or from the Petroleum Assets is required to notify the other parties of its decision. Such notice (“**Withdrawal Notice**”) will be unconditional and irrevocable immediately upon delivery thereof, subject to the conditions stipulated in the JOA. The other parties to the JOA will also be entitled to give a Withdrawal Notice, within 30 days of the day of delivery of the Withdrawal Notice. In the event that all parties deliver a Withdrawal Notice, they will act to terminate the JOA and their other obligations in relation to the Project and the Petroleum Assets. In the event that not all parties decide to withdraw as described above, the withdrawing party will act to transfer its rights, as quickly as possible, to the partners that chose not to withdraw (the “**Remaining Partners**”). Such transfer of rights will be for no consideration, with the withdrawing party bearing all the expenses arising from the fact of its withdrawal as described above, unless otherwise decided. The transfer of rights to the Remaining Partners will be divided according to their holding rates.

7.2.14 Royalties and payments paid during exploration, development and production operations in the Petroleum Asset

| <u>Tamar Lease</u> | | |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Item</u> | <u>Total share of equity holders of the Company in investment in the oil asset in this period (including costs for which payments are not made to the Operator)</u> | <u>Of which, the share of equity holders of the Company in payments to the Operator (in addition to reimbursement of its direct and indirect expenses)</u> |
| Actual budget invested in 2015 | 19,502 | - |
| Actual budget invested in 2016 | 21,903 | 2,172 |
| Actual budget invested in 2017 | 21,114 | 218 |

| <u>Dalit Lease</u> | | |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Item</u> | <u>Total share of equity holders of the Company in investment in the oil asset in this period (including costs for which payments are not made to the Operator)</u> | <u>Of which, the share of equity holders of the Company in payments to the Operator (in addition to reimbursement of its direct and indirect expenses)</u> |
| Actual budget invested in 2015 | 5 | 0 |
| Actual budget invested in 2016 | - | - |
| Actual budget invested in 2017 | - | - |

7.2.15 Reserves, contingent resources and prospective resources in the Tamar Project

(a) Reserves in the Tamar Lease

For details regarding the reserves in the Tamar Lease (including the Tamar and Tamar SW reservoirs), the discounted cash flow deriving from the Tamar Lease and the production data from the Tamar Lease, as of December 31, 2017, see the Supplemental Immediate Report of the Company issued March 6, 2018 (Ref. No.: 2018-01-018141), whose information is included herein by reference (the "**Immediate Report on**

the Reserves and Cash Flow"). Attached to this report as Appendix A is the consent of Netherland, Sewell & Associates, Inc. ("NSAI") to the inclusion of said report herein, and a letter from March 20, 2018 received by the Company from NSAI concerning the absence of material changes in the Tamar Project.

(b) Contingent and prospective resources in the Dalit Lease

For details regarding contingent and prospective resources in the Dalit Lease as of June 30, 2017, see Section 6.7.2(n)(2) of the Prospectus. As of December 31, 2017, there has been no change in the above details. For details regarding reports the Company received from NSAI as of December 31, 2017, see the Shelf Offering Report of March 12, 2018 (Ref. No.: 2018-01-019125) to which the NSAI reports are attached and whose information is included herein by reference. Attached herewith as Appendix A is NSAI's consent to the inclusion of said report in this report.

7.3 Products

7.3.1 Natural gas

The natural gas in the Tamar Project is light and dry, and mostly comprised of methane gas. As such, the treatment required to transfer it to customers is minimal.

Natural gas is generally transportable in three main ways: (a) through pipelines; (b) through the liquefaction thereof (i.e., turning natural gas into liquid) by cooling the gas to a temperature of minus 161°C, which decreases its volume by a factor of 600; and (c) through the compression thereof, which decreases its volume by a factor of 100. Liquefied gas and compressed gas may be stored and transported in large amounts and over large distances using dedicated tankers.

For details regarding the domestic gas market, including developments and changes therein, see Section 6.4 above, and for details regarding the possibility of natural gas export and sale on the international market, see Section 7.5.2 below.

7.3.2 Condensate

In the course of production of natural gas, condensate is also produced, which is a natural product of the condensation process of various components of natural gas and is caused as a result of temperature and pressure differences between the reservoir and the surface. Condensate requires minimal treatment, which is mainly stabilization, for transfer to customers and mainly serves as feedstock in the production of oil distillates. It should be noted that the quantity of condensate

produced derives directly from the quantity of natural gas produced, amounting to several individual barrels per million cubic feet of natural gas (MMCF).

7.4 Customers

- 7.4.1 Domestic Market:** As of the report publication date, the Tamar Partners supply natural gas from the Tamar Project to a variety of customers including the IEC, industrial customers, private electricity producers, and natural gas marketing companies, and condensate from the Tamar Project to Paz Ashdod Refinery as detailed in Sections 7.4.4 and 7.4.6 below.
- 7.4.2 Export:** As of the date of the report publication date, the Tamar Partners (including the Company) export gas to Jordan under the agreement specified in Section 7.4.5(a) below, have signed a binding agreement for the export of natural gas, and are negotiating the export of natural gas to other consumers, as specified in Section 7.4 below.
- 7.4.3** The IEC is the Company's largest customer, and therefore cancellation or non-performance of the agreement it signed with the Tamar Partners will materially affect the Company's business and future revenues. The Company's revenues from the IEC accounted for 53% of its total revenues for 2017. The rest of the revenues in 2017 came from private electricity producers, industrial customers and natural gas marketing companies. In the Company's estimation, its revenues from IEC will account on average for 42% of its total revenues in the next three years. However, the more the customer base of the Tamar Partners expands in the domestic and the international markets, so will the dependency on the IEC decrease. For details regarding the agreement with the IEC, see Section 7.4.4(d) below.

Caution regarding forward-looking information – The Company's assessments regarding the amount of its revenues from the IEC in the next three years constitute forward-looking information as defined in the Securities Law, in respect of which there is no certainty it will materialize, in whole or in part, and which might materialize in a materially different manner from that described above, due to different factors including, among others, changes in the volume, rate and timing of the consumption of natural gas and condensate by all the customers of the Tamar Project, including the IEC, prices for the sale of natural gas and condensate from the Tamar reservoir, and the impact of potential competition on the purchase of gas by the IEC from the Tamar Partners.

7.4.4 Engagements for the supply of natural gas

- (a) The following table presents a summary of the agreements for the sale of natural gas by the Tamar Partners, as of the report publication date. It should be noted that aside from the IEC, Oil Refineries Ltd. (“**ORL**”) and Dalia Power Energies Ltd., the Tamar Partners have no other customer that provided them with revenues in 2015-2017 which accounted for more than 10% of the Company’s revenues in at least one of said years. The rest of the customers with whom the Tamar Partners have entered into gas supply agreements are grouped in the table below according to the price linkage basis determined in said agreements. For further details regarding these agreements, see Subsections (2) and (3) below:

| | Supply Commencement Date | Basic Gas Supply Period⁴⁹ | Is there an Extension Option? | Total Maximum Quantity for Supply (100%) (BCM)⁵⁰ | Quantity Supplied by December 31, 2017 (100%) (BCM) | Main Linkage Basis of Gas Price |
|---------------------------------------------------|---------------------------------|------------------------------------------------------------|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IEC ⁵¹ | 2013 | 15 years | Option for a two-year extension. | 87 | 21.2 | U.S. Consumer Price Index(U.S. CPI) |
| ORL | 2013 | 7 years | Option for a two-year extension. | 5.8 | 3.6 | The linkage formula is mostly based on linkage to the Brent prices, with a small part linked to the Electricity Production Tariff, and includes a “floor price”. |
| Dalia Power Energies Ltd. ⁵² | 2015 | 17 years | Option for a two-year extension. | 23.3 | 2.9 | The linkage formula is mainly based on linkage to the Electricity Production Tariff and includes a “floor price”. |
| Other private electricity producers ⁵³ | 2013-2020 | 15-18 years except for one agreement for a two year period | Some of the agreements include an option for an extension of one to three years ⁵⁴ . | 59 | 8.7 | In most of the agreements the linkage formula is based on linkage to the Electricity Production Tariff, with a small part linked to the U.S. CPI. In several agreements, the linkage formula is mostly based on linkage to the Electricity Production Tariff, with a small part linked to the Brent prices. |

⁴⁹ In most of the agreements the gas supply period, which starts from the flow date in relation to the relevant agreement, will be according to that specified in the following table or until the purchaser consumes the maximum contract quantity set out in the agreement, whichever is earlier.

⁵⁰ This is the maximum quantity that the Tamar Partners undertook to supply to the customer during the period of the agreements. The quantity they undertook to purchase is lower than said quantity (for details see Section 7.1.1-b(2) below).

⁵¹ In the Company's estimation, as of December 31, 2017, the balance of the financial scope of the agreement with the IEC will be USD 6.9 billion (100%), based on the minimum gas quantities for which there is a "Take or Pay" obligation, after adjustments for the volume of gas sales by the Tamar partners to private electricity producers and the scope of electricity production by the IEC, assuming non-utilization of carry forward (use of excess quantities that were consumed to offset the Take or Pay obligation), and based on the Company's estimate of the gas price during the supply period.

⁵² In the Company's estimation, as of December 31, 2017, the balance of the financial scope of the agreement with Dalia Power Energies Ltd. will be USD 1.38 billion (100%) based on the minimum gas quantities for which there is a "Take or Pay" obligation, assuming non-utilization of carry forward, and based on the Company's estimate of the gas price during the supply period.

⁵³ It should be clarified that in some of the agreements, not all of the conditions precedent to the agreement have been fulfilled.

⁵⁴ Except for the extension period stipulated in the agreement signed between the Tamar Partners and Israel Chemicals Ltd. ("ICL") on February 21, 2018. Under this supply agreement, in the event of a delay in the commencement date of commercial production from the Tanin and Karish reservoirs, the agreement period will be automatically extended by additional periods of six months each, until the commencement date of commercial production from the Tanin and Karish reservoirs or until December 31, 2025, whichever is earlier. Likewise, it was stipulated that ICL may notify the Tamar Partners of cancellation of the supply agreement at the end of any of the aforesaid extension periods. In the event the Tanin-Karish agreement is cancelled, the supply agreement period will be automatically extended to December 31, 2025.

| | Supply Commencement Date | Basic Gas Supply Period⁴⁹ | Is there an Extension Option? | Total Maximum Quantity for Supply (100%) (BCM)⁵⁰ | Quantity Supplied by December 31, 2017 (100%) (BCM) | Main Linkage Basis of Gas Price |
|----------------------------------------------------------------|---------------------------------|---------------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | | | | In all the agreements the gas price is determined by a formula that includes a base price and linkage, and includes a "floor price". |
| Other industrial customers | 2013-2017 | 5-7 years | - | 1 | 0.5 | In most of the agreements the linkage formula is based on linkage to the Brent prices and includes a "floor price." In one of the agreements, the linkage formula is based on the prices of liquid fuels and includes a "floor price," while in another agreement the price formula is based on the base price set in the Gas Framework. |
| Natural gas marketing companies ⁵⁵ | 2013-2019 | 5-7 years | Some of the agreements include an option for up to a one-year extension | 1.5 | 0.2 | The linkage formula is based on linkage to the Brent prices and includes a "floor price". |
| NBL export agreement as detailed at length in Section 7.4.5(a) | 2017 | 15 years | Option for a two-year extension. | 2 | 0.1 | The linkage formula is mostly based on linkage to the Brent prices and includes a "floor price". |
| Total | | | | 179.4 | 37.2 | |

⁵⁵ It should be clarified that in some of the agreements, not all of the conditions precedent to the agreement have been fulfilled.

- (b) The following table presents a breakdown of the Company's revenues for the years 2015-2017 according to the price linkage basis specified therein⁵⁶:

| Customer Type | 2015 | | 2016 | | 2017 | | Main Linkage Basis of Gas Price |
|----------------------------------------------|-------------------------------|---------------------------------------|-------------------------------|---------------------------------------|-------------------------------|---------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| | Total Revenues (USD millions) | Percentage of Revenues (USD millions) | Total Revenues (USD millions) | Percentage of Revenues (USD millions) | Total Revenues (USD millions) | Percentage of Revenues (USD millions) | |
| IEC (CPI) | 80.4 | 55 | 87.9 | 55 | 91.7 | 53 | U.S. Consumer Price Index(U.S. CPI) |
| Private electricity producers | | | | | | | |
| Dalia Power Energies Ltd. | 10.2 | 7 | 16 | 10 | 19.5 | 11 | The linkage formula is mainly based on linkage to the Electricity Production Tariff and includes a “floor price”. |
| Others | 19 | 13 | 33.6 | 21 | 40.2 | 23 | |
| Industrial customers and marketing companies | | | | | | | |
| ORL | 16.1 | 11 | 11.2 | 7 | 10.9 | 6 | |
| Others | 20.4 | 14 | 11.2 | 7 | 10 | 6 | The linkage formula is mostly based on linkage to the Brent prices and includes a “floor price”. |

⁵⁶ It should be noted that the following data relate to a 9.25% interest.

- (c) Further details regarding all of the agreements for the sale of natural gas to the domestic market that have been signed by the Tamar Partners
- (1) The natural gas sale agreements lay down, inter alia, the obligation for some of the aforementioned purchasers to take or pay for a minimum annual quantity of natural gas on a scale and according to a mechanism prescribed in the supply agreement (the “**Minimum Quantity**”). The supply agreements further lay down a mechanism of accumulating a balance in respect of surplus quantities consumed by the purchaser in any year and utilization thereof for reducing the purchaser’s obligation to purchase the Minimum Quantity, for a few years thereafter. In addition, provisions and mechanisms have been established allowing each of the said purchasers, after paying for gas it did not consume due to implementation of the Minimum Quantity billing mechanism, to receive gas for no additional payment up to the quantity of gas it paid for but did not consume (carry forward).
 - (2) Following the decisions of the Antitrust Commissioner noted in Sections 7.16.4(c) and 7.16.4(d) below regarding the grant of an exemption from a restrictive arrangement in connection with agreements in which the basic supply period is longer than seven years, except for the agreement with the IEC (“**Long-Term Agreements**”), six agreements signed with customers give each of the purchasers an option to reduce the Minimum Quantity to 50% of the average annual amount it consumed in the three years preceding the notice regarding exercise of the option, subject to adjustments as specified in the supply agreement (in this section, the “**Option**”). Upon reduction of the Minimum Quantity, the other amounts specified in the supply agreement will be reduced accordingly. As of the report publication date, the Tamar Partners are acting to amend the other purchase agreements with the relevant consumers in accordance with the Petroleum Commissioner’s decision mentioned in Section 7.16.4(d) below. For details regarding the aforementioned Antitrust Commissioner’s decisions, see Section 7.16.4 below.
 - (3) In the wake of the Gas Framework, natural gas supply agreements, signed as of August 16, 2015 for a longer than 8-year period, give

the consumer a unilateral right to shorten the agreement period. This right will be granted also in agreements signed up to December 13, 2020 for a longer than 8-year period. For details see Section 7.16.1(b)2).

- (4) The supply of all the quantities set out in the supply agreements signed before October 2012, utilizes at peak consumption hours the full capacity of the production, treatment and transmission system of the Tamar Project (jointly called in this section: the "**Production System**"). Therefore, the natural gas sale agreements signed as of October 2012, established an interim period starting in May 2015 and ending when the Production System capacity enables supply of the quantities specified in the supply agreements (in this section: the "**Interim Period**"). According to said agreements, the gas supply in the Interim Period will be subject, inter alia, to the gas quantities that are available at such time, after the supply of gas to customers who signed supply agreements before October 2012, according to mechanisms prescribed in each respective supply agreement. In all these agreements, the obligation to purchase the aforesaid Minimum Quantity will not apply during the Interim Period.
- (5) In November 2016, the Tamar Partners notified most of the customers with which natural gas sale agreements were signed as of October 2012 (according to the order of precedence of the signing of the agreements), including private electricity producers, such as Dorad Energy Ltd. and OPC Rotem Ltd. ("**OPC**"), natural gas marketing companies and industrial customers, that on September 30, 2020, the Interim Period would end, and accordingly, the Tamar Partners would be able to supply natural gas to these customers under the agreements on a firm basis.
- (6) The supply agreements stipulate further provisions, inter alia, regarding the following issues: the right to terminate the agreement in the event of breach of a material undertaking; the right of the Tamar Partners to supply gas to the aforesaid purchasers from other natural gas sources; compensation mechanisms in the event of a delay in the gas supply from the Tamar Project or in the event of failure to supply the amounts specified in the agreement; limitations

on the liability of the parties to the agreement, and with respect to the relations among the sellers themselves, in all matters related to the gas supply to such purchasers.

(d) Further details regarding the gas supply agreement between the Tamar Partners and the IEC

- (1) A gas supply agreement between the Tamar Partners and the IEC was signed on March 14, 2012 and was amended on July 22, 2012, May 7, 2015 and September 1, 2016 (in this section: the “**Agreement**”), inter alia, in connection with the exercise of the options for increasing the gas quantities that the IEC will consume.
- (2) In the agreement the IEC was afforded an option to increase the total contractual amount from 78 BCM to 87 BCM (in this section: the “**Option**”). The Option referred to two periods as follows: (a) until April 15, 2013, the IEC was afforded the option to give notice of the increase of the gas quantities which it will consume from January 1, 2017 until December 31, 2018 (the “**First Option**”); (b) until April 15, 2015, the IEC was afforded the option to give notice of the increase of the gas quantities which it will consume from January 1, 2019 until the end of agreement period (the “**Second Option**”), according to the terms and conditions stipulated in the agreement.
- (3) On April 11, 2013, the IEC notified the Tamar Partners of its decision to exercise the First Option until the end of 2018 and on April 16, 2015, the IEC notified the Tamar Partners about its decision to partially exercise the Second Option.
- (4) **Error! Reference source not found.** In the framework of the amendment to the gas supply agreement between the Tamar Partners and the IEC, it was agreed that the expansion project for the purpose of the agreement was completed, and the increasing of the quantities was scheduled to begin January 1, 2017 and to continue until the end of 2018. For further details see Section 7.2.7 above.
- (5) The annual Minimum Quantity for billing from the commercial operation date until December 31, 2016 was 3.5 BCM. The Minimum Quantity for billing from January 1, 2017 until December 31, 2018 is 5 BCM per year (subject to adjustments according to the scope of gas sales by the Tamar Partners to private electricity

producers and the scope of electricity production of the IEC, but no less than 3.6 BCM per year). From January 1, 2019 until the end of the term of the agreement, the Minimum Quantity for billing will be 3 BCM per year. The agreement contains provisions regarding the calculation and adjustment of the Minimum Quantity for billing, including under circumstances of *force majeure* or non-supply by the sellers.

- (6) The gas price is determined according to a formula which includes a base price and linkage which is based on the U.S. CPI, plus 1% a year until 2019 and less 1% a year from 2020 onwards. The gas price in respect of one unit of MMBTU in 2011 was calculated according to a base price of USD 5.042. As regards the natural gas quantities that will be consumed by the IEC in the framework of the Option set out in the agreement for increasing the quantities stated in the agreement, as of 2014, the gas price is linked only to 30% of the rate of the rise in the U.S. CPI, and the addition or reduction of 1% a year does not apply.
- (7) The agreement stipulated two dates on which each party may request the adjustment of the price (according to a mechanism stipulated in the agreement), if such party believes that the price stipulated in the agreement is not suitable anymore for a long-term contract with an anchor buyer for consumption of natural gas for use in the Israeli market: upon the lapse of 8 years and 11 years from the commercial operation date (as defined in the agreement starting on July 1, 2013) of the Tamar Project (i.e. July 1, 2021 and July 1, 2024). On the first adjustment date (July 1, 2021 - after 8 years) the price will be adjusted within a range of up to 25% (addition or reduction), and on the second adjustment date (July 1, 2024 – after 11 years), the price will be adjusted within a range of up to 10% (addition or reduction).⁵⁷
- (8) The IEC or the Tamar Partners will be entitled to terminate the agreement, if the other party has committed an act of insolvency (as

⁵⁷ In this regard, see the Company's assumptions in respect of the data for the discounted cash flow in the Tamar Lease, which is included in the Immediate Report regarding the reserves and cash flow.

defined in the agreement) which is likely to have a material adverse effect on the performance of the said party's undertakings under the agreement, by giving advance written notice of at least 120 days. The IEC and the Tamar Partners have agreed not to exercise any right which they might have to terminate the agreement according to any law, except with respect to significant or ongoing violations of material provisions of the agreement and only after provision of a 120-day period to the breaching party (unless a shorter period has been stipulated in the agreement) for remedying the breach.

- (9) According to the agreement, if the Tamar Partners fail to supply the gas amounts ordered by the IEC according to the agreement's provisions and the non-supply is in an amount exceeding the deviation rates permitted under the agreement, then the Tamar Partners will compensate the IEC by making up the gas supply shortfall in the subsequent month at a reduced price. Likewise, the agreement establishes special violations in respect of which compensation is to be paid at higher rates. The agreement also sets limits of liability for each of the parties in respect of the breach of certain provisions in the agreement, at the rates specified in the agreement.
- (10) The Tamar Partners are acting jointly on issues such as development of the reservoir, the Tamar Partners' facilities, and gas production, transmission and supply according to each of the agreements. However, it has been determined that no provision in the agreement will be construed as creating mutual liability among the Tamar Partners, and each of the Tamar Partners will be liable towards the IEC for any liability arising from the agreement only in proportion with its share in the petroleum rights. Although the IEC may order gas quantities through one notice to be furnished to the coordinator on behalf of the Tamar Partners, the amount deemed ordered from each of the Tamar Partners will be the pro rata share of each of the Tamar Partners out of the overall ordered quantity.
- (11) Gas supply under the agreement is on an hourly basis with a maximum hourly quantity, according to the mechanisms and procedures set out in the agreement.

- (12) The delivery of the gas is done at the connection point to the INGL national transmission system, adjacent to the Terminal or at any other connection point which will be agreed upon by the parties.
- (13) The natural gas supplied at the delivery point according to the agreement must comply with the specifications stipulated in the agreement. The IEC has the right to refuse to accept non-standard gas until the deficiency is corrected. Any dispute between the parties pertaining to the gas quality will be referred (upon the request of any party) for decision by an expert.
- (14) Assignment of IEC's rights and obligations under the Agreement is conditional on the transferee having the technical and financial ability to meet its commitments under the Agreement as well as on the transfer of that same proportionate share of IEC's power plants to the transferee (signifying that the transfer of a proportionate share of the rights and obligations to any transferee is accompanied by the transfer of the proportionate share of IEC's power plants as well).

Caution regarding forward-looking information – The above evaluations regarding the overall financial scopes of the supply agreements specified above, the natural gas quantities which will be purchased by the purchasers specified above, and the commencement of the supply dates according to the supply agreement, constitute forward-looking information as defined in the Securities Law, in respect of which there is no certainty it will materialize, in whole or in part, and which might materialize in a materially different manner, due to different factors, including the non-fulfillment of the conditions precedent in each of the supply agreements (to the extent such have not been fulfilled yet), non-receipt of regulatory approvals, changes in scope, rate and timing of the natural gas consumption by each of such purchasers, the gas prices which will be determined according to the formulas prescribed in the supply agreements, the Electricity Production Tariff, the dollar-shekel exchange rate (to the extent relevant to the supply agreement), the Brent prices (to the extent relevant to the supply agreement), the U.S. CPI (to the extent relevant to the supply agreement), implementation and completion of the expansion of supply from the Tamar Project (to the extent relevant to

the supply agreement), construction and operation of the power stations and/or other facilities of the purchasers (to the extent relevant to the supply agreement), exercise of the options granted in each of the supply agreements and the date of exercise thereof and so forth.

7.4.5 Further details regarding agreements for natural gas export

- (a) On February 19, 2014, an agreement was signed for the supply of natural gas between the Tamar Partners and NBL Eastern Mediterranean Marketing Limited (“NBL”) for the export of natural gas to consumers in Jordan (“**NBL-Tamar Agreement**”), which was amended on February 16, 2016 and September 30, 2017. NBL is a wholly owned company (indirectly) of Noble Energy Inc., which is the controlling shareholder in Noble, the operator of the Tamar Project.

Concurrently with the signing of the NBL-Tamar Agreement, NBL signed an agreement with two companies from Jordan, Arab Potash Company and Jordan Bromine Company (jointly called in this section: the “**Purchasers**”), according to which the Purchasers will purchase natural gas from NBL to be used at their plants which are located on the eastern bank of the Dead Sea in Jordan (in this section: the “**Supply Agreement**”).

In the NBL-Tamar Agreement, the Tamar Partners undertake to supply natural gas to NBL, which is to be sold by NBL to the Purchasers within the framework of the Supply Agreement, under back-to-back conditions (i.e., the Tamar Partners will be responsible for the fulfillment of NBL’s commitments under the Supply Agreement and will be entitled to all of the net revenues due to NBL by virtue thereof).

According to the Supply Agreement, as amended, NBL undertook to supply the Purchasers with natural gas in a total quantity of up to 2 BCM. The supply as per the Supply Agreement began during January 2017 and is expected to continue for about 15 years.

It should be noted that pursuant to a taxation decision in connection with the Agreement, the Tamar Partners undertook to offer any new Israeli customer an alternative natural gas price based on the price per barrel of Brent, to be calculated according to the best formula for the consumer, existing at the time of the government decision in the agreements of the Tamar Partners. For details see Sections 7.16.1(c)(1) and 7.16.1(c)(5) below.

The obligation to make such an offer by virtue of the taxation decision will apply for a period of three years from the date of the government's decision (i.e., until August 16, 2018).

The date of supply according to the offer will be during any period commencing from the start of supply under the export agreement (i.e.: in January 2017) and up to six years from the signing date of the export agreement.

- (b) On March 17, 2015, the Tamar Partners signed an agreement for the supply of natural gas (in this section: the "**Agreement**") from the Tamar Project to Dolfinus Holdings Limited⁵⁸ ("Dolfinus").

On February 19, 2018, Delek Drilling and Noble (jointly called in this section: the "**Sellers**") signed an agreement with Dolfinus for the export of natural gas from the Tamar Project to Egypt (in this section: the "**Export Agreement**"), the financial scope of which is significantly greater than that of the agreement between the Tamar Partners (including the Company) and Dolfinus from March 17, 2015, and which was signed with the intent of replacing the latter agreement.

The Sellers approached the Company and the other Tamar Partners with a view to assigning the Export Agreement to the other Tamar Partners or entering into agreements with them for the purchase of natural gas from the Tamar Project, in accordance with the terms and conditions of the Export Agreement, in order to sell it to Dolfinus. As of the publication date of this report, the Export Agreement has not yet been assigned to the other Tamar Partners, and no agreements as aforesaid have been entered into yet with the other Tamar Partners.

The following is a summary of the details and terms and conditions of the Export Agreement as reported by Delek Drilling:

- (1) Initially, the gas will be supplied to Dolfinus on an interruptible basis. Likewise, the Sellers have been given an option to notify Dolfinus that the gas supply will become, in whole or in part, firm (non-interruptible) (in this section: the "**Option**"). The Option may be exercised during the period from July 2020 through December

⁵⁸ To the best of the Company's knowledge, the buyer is a company engaged in natural gas trade which plans on supplying gas to large industrial and commercial consumers in Egypt.

2021, or during another period, as agreed between the Sellers and Dophinus.

- (2) As of the Option exercise date, the Sellers will be obligated to supply Dophinus with an annual quantity of up to 3.5 BCM (according to the quantities in respect of which the Option is exercised), and Dophinus will be obligated to take or pay for the minimum annual quantity of natural gas according to the mechanism set out in the Export Agreement.
- (3) The total contract gas quantity specified in the Export Agreement is 32 BCM.
- (4) The price of gas supplied to Dophinus under the Export Agreement will be determined according to a formula based on the price per barrel of Brent oil. At the time of signing the agreement, Delek Drilling estimated that the cumulative revenues in relation to all the Tamar Partners from the sale of natural gas to Dophinus under the Export Agreement, would amount to USD 7.5 billion. Said estimate of Delek Drilling was based on the assumption that Dophinus would consume the entire total contract quantity set out in the Export Agreement, and also on Delek Drilling's assessment of the natural gas price during the period of the Export Agreement (based, as already stated, on the price per barrel of Brent oil). Actual revenues will be derived from a host of factors, including the quantities of gas actually purchased by Dophinus and Brent oil prices at the time of sale. For details regarding the possibilities being examined by the Sellers for the piping of gas to Egypt, see Section 7.5.2(b)(2)b below.
- (5) Supply under the Export Agreement is expected to start after regulation of the use of the infrastructures required for natural gas transmission to Egypt. Supply will continue until the supply of the total contract quantity specified in the Export Agreement or till the end of December 2030, whichever is earlier.
- (6) The Export Agreement contains several conditions precedent concerning the receipt of regulatory approvals in Israel and Egypt (including receipt of approvals for gas export and import), entry into agreements that will enable the use of the transmission infrastructure

(including the signing of transmission agreements between the Sellers and INGL, to the extent required), receipt of guarantees in favor of the Sellers as required under the Export Agreement, and receipt of approvals from the tax authorities in Israel with respect to transactions the subject of the Export Agreement.

It should be clarified that the transaction described above is subject to the signing of a binding agreement between the Sellers and the other Tamar Partners (including the Company) and the fulfillment of the conditions precedent under the Export Agreement, and that there is no certainty that said agreement will be signed and that the conditions precedent will be fulfilled.

Caution regarding forward-looking information –The above assessments regarding the gas transmission possibilities, the total financial scopes of the agreement for export from Tamar and the natural gas quantities that will be bought by Dolfinus, constitute forward-looking information as defined in the Securities Law, which might not materialize, in whole or in part, and which might materialize in a materially different manner than expected, for various reasons including the non-fulfillment of the conditions precedent in the agreement, non-receipt of regulatory approvals, changes in scope, rate and timing of natural gas consumption by Dolfinus, a change of gas price owing to a change in the price per barrel of Brent oil, exercise of the Option in the agreement for the export of natural gas from the Tamar Project (if and to the extent exercised), and date and scope of Option exercise.

- (c) In view of the Export Agreement signed with Dolfinus, a non-binding letter of intent for negotiating an agreement for the supply of natural gas from the Tamar Project to UFG, signed in 2014, between the Tamar Partners and UFG, is no longer relevant. As of the report publication date, the Tamar Partners are examining various possibilities for the supply of natural gas to the existing UFG liquefaction facilities in Egypt, whether on an interruptible or firm basis. For details regarding examination of the possibility to expand the supply capacity of the Tamar Project, see Section 7.2.7 above.

7.4.6 Agreement for supply of condensate to Paz Ashdod Refinery

On November 28, 2012, an agreement for the supply of condensate (in this section: the “**Agreement**”) was signed between Paz Ashdod Refinery and the Tamar Partners (in this section: the “**Sellers**”), by which the Sellers undertook to supply Paz Ashdod Refinery with condensate for a period of five years commencing on March 30, 2013, on a scale (quantity-wise and price-wise) that is not material. In November 2016, the parties agreed to a 5-year extension of the Agreement. The price of condensate was determined based on Brent prices minus the spread, as prescribed in the supply agreement. Most of the condensate sales by the Tamar Partners were made within the framework of the aforesaid agreement.

7.5 Marketing and Distribution

7.5.1 Supply to the domestic market

As of the report publication date, the Tamar Partners are working to market natural gas and condensate to potential consumers besides the existing customers and are conducting negotiations at various stages with potential customers in the domestic market, including private electricity producers and industrial consumers, with the aim of entering into binding agreements for the sale of natural gas and/or condensate from the Tamar Project, all subject to the gas prices and agreement periods prescribed by the Gas Framework, as set out in Sections 7.16.1(b) and 7.16.1(c)(1) below, and subject to the supply capacity of the Tamar Project.

Piping the natural gas to some of the customers may also be contingent on the continued development of the national natural gas transmission system by INGL (the “**National Transmission System**”), and the completion of the regional distribution systems.

7.5.2 Export

(a) General

The Company and the Tamar Partners are acting to find foreign markets for marketing the natural gas they discovered. In the Company's estimation, potential markets include countries located close to Israel, to which gas may be exported through a pipeline, and the more distant global markets to which gas may be exported as compressed natural gas (CNG). In the framework of export marketing efforts by the Company and the

Tamar Partners, agreements have been signed with customers in Jordan and negotiations for the supply of natural gas are currently being conducted with other customers in Jordan and Egypt.⁵⁹

(b) Pipeline

(1) Besides the export agreements specified in Section 7.4.5, the Tamar Partners are promoting contacts and/or negotiations, at various stages, pertaining to the export of natural gas through pipes, to Egypt and Jordan. Within the framework of these contacts and/or negotiations, the main parameters of the potential agreements for the sale of natural gas via pipeline are being discussed, including, inter alia, the agreement period, quantities, capacity, unit price, linkage formula, take-or-pay obligation, pipeline construction obligation, and so forth.

Caution regarding forward-looking information – The information specified above regarding contacts and/or negotiations constitutes forward-looking information, as defined in the Securities Law, regarding which there is no certainty that it will materialize, in whole or in part, in the manner specified or in any other manner, and which may materialize in a materially different manner than described above. In particular, there is no certainty that such contacts and/or negotiations will ripen into binding gas sale agreements and that the conditions required under any law for the agreements to take effect, if signed, will be fulfilled.

- (2) The following is a description of the key potential target markets for the export of natural gas through pipelines from the Tamar Project⁶⁰:
- a. Jordan – The Company estimates that the demand for natural gas in the Jordanian local market in 2020 will be 5 BCM per year, based on estimates of outside consulting companies. Jordan currently leases a floating regasification facility, located near Aqaba, for the import of liquid natural gas. To the best of the Company's knowledge, since 2015, Jordan has

⁵⁹ For details regarding the export agreements that were signed, see Section 7.4.5 above.

⁶⁰ Said information was prepared by the Company based, inter alia, on data from various consulting companies.

signed several short-term agreements for the import of LNG, in the amount of 3 BCM per year. In 2016 and 2017, Jordan consumed 4 BCM and 4.2 BCM of natural gas respectively, most of which came through the import of LNG. As of the beginning of 2017, the Tamar Partners have been exporting natural gas to Jordan as described in Section 7.4.5, through the connection to the Israeli transmission system to plants located on the east bank of the Dead Sea in Jordan (the "**Southern Pipeline**"). In addition, construction of a new natural gas pipeline connecting the INGL transmission system (from the Dovrat area) to the border with Jordan as well as the construction of a pipeline connecting the new pipeline to be constructed by INGL on the Israeli-Jordanian border to the transmission pipeline existing in Jordan (the Pan-Arab Pipeline operated by FAJR) (the "**Northern Pipeline**") is expected to be completed in 2019.

Based on data known to the Company and the Operator, the capacity of the Northern Pipeline will enable piping natural gas in an annual quantity of up to 10 BCM to Jordan, and via Jordan to Egypt.

For details regarding the agreement signed for the supply of gas to Jordan, see Section 7.4.5(a) above.

- b. Egypt – To the best of the Company's knowledge, the local production in Egypt in 2017 was approximately 52 BCM, an increase of 10 BCM compared to 2016, due primarily to the start of natural gas production from new gas fields. The natural gas demand in Egypt's local market for 2017 stood at 59 BCM, of which 8.3 BCM were imported as liquid natural gas for local consumption. The import of liquid natural gas into Egypt in 2017, minus the small quantities of liquid gas exported from Egypt in 2017, amounted to 6.8 BCM. The Company estimates, based on outside consulting firms, that in 2018 the local production will be around 64 BCM (largely due to the start of production from the Zohr reservoir in the second half of December 2017), an amount similar to the local

demand projected for 2018. It should be noted that the seasonality of natural gas use in Egypt could result in Egypt exporting certain quantities of natural gas during the winter months and importing natural gas during the summer months. Likewise, Egypt has two natural gas liquefaction facilities for the production of LNG for export, with a total liquefaction capacity of 12.2 tons of liquid gas per year, requiring 18-19 BCM of natural gas as feed gas per year. As of the report publication date, these facilities are currently operating at low capacity or are not operating at all. The projected local demand in Egypt for 2020 ranges between 67 and 75 BCM, without including the natural gas required as feed gas for the aforesaid liquefaction facilities. To the best of the Company's knowledge, the Egyptian government is acting to promote projects for the supply of natural gas from gas discoveries in Israel and Cyprus, with the aim of establishing Egypt as a natural gas hub, in order to supply the local market needs, utilize the existing export facilities and promote investments in new export facilities, while concurrently encouraging natural gas exploration and development projects in Egypt. Natural gas exploration activity, which is promoted by the Egyptian government, may boost and accelerate the natural gas exploration activity in Egypt, and thus may result in additional natural gas discoveries in Egypt. For details regarding the agreement entered into by Delek Drilling and Noble for the export of natural gas to Egypt from the Tamar Project see Section 7.4.5(b). As of the report publication date, the Tamar Partners are studying the various possibilities for piping natural gas from Israel to Egypt, including among others, the piping of gas through Jordan (using the Pan-Arab Pipeline) via the Northern Pipeline to Jordan and/or the construction of a new undersea pipeline to Egypt and establishment of a new inland connection between the Israeli transmission system and Egypt (in the area of Nitzana or Kerem Shalom). At the same time, to the best of the Company's knowledge, Delek Drilling, along with Noble and

Egyptian entities, is conducting negotiations with the various interest holders of East Mediterranean Gas Limited ("EMG"), to explore the acquisition of rights in EMG for the purpose of using the EMG-owned gas pipeline for piping natural gas from Israel to Egypt. It should be noted that the said negotiations are not binding on the parties until the signing of binding agreements and that there is no certainty that such binding agreements will be signed. It should be further noted that the binding agreements (if and to the extent signed) will become effective only after fulfillment of the various conditions precedent, including among others, the receipt of the regulatory approvals required under any law, performance of technical tests to examine and confirm the possibility of using the EMG pipeline, and settlement of the open arbitrations between EMG and its shareholders.

Caution regarding forward-looking information – The information specified above regarding negotiations as well as construction and/or use of said infrastructures, constitutes forward-looking information, as defined in the Securities Law, regarding which there is no certainty that it will materialize, in whole or in part, in the manner stated or in any other manner, and which may materialize in a materially different manner than described above. In particular, there is no certainty that such negotiations will ripen into binding agreements, and if these are signed, there is no certainty that the conditions required under any law as well as the conditions precedent required under such agreements, for such agreements to come into force, will be met.

(3) **Compressed natural gas (CNG)**

To the best of the Company's knowledge, as of the report publication date, the Tamar Partners are conducting a preliminary examination of the possibility of exporting gas to countries in the Mediterranean Basin in the form of compressed natural gas (CNG), to be transported in CNG carrier ships to those countries, including an examination of engineering planning and design for such a project.

The export of natural gas in such manner is likely to enable access to new and additional export markets, including Greece, the Mediterranean islands, Italy and other countries. It should be noted that, to the best of the Company's knowledge, there are currently no existing projects in the world for the supply of CNG through offshore platforms.

7.6 Order backlog

7.6.1 Following is the Company's order backlog (relating to a 16.75% interest in the Tamar Lease), calculated on the basis of the minimum gas quantities (according to the take-or-pay quantity in the contract) determined in binding agreements (agreements in which all the conditions precedent have been fulfilled) for the supply of natural gas and condensate from the Tamar Project, which the customers have undertaken to consume or pay for, subject to the following main assumptions: (1) all of the options granted to the Tamar Partners' customers to reduce the total contractual quantity, as specified in Section 7.4.4(c) above, will be exercised; (2) by the beginning of 2019, IEC's minimal consumption will amount to 5 BCM per year (without making the adjustments specified in the gas supply agreement between the Tamar Partners and the IEC, as specified in Section 7.4.4(d)(5) above), and will thereafter amount to 3 BCM per year (assuming non-exercise of the contractual right of "carry forward"); (3) the price forecasts are based on the assumptions made in the calculation of the discounted cash flow in the Tamar Project, as specified in the Immediate Report regarding the reserves and cash flow:

| Year | Total Revenues (USD millions) As of December 31, 2017 ⁶¹ |
|----------|------------------------------------------------------------------------|
| 2018 Q1* | 59 |
| 2018 Q2* | 59 |
| 2018 Q3* | 59 |
| 2018 Q4* | 59 |
| 2019 | 162 |
| 2020 | 180 |
| 2021 | 173 |
| 2022 | 161 |
| 2023 | 160 |
| 2024 | 161 |

⁶¹ As of March 20, 2018, there has been no change in the order backlog.

| Year | Total Revenues (USD millions) As of December 31, 2017 ⁶¹ |
|------|------------------------------------------------------------------------|
| 2025 | 163 |
| 2026 | 164 |
| 2027 | 166 |
| 2028 | 110 |

* The division by quarters was done linearly.

Caution regarding forward-looking information – The Company's estimates regarding the time and scope of the projected revenues from the order backlog constitute forward-looking information, as defined in the Securities Law. These estimates are based on the minimum gas quantities stipulated in the binding agreements for natural gas supply from the Tamar Project, and on the assumptions specified in this section, and there is no certainty of their materialization, due to, among other things, the possible effect of any of the risk factors involved in the Company's operations, as specified in Section 7.24 below.

- 7.6.2 The Company's order backlog for 2017, as of December 31, 2017, amounted to USD 120 million. The Company's actual revenues from the aforesaid order backlog for 2017 totaled USD 172 million. The discrepancy between the expected revenues from the order backlog and actual revenues for 2017 stems from the fact that the actual volume of sales was higher than the minimum gas quantities stipulated in the agreements for the supply of natural gas from the aforementioned projects.

7.7 Competition

For details see Section 7.1.9 above.

7.8 Seasonality

In Israel, the consumption of natural gas for electricity production by the IEC and private electricity producers is affected, inter alia, by seasonal fluctuations in electricity demand and by the maintenance plans of electricity producers. Generally, in the third quarter of the year (the summer months) electricity consumption is at its highest.

Following are data regarding the quarterly breakdown of natural gas sales (in terms of 100% of the Tamar Project) over the last two years⁶²:

| Period | Q1 (in BCM) | Q2 (in BCM) | Q3 (in BCM) | Q4 (in BCM) |
|---------------|------------------------|------------------------|------------------------|------------------------|
| 2017 | 2.40 | 2.43 | 2.55 | 2.34 |
| 2016 | 2.2 | 2.3 | 2.6 | 2.3 |

7.9 Facilities and Production Capacity

The Tamar Project facilities include, inter alia: six wells with a production capacity of around 250 MMCF per day each⁶³; a subsea development system that concentrates the gas production from these wells; two underwater pipes, each with a diameter of 16 inches and a length of 150 kilometers, for the transmission of gas from the Tamar field to the production platform; a production platform located about 2 kilometers north of the Mari B platform; two additional pipes, each with a four inch diameter and a length of 150 kilometers, for the transmission of MEG (an antifreeze substance) from the production platform to the drilling system; piping with a radius of 10 inches⁶⁴ and 6 inches for the transmission of gas and/or condensate and/or MEG from the production platform to the Terminal, as well as piping that connects the production platform to a 30 inch pipe in the Yam Tethys Project for the transmission of gas to the Terminal; double command and control cables (umbilicals), each 150 kilometers long, that connect the production platform to the drilling system and enable the control and command of the production of natural gas from the wells and the 16 and 8 inch pipelines to the Mari B platform; and the equipment required at the Mari B platform for the purpose of injection of natural gas and condensate at the Mari B reservoir. The production platform is fixed to the seabed at a depth of around 236 meters by means of a jacket. The platform topsides are mounted on the upper part of the jacket, which projects above the sea surface, and contain, inter alia, the natural gas production and processing facilities, facilities for the separation of fluids from natural gas, storage, treatment and recycling of MEG, gas dehydration systems (TEG), generators, tanks, pumps, air compressors, a helipad, workers' living quarters, firefighting facilities,

⁶² The data refers to the total sales of natural gas by all of the Tamar Partners rounded to one tenth of a BCM. It should be noted that the above data do not include sales from the marine buoy for LNG import, which operates mainly during the months of peak demand for natural gas.

⁶³ Another development and production well, the Tamar-8 well, has been completed and connected to the production system, and piping of natural gas commenced in April 2017. This well was aimed at increasing the redundancy in the production system and enabling maximum supply from the Tamar reservoir during peak demand periods. For further details, see Section 8.2.6 above.

⁶⁴ On August 29, 2016, the Minister of Energy granted the Tamar Partners a license for the operation of a 10-inch pipeline to be used for the transport of natural gas from the Tamar rig to the entry point at the natural gas processing facility in Ashdod. Prior to the granting of such license, the pipeline was designated for the transport of condensate.

lifeboats, security facilities and additional facilities associated with the production and processing system on the platform.

For details regarding the development plan of the Tamar Project, including expansion of the supply capacity, see Section 7.2.6 above.

7.10 Human Resources

7.10.1 As of the report publication date, the Company has a CEO, CFO, legal adviser, internal auditor, directors and external directors, and two additional workers who are employed by the Company. The Company intends to engage additional employees and officers in the future according to its needs. The Company also receives consulting services from external professional entities, including legal, accounting, financial, geological, and other consulting firms, all according to the Company's needs.

7.10.2 The operator of the Tamar Project employs personnel for the management and operation of the Tamar Project. There are no employer-employee relations between the workers employed by the operator of the Tamar Project and the Company, and the Company has no direct liability to them in respect of the termination of employer-employee relations.

7.11 Raw Materials and Suppliers

There are presently no contractors in Israel that perform offshore drilling, seismic surveys and marine development and infrastructure works of the type carried out by the Tamar Partners, and therefore, in order to carry out such work, the operator of the Tamar Project engages with foreign contractors, which are instructed to hire, insofar as possible, local services and consultants. The offshore drilling facilities and the other dedicated equipment are leased and brought in from all over the world in accordance with their availability, the type of project and the special needs of the Tamar Project. Another important parameter that affects this matter is the crude oil price, an increase in which, generally affects the scope of the activity in the industry and consequently the availability of the contractors and required equipment, and vice versa. In general, the Tamar Partners, do not, individually or as a group, directly engage with suppliers or professional contractors; rather, the engagement is between the suppliers or contractors and the operator of the Project.

7.12 Working Capital

Following is the composition of the Company's working capital (in USD thousands):

| | Amount included in the financial statements as of December 31, 2017 (i.e.: in respect of a 9.25% interest in the Tamar and Dalit Leases) | Amount included in the pro forma financial statements in respect of the transaction for the acquisition of a 7.5% stake in the Tamar and Dalit Leases as of December 31, 2017 (i.e.: in respect of a 16.75% interest in the Tamar and Dalit Leases) |
|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current assets | 48,059 | 82,162 |
| Current liabilities | 38,886 | 63,095 |
| Current assets in excess of current liabilities | 9,173 | 19,067 |

7.13 Financing

- 7.13.1 As of the report publication date, the Company finances its operations from revenues from the sale of natural gas and condensate to the customers of the Tamar Project.
- 7.13.2 In order to finance the Company's current operations in the first few months following completion of the transfer of rights in the Tamar and Dalit Leases, it was agreed between Delek Drilling and the Company, within the framework of the sale agreement with Delek Drilling, that the Company may retain up to USD 40 million of the issue's proceeds, at its discretion, as a loan bearing 3% annual interest. The actual loan totaled USD 34 million, which was repaid in full (including the interest in respect thereof totaling USD 106,000) in several installments, the last of which was paid on October 19, 2017. In view of the expected activities for preservation and expansion of the supply capacity of the Tamar Project, as specified in this chapter, the Company expects to require substantial financial resources to finance its operations and its share in the expenses of the Tamar Project, in accordance with the work plans and budgets to be approved from time to time according to the Joint Operating Agreement among the partners in the Tamar Lease. To this end, the Company intends to use the surplus revenues received from the customers of the Tamar Project, and, as necessary and to the extent possible, the Company will examine options of raising

equity or debt capital by issuing securities to the public of such type, in such scope and under such conditions as it deems necessary.

- 7.13.3 On July 6, 2017, the Company raised a total of USD 658 million by making a public offering of NIS 2,315,668,000 par value of bonds (Series A), under the Prospectus and supplementary notice from July 6, 2017. It should be noted that a total of USD 650 million from the proceeds of the issue of bonds (Series A) was used by the Company to finance the object of sale under the sale agreement with Delek Drilling (see Section 1.2 above). The Company undertook that the proceeds from the issue of bonds (Series A) in excess of USD 650 million would be used for buyback or early repayment of bonds (Series A). Accordingly, on July 17, 2017, the Company's Board of Directors approved a buyback plan totaling NIS 26,368,000 par value of bonds (Series A). As of the report date, the Company completed the buyback of all the said bonds for USD 7.5 million. For further details, see Note 9 to the annual financial statements as at December 31, 2017 (Chapter C of this report) and Part 6 of the Board of Directors' Report (Chapter B of this report).
- 7.13.4 On March 12, 2018, the Company completed the raising of USD 519.4 million through the public offering of NIS 1,940,113,000 par value of bonds (Series B), under a shelf offering report from March 12, 2018, issued pursuant to the Prospectus. The amount of USD 478 million from the proceeds of the issue of the bonds (Series B) was used by the Company to finance the purchase of the object of sale under the sale agreement with Noble (described in Note 23A to the annual financial statements as at December 31, 2017). The Company undertook that the proceeds of the issue of bonds (Series B) in excess of USD 560 million would be used for buyback or early repayment of bonds (Series B). Accordingly, on March 13, 2018, the Company's Board of Directors approved a buyback plan totaling NIS 3,073,000 par value of bonds (Series B). As of the report date, the Company completed the buyback of all the said bonds for USD 0.84 million. For further details, see Note 23B to the annual financial statements as at December 31, 2017 (Chapter C of this report) and Part 6 of the Board of Directors' Report (Chapter B of this report).
- 7.13.5 **Financial Covenants**
 - (a) With regard to the public offering of Series A Bonds as stated in Section 7.13.3 above, the Company has undertaken to comply with financial

covenants. For details regarding these financial covenants, see Part 6 of the Board of Directors' Report (Chapter B of this report).-

- (b) With regard to the public offering of Series B Bonds as stated in Section 7.13.4 above, the Company has undertaken to comply with financial covenants. For details regarding these financial covenants, see Part 6 of the Board of Directors' Report (Chapter B of this report).

7.13.6 Bond rating

For details regarding the rating of the Bonds (Series A and B), see Part 6 of the Board of Directors' Report (Chapter B of this report).

7.14 Taxation

As regards the taxation aspects, including the implications arising from the Petroleum Profits Taxation Law, see Notes 12 and 19 to the annual financial statements as of December 31, 2017, included herein.

7.15 Environmental risks and management thereof

7.15.1 Exploration, development and production of oil and natural gas involve, by the very nature of things, a risk of causing damage to the environment, which may stem, inter alia, from malfunctions in equipment and/or problems with work procedures, and/or from unforeseen events. The severity of the risks varies from event to event, and therefore the manner of management and treatment thereof also varies.

7.15.2 The Company is subject to the provisions of the law and/or the instructions of competent authorities on environmental issues

- (a) In Israel the Petroleum Law and its associated regulations provide, inter alia, that when performing drilling operations, precautionary measures must be taken to prevent the unchecked flow of liquids or gases into or out of the earth and to prevent their penetration from one geological layer into another. It is also prohibited to abandon a well without plugging it according to the directives of the Petroleum Commissioner. Apart from the regulations prescribed by Israeli law, there are environmental provisions in the terms and conditions of the Tamar and Dalit lease deeds and in the approvals for the construction and operation of the Tamar Project production systems. Ahead of drilling operations and/or oil and natural gas production operations, the Operator purchases insurance to cover environmental damage as a result of sudden, unexpected and uncontrolled

eruption of oil and/or natural gas. In 2016, the Petroleum Regulations (Principles for Offshore Petroleum Exploration and Production), 5777-2016 (an amendment to regulations from 2006) were issued, which include various provisions regarding offshore petroleum exploration and production activity, as well as conditions regarding the identity of an operator, including with respect to its experience in maintaining safety and environmental protection in the framework of oil exploration and production.

- (b) In September 2016 the Ministry of Energy, in conjunction with the Ministry of Environmental Protection and other government ministries, issued directives intended to regulate the environmental aspects of offshore oil and gas exploration, development, and production. These directives instruct the holders of offshore petroleum rights regarding the actions and documents they need to prepare in the framework of their activity in the area of their rights, in order to prevent or minimize, to the extent possible, environmental hazards that may arise during offshore oil and natural gas exploration, development and production operations. For details regarding these environmental directives, see Section 7.16.7(i) below.
- (c) In addition, the Company's activity may be subject to the provisions of various environmental laws, including the following: Prevention of Sea Pollution (Dumping of Waste) Law, 5743-1983 and its regulations; Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988 and its regulations; Prevention of Sea Water Pollution by Oil Ordinance (New Version), 5740-1980; Hazardous Substances Law, 5753-1993 and its regulations; Maintenance of Cleanliness Law, 5744-1984 and its regulations; Liability for Compensation for Oil Pollution Damage Law, 5764-2004 and its regulations; Environmental Protection (Supervision and Enforcement Powers) Law, 5771-2011 and its regulations; Prevention of Environmental Nuisances (Civil Action) Law, 5752-1992; Clean Air Law, 5768-2008 and its regulations; Environmental Protection (Emissions and Transfers to the Environment – Reporting Duty and Register) Law, 5772-2012 and its regulations; Abatement of Nuisances Law, 5721-1961 and its regulations; Protection of the Coastal Environment Law, 5764-2004; and Licensing of Businesses Law, 5728-1968 and the regulations and orders issued by virtue thereof.

- (d) In addition to the instructions of the Ministry of Energy and the Ministry of Environmental Protection, the Company's operations are subject to instructions by other environmental authorities, as may be given from time to time, on behalf of other governmental bodies, including the Israel Land Authority.

7.15.3 Events connected with environmental protection

In 2017, there was no event or matter connected with the Company's operations which significantly harmed the environment and which had a material impact on the Company.

7.15.4 Environmental risk management policy

The Operator in the Tamar and Dalit Leases adopts a strategic environmental policy for environmental protection and for compliance with the provisions of the law in general and environmental laws in particular. This policy includes the Operator's strict adherence to internal procedures for environmental risk management of its activities, including the training of suitable personnel, and includes a work plan for the reduction of environmental damage, for the prevention of malfunctions and accidents and for ongoing improvement of the organizational culture on issues of safety, environment and hygiene. In this context, the Operator has a designated team for both the development and operation stages, which is responsible for implementing and overseeing these policies and for compliance with the procedures to ensure fulfillment of and compliance with all requirements and standards, including various systems for the management of environmental risks, such as SEMS (Safety & Environmental Management Systems). In addition, the Operator performs due diligence tests through a third party, besides the audits carried out regularly by the Ministry of Energy and Ministry of Environmental Protection on the operation facilities and drilling rigs. The Operator carries out current activities on issues of environmental protection and safety to increase awareness, knowledge, and preparedness, including training and instruction of the Operator's teams. Although the Operator holds a different position on the legal interpretation of the applicability of Israeli laws, environmental laws in particular, to its offshore activity (including its activity in the exclusive economic zone (EEZ)), from that adopted in the opinion mentioned in Section 6.7.16(e)(6) below, in addition to the foregoing, the Operator is acting to obtain all the permits required under the environmental regulation, including a poisons permit under the Hazardous

Substances Law, 5753-1993, a sea discharge permit under the Prevention of Sea Pollution from Land-Based Sources Law, 5748-1988 and an air emissions permit under the Clean Air Law, 5768-2008.

7.15.5 Environmental costs and investments

To the best of the Company's knowledge, the expected costs of activities related to environmental protection are included in the budget of the Tamar Project, and are updated from time to time according to the approved work plan of the project. As of the report publication date, no additional significant costs are foreseen.

To the best of the Company's knowledge, the operator in the Tamar Project is pursuing the installation of dedicated systems for the reduction of air emissions from the Tamar platform, at a budget of USD 30 million (100%). According to the operator, installation of said systems is expected to reduce the emission of various pollutants by over 98%, and is expected to be completed by the end of the first quarter in 2019.

7.15.6 Significant legal or administrative proceedings connected with environmental protection

As of the report publication date, and to the best of the Company's knowledge, no significant legal and/or administrative proceeding is being conducted against any of the Tamar Partners and/or the Operator and/or any of their officers in connection with environmental protection at the Tamar Project.

7.15.7 As of the report publication date, and according to the information relayed by the Operator, the Company is not aware of a noncompliance with or deviation from environmental protection requirements at the Tamar Project.

7.16 Restrictions and supervision on the Company's operations

7.16.1 The Gas Framework

On August 16, 2015, Government Resolution No. 476 (readopted with certain changes in the Government Resolution from May 22, 2016) was adopted with respect to a framework for the increase of the natural gas quantity produced from the "Tamar" natural gas field⁶⁵ and the expeditious development of the "Leviathan", "Karish" and "Tanin" natural gas fields and other natural gas fields

⁶⁵ "Tamar" was defined in the Exemption appended to the Framework as "a natural gas reservoir found in the area of the I/12 Tamar and I/13 Dalit leases, and the rights of Tamar's stakeholders in the infrastructure for the transmission of gas with all its parts, including Tamar stakeholders' rights to the use of the onshore gas receiving and processing facility, from the Tamar reservoir to the National Transmission System."

(in this section: the “**Government Resolution**”). The Government Resolution took effect on December 17, 2015, with the grant of an exemption from certain provisions of the Restrictive Trade Practices Law, 5748-1988 (the “**Restrictive Trade Practices Law**”) with respect to several restrictive trade practices, to Delek Drilling, Avner, Ratio and Noble (in this section: the “**Parties**”) by the Prime Minister, in his capacity as Minister of Economic Affairs, pursuant to the provisions of Section 52 of the Restrictive Trade Practices Law (in this section: the “**Exemption**” or the “**Exemption Pursuant to the Restrictive Trade Practices Law**”), the key points of which Resolution are presented below.

The Exemption from certain provisions under the Restrictive Trade Practices Law is contingent on the fulfillment of the following conditions:

(a) Structural change of the Tamar reservoir

- (1) Delek Drilling and Avner⁶⁶ shall transfer, within 72 months of the date of grant of the Exemption under the Restrictive Trade Practices Law (in this section: the “**Effective Date for Tamar**”), all their rights in the Tamar and Dalit Leases to a third party not affiliated with any of the Parties or with any entity that holds means of control in the Leviathan reservoir or in the Karish and Tanin reservoirs, subject to the Petroleum Commissioner’s approval.
- (2) In the event that the unsold rights are not transferred (the “**Transferred Rights in Tamar**”) within 72 months of the Effective Date, the right to transfer the Transferred Rights in Tamar will be transferred to a trustee (as defined in the Gas Framework), that will act to find purchasers and receive most of the bids for the sale of the Transferred Rights in Tamar, all in accordance with the provisions of the Gas Framework and the guidelines to be received from the Antitrust Commissioner. The trustee will sell the Transferred Rights in Tamar based on the market value and the highest price offered, and in any event no later than 12 months after the Transfer of Rights in Tamar (even if the price does not represent the real value of the Transferred Rights in Tamar).

⁶⁶ On May 17, 2017, Avner was merged with and into Delek Drilling, such that all of Avner’s assets and liabilities were transferred “as is” to Delek Drilling, and on May 17, 2017, Avner was dissolved without liquidation and struck off the records of the Registrar of Partnerships.

- (3) By the Effective Date for Tamar, Noble shall deliver to the Commissioner a binding sale contract, such that after consummation thereof, Noble's rights in the Tamar Lease will be no higher than 25% and the surplus rights will be transferred to a third party which is not affiliated with any of the Parties and does not hold means of control in the Leviathan reservoir or in the Karish and Tanin reservoirs, subject to the Petroleum Commissioner's approval.
- (4) As of the Effective Date for Tamar or on the date of sale of Noble's rights in the Tamar Lease as described above, whichever is earlier, Noble will have no veto right pertaining to the Tamar reservoir.

In accordance with the above section, the Company purchased its rights in the Tamar and Dalit Leases from Delek Drilling and Noble as detailed in Sections 1.2 and 1.5 above.

(b) New agreements for the supply of natural gas from the Tamar and Leviathan reservoirs

- (1) Agreements for the supply of natural gas from the Tamar and Leviathan reservoirs signed as of the date of the Government Resolution must comply with all of the following provisions:
 - a. The consumer will not be subject to any restriction with respect to the purchase of natural gas from any other natural gas supplier.
 - b. The consumer will be able to resell the natural gas purchased thereby, in accordance with the conditions and provisions prescribed by the Exemption.
 - c. The Parties will not impose any restriction on the selling price at which the consumer resells the natural gas.
- (2) With respect to agreements for the sale of natural gas from the Tamar reservoir signed from the date of the Government Resolution until four years after the date on which the Petroleum Commissioner approved the transfer of the rights of Delek Drilling, Avner and Noble in the Karish and Tanin leases (the "**Rights in Karish and Tanin**" and the "**Date of Opening of the Options**", respectively), the holders of the rights in the Tamar reservoir, including the Company, will be required to offer every consumer the option to

purchase gas by an agreement for any period it chooses up to 8 years, or for a longer period to be agreed between the Parties and the consumer. For an agreement whose term exceeds 8 years, the consumer will have a unilateral right to shorten the term of the agreement during a 3-year window commencing on the Date of Opening of the Options.

- (3) In relation to agreements for the sale of natural gas from the Leviathan reservoir signed from the date of the Government Resolution until the Date of Opening of the Options, the holders of rights in the Leviathan reservoir will be required to offer every consumer the option to purchase gas by an agreement for any period it chooses up to 8 years, or for a longer period to be agreed between the Parties and the consumer.
- (4) Without derogating from that stated in Subsection (c) above, in relation to agreements for the sale of natural gas from the Leviathan reservoir, so long as six months have not elapsed from the date on which the Petroleum Commissioner approved the transfer of the Rights in Karish and Tanin, the following provisions will apply:
 - a. The Parties shall not conduct negotiations or undertake to supply gas to a customer who purchased gas from the Tamar Project and exercised the option to reduce the quantities as described above in relation to the reduced quantities.
 - b. For any agreement signed for a period of between 4 and 8 years at a scope of supply exceeding 0.5 BCM per annum, the Parties will grant the consumer a unilateral right to shorten the term of the agreement during the period commencing on the later of the following dates and ending one year after such date: (i) December 31, 2022; (ii) insofar as the date of supply of the gas from the Leviathan reservoir is postponed with the Petroleum Commissioner's approval, 3 years after the date of commencement of the commercial supply in the Leviathan reservoir; (iii) the Date of Opening of the Options. All that stated in this section will apply only

if agreements for export from the Leviathan lease in an aggregate quantity of at least 120 BCM have taken effect.

- c. In agreements for a period exceeding 8 years, the consumer will be granted a unilateral right to give notice of reduction of the gas quantity stated in the ‘take or pay’ clause to a quantity equal to one half of the average annual consumption quantity of such consumer in the three years preceding the date of the notice, during a 3-year window commencing on the later of the following dates: (i) the Date of Opening of the Options; or (ii) commencement of the sixth year from the date of supply of the gas to the customer from the Leviathan reservoir.

(5) On April 2, 2017, in a notice sent to the Minister of Energy, the Budget Director at the Ministry of Finance and the Antitrust Commissioner, the Tamar Partners clarified as follows:

- a. In the event of a 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 Government Resolution and the end of 4 years after 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 were supposed to fully or partially switch to the new supplier for gas purchases, to extend the existing contract until the new supplier is able to supply gas in commercial quantities (but for no longer than eight years from the date of signing the agreement), without changing the terms and conditions of the agreement.
- b. 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 forced to sign a long-term gas supply agreement due to the requirements of the entities financing the facilities, the option to sign an

agreement for a term exceeding eight years, and in accordance with the supply capacity of the Tamar Project.

(c) Additional provisions from the Government Resolution

(1) Prices

- a. So long as the holders of rights in the Tamar and Leviathan leases meet the conditions of the Government Resolution and the Exemption pursuant to the Restrictive Trade Practices Law, the provisions of the Control of Prices of Commodities and Services Order (Application of the Law to Natural Gas and Determination of the Control Level), 5773-2013, which imposes control on the gas sector in terms of reporting on profitability and gas prices, will remain unchanged for the period from the date of the Government Resolution (i.e., August 16, 2015) until the completion date of the transfer of rights of Delek Drilling, Avner and Noble in the Karish and Tanin leases below or in the Tamar Lease as specified in Subsection (a) above, in accordance with the provisions of the Gas Framework, whichever is later (the “**Transition Period**”).
- b. During the Transition Period, the holders of rights in the Tamar Lease (including the Company) and in the Leviathan lease (in this section: the “**Holders of Rights in the Leases**”) will offer potential consumers the following natural gas price and linkage alternatives:
 1. A base price calculated in accordance with a weighted average of the existing prices in the agreements between the Holders of Rights in the Leases and their consumers, and updated every calendar quarter (in accordance with the calculation specified in the Government Resolution).
 2. The Brent barrel price, calculated in accordance with the optimal formula for the consumer appearing as of the date of the Government Resolution in the Tamar Partners' agreements.

- 3. For a private electricity producer (conventional or cogeneration) that meets the conditions specified in the Government Resolution, besides the alternatives specified in Subsections (a) and (b) above, also an alternative which includes linkage to the electricity production tariff.
- c. The provisions of Subsection (b) do not derogate from the duty of the holders of rights in the Tamar and Dalit Leases to offer consumers in Israel the gas price specified in an export agreement, in order to meet the conditions of the taxation mechanism as set out in Section 7.16.1(c)(5) below.

(2) Natural gas export

- a. In the Government Resolution of June 23, 2013, which adopted the main recommendations of the Tzemach Committee, clarifications and amendments were made, inter alia, with regard to the manner of calculating the permitted export quotas and the manner of creating redundancy in the gas supply system (hereinafter in this Subsection (4): the **“Government Resolution regarding the Tzemach Committee”**). For further details, see Section 7.16.7(a) below.
- b. It was also determined that the holders of rights in the Tamar Lease will be entitled to use the Mari B rig for the entire term of the Tamar Lease, for the export or supply of natural gas to the domestic market from the Tamar reservoir, subject to the conditions established in the Government Resolution.

(3) The Tamar SW reservoir

The Government Resolution included the Petroleum Commissioner's announcement that he will approve the development plan for the Tamar SW reservoir (for further details, see Section 7.2.8 above), subject to the natural gas production from the Tamar SW reservoir not yielding revenues in excess of USD 575 million. This production restriction will be cancelled by the Petroleum Commissioner after an agreement is reached between the State and the holders of rights in the Tamar Lease on all the issues

relating to the development of the Tamar SW reservoir. For further details regarding the Tamar SW reservoir, see Section 6.7.2(i) above.

(4) Sale of Karish and Tanin

- a. In December 2016, in accordance with the provisions of the Framework, Delek Drilling, Avner and Noble transferred all of their rights in the Karish and Tanin leases to Energean, an unrelated third party.
- b. On December 13, 2016, approval was received from the Petroleum Commissioner for the transfer of the rights in Karish and Tanin to Energean.

(5) Taxation

- a. The Government Resolution included the Tax Authority's notice which regulates various taxation issues pertaining to activity in the Tamar and Leviathan reservoirs. In addition, the government decided to act to promote amendments to the Taxation of Profits from Natural Resources Law, whose aim, *inter alia*, is the closing of tax loopholes, various clarifications, and the application of assessment and collection proceedings.
- b. The Government Resolution also provided that the price of a petroleum unit in an export agreement will be taxed according to the actual revenue from the export agreement and not according to the "average domestic price" for such type of petroleum, as defined in the Taxation of Profits from Natural Resources Law, and that there will be no need for an annual examination of the revenues from the export agreement for this purpose, all subject to the receipt of prior confirmation from the Israel Tax Authority director general that the price of a petroleum unit is not lower than the "average domestic price" or, alternatively, subject to the holder of the export agreement undertaking to offer the price set in the export agreement as aforesaid, to new customers in Israel, in the manner and under the conditions set forth in the Gas Framework.

(6) Domestic content

The Government took note of the announcement of the Minister of Economy that the holders of rights in the Tamar and Leviathan reservoirs committed to invest in domestic content in the aggregate sum of USD 500 million over eight years from the grant date of the Exemption, that is, as of December 17, 2015. Domestic content includes expenses in respect of the purchase of commodities or services from bodies registered in Israel (including foreign entities registered in Israel), the purchase of goods, procurement from Israeli contractors, suppliers or producers, investments in research and development in Israel (directly or indirectly), expenses for manpower (up to a cap of 20% of the total commitment as aforesaid), expenses for professional training, donations and activity in the field of social responsibility.⁶⁷

(7) Maintaining a stable regulatory environment

The Israeli Government has committed to maintaining regulatory stability in the natural gas exploration and production sector on three issues: the maximum public share in the government take, export and the restructuring included in the Government Resolution, for a period of 10 years from the Government Resolution adoption date.

The Petroleum Commissioner intends to postpone the commencement date of commercial production and piping of natural gas to the domestic market from the Leviathan reservoir for up to 48 months after the grant date of the Exemption.

- 7.16.2 The Company's Articles of Association include a provision whereby as of the Effective Date for Tamar, if the Company holds rights in Tamar, no prohibited representative will serve in the Company. For further details see Section 88 of the Articles of Association, which were published in an Immediate Report from March 14, 2018 (Ref. No. 2018-01-020151).
- 7.16.3 Following the original Government Resolution and the grant of the Exemption, several petitions were filed with the High Court of Justice. On March 27, 2016,

⁶⁷ The Operator relayed to the Ministry of Economy an audited report regarding local suppliers' expenses in 2016 and on December 7, 2017, the Ministry of Economy sent the Operator a certification confirming the recognition of said expenses in the amount of USD 110 million.

the High Court of Justice issued a judgment on these petitions, ruling, *inter alia*, that the stability clause as worded in the Gas Framework⁶⁸ cannot stand and gave the State a one-year period to act to regulate the stability issue in the Gas Framework.

On May 22, 2016, the Government readopted its resolution of August 16, 2015 with respect to the Framework, establishing an alternative arrangement for Chapter J of the Framework concerning a “stable regulatory environment,” to ensure a regulatory environment that encourages investments in the natural gas exploration and production segment.

7.16.4 Antitrust

- (a) On August 28, 2006, the Antitrust Commissioner granted an exemption, subject to certain conditions, from approval of a restrictive arrangement, under Section 14 of the Restrictive Trade Practices Law, to an agreement regarding the joint holding by the parties thereto of rights in the 309/”Matan” and 308/”Michal” licenses⁶⁹(in the areas of which the Tamar and Dalit natural gas discoveries were made in 2009) (the “**Matan and Michal Licenses**”), with part of these rights subsequently transferred to Noble. The Antitrust Commissioner’s decision was made contingent on several conditions, the key ones being:
 - (1) The “Local Corporations” (as defined below) may not hold jointly, whether alone or with additional holders, any gas rights other than the rights directly and exclusively arising from the Matan and/or Michal licenses, except with the express prior written approval of the Antitrust Commissioner. By December 31, 2006, the “Local Corporations” must terminate any joint holding in gas rights, except for rights arising directly and exclusively from the Matan and Michal licenses, which they held jointly, whether alone or with other holders, at the time the decision was made, unless such joint holding has been expressly permitted in writing by the Antitrust Commissioner.
 - (2) In any arrangement, agreement or understanding, in writing or orally, with regard to determination of a mechanism or manner of

⁶⁸ The Government’s commitment to restrict future changes in regulation of the natural gas industry.

⁶⁹ On December 2, 2009, the Tamar and Dalit Leases were granted in lieu of the aforementioned licenses.

decision making between the license holders of Matan and Michal with regard to the marketing of natural gas produced under the Matan and Michal Licenses, none of the “Local Corporations” may hold alone, directly or indirectly, any right or power to prevent the other holders from taking decisions or actions with regard to the marketing of natural gas produced under the Matan and Michal Licenses.

- (3) Definitions: the “Local Corporations” – “Delek Group” and “Isramco”; “Delek Group” - Avner and/or Delek Drilling and/or any person related to either of them; “Isramco” and any person related thereto.
- (b) On November 13, 2012, the Tamar Partners received notice from the Antitrust Commissioner that they were declared to be monopoly holders, jointly and severally, in the supply of natural gas in Israel as of the commencement date of commercial supply from the Tamar Project. Due to their being monopoly holders, the Tamar Partners are subject to Chapter D of the Restrictive Trade Practices Law, including the prohibition on unreasonable refusal to supply natural gas and the prohibition on abuse of their position in the market in a manner that might reduce competition in business or harm the public.
- (c) During June and August 2012, several decisions were issued by the Antitrust Commissioner regarding the grant of a conditional exemption from approval of restrictive arrangements in regard to five agreements for the supply of natural gas between the Tamar Partners and private gas consumers (the “**Previous Decisions**”). A decision was also issued for the grant of a conditional exemption from approval of a restrictive arrangement to an agreement between the Tamar Partners and the IEC. Following are the essential points of the Previous Decisions:

The gas consumer may choose, in respect of the agreement, between one of the two following options:

- (1) Shortening the term of the agreement to seven years, from the commencement date of the natural gas supply; or
- (2) Reducing the quantity of gas under the “Take or Pay” clause to half the average annual consumption quantity of the gas consumer in the

three years preceding the date of notice. The reduction of the purchase quantity will take effect one year after the date of said notice, and will continue until the end of the term of the agreement, as applicable (“**Reduction of the Purchase Quantity**”). A notice on the Reduction of the Purchase Quantity may be given at any time during the later ending period of the following two periods: (1) the period from January 1, 2018, until December 31, 2020; or (2) the period commencing at the start of the fifth year after the date of supply of natural gas and terminating at the end of the seventh year.

- (3) Upon determination of the minimum quantity for which the gas consumer is required to pay in accordance with the foregoing, the annual gas quantity and the aggregate gas quantity in the agreement will be updated.
- (4) The gas consumer will be permitted to sell natural gas designated for the use of consumers of the gas distribution network, in an amount of up to 15% of the annual gas quantity in each year.
- (5) No restriction will apply to a gas consumer in respect of the purchase of natural gas from any other supplier of natural gas that is not a Tamar partner.
- (6) The Tamar Partners may not enter, directly or indirectly, into any agreement for the supply of gas from the Tamar reservoir, without receiving the prior approval of the Antitrust Authority.

Following the Previous Decisions, such agreements were amended and all the natural gas supply agreements signed by the Tamar Partners from such date until the validation date of the Gas Framework were amended and/or drawn up in keeping with the Previous Decisions.

- (d) On December 27, 2015, another decision of the Antitrust Commissioner was issued regarding the grant of a contingent exemption from restrictive arrangements in connection with nine long-term agreements⁷⁰ for the supply of natural gas between the Tamar Partners and private gas

⁷⁰ In addition, the aforesaid decision referred also to other natural gas supply agreements with a shorter term and a lower quantity of natural gas to be supplied (without specifying which agreements), for which applications for exemption from approval of a restrictive arrangement had been submitted. It was determined that these agreements do not require application for exemption from approval of a restrictive arrangement, provided they comply with some of the conditions stipulated in the decision.

customers, under conditions basically the same as those laid down in the Previous Decisions. The key difference between the conditions of the Previous Decisions and the conditions of the Commissioner's new decision is the provision that the notice on the Reduction of the Purchase Quantity may be given at any time during the later ending period of the following two periods: (1) the period commencing on January 1, 2020 and ending on December 31, 2022; or (2) the period commencing on the start of the fifth year after the date of supply of the natural gas and terminating at the end of the seventh year as aforesaid (in this section: the "**Commissioner's New Decision**").

As of the report publication date, one agreement has been amended in accordance with the aforesaid and the Tamar Partners are acting to amend the other purchase agreements with the relevant consumers in accordance with the Commissioner's New Decision.⁷¹

- (e) Agreements signed from the beginning of 2016 up to the publication date of this report, are in compliance with the conditions of the Framework's provisions. Such agreements have been provided to the Antitrust Authority for the purpose of receiving a permit according to the requirement stipulated in the Commissioner's New Decision as aforesaid.

7.16.5 Specific legislation governing the operations

The exploration, development and production of petroleum and/or natural gas (in this section: "**Petroleum**") in Israel are regulated mainly under the Petroleum Law, including the amendments incorporated therein, and the regulations instituted thereunder, the essential points of which are as follows:

- (a) The Petroleum Law, 5712-1952 (in this section: the "**Law**")
 - (1) The Law provides, inter alia, that a person shall not explore for Petroleum except under a "preliminary permit", "license" or "lease deed" (as defined in the Law) and a person will not produce Petroleum except under a license or lease deed.
 - (2) Preliminary testing (that does not include test drilling) in any area, in order to ascertain the prospects for discovering Petroleum in such

⁷¹ As regards long-term agreements approved before October 2012, the exercise period for the option to reduce the purchase quantity is as per that stipulated in the Previous Decisions, i.e. the period from January 1, 2018 until December 31, 2020, or the period commencing at the start of the fifth year after the natural gas supply date and terminating at the end of the seventh year, as stated, whichever ends later.

area, including the conducting of seismic surveys, is subject to the receipt of a preliminary permit. The Law permits the granting of priority to the holder of a preliminary permit to receive a Petroleum right in the area for which the preliminary permit was granted, if said holder undertakes to conduct preliminary tests and invest in Petroleum explorations as determined by the State's competent representatives in this matter.

- (3) A "License" grants the licensee, subject to the provisions of the Law and the terms and conditions of the License, mainly the right to explore for Petroleum in the area of the license in accordance with the plan submitted to the Petroleum Commissioner under the Law, and the exclusive right to conduct test and development drilling in the license area and to recover Petroleum therefrom. In general, the License will be granted for an initial period of 3 years which may be extended, under conditions prescribed by the Law, for an additional period of no more than 4 years.
- (4) If the licensee makes a Petroleum discovery, it is entitled to an extension of the License period for such period as will give it sufficient time to establish the borders of the Petroleum field, but no longer than two years, and the licensee is entitled to receive in a certain area within the License area, a "lease" which grants exclusivity to explore and to produce petroleum in the leased area, for the term of the lease. The lease is given for a period of up to 30 years from issuance, but if a lease is given pursuant to a License that was extended after a discovery in the License area, the License term will commence on the date on which the License would have originally terminated, if not for the extension. A lease may be extended, under the terms and conditions prescribed in the Law, for an additional period of up to 20 years. A lease may expire after receipt of an appropriate notice from the Minister of Energy, if the lease holder fails to produce or ceases to produce Petroleum in commercial quantities.
- (5) The Law mandates, inter alia, that the leaseholder pay the State royalties of one eighth of the quantity of Petroleum produced from the leased area and utilized (excluding Petroleum used by the lease

holder for operating the leased area)⁷², but in any event no less than the minimum royalty prescribed by the Law. The royalty will be paid in kind or in cash subject to the discretion of the Petroleum Commissioner.

- (6) If the leaseholder has not produced or ceased to produce petroleum in commercial quantities after the end of the first three years from the lease grant date, the lease may expire, after the Minister of Energy has given an appropriate notice and so long as the leaseholder has not renewed the production as required in the notice, provided that such notice is given before the end of: (a) six months from the cessation of production, and (b) two years from the cessation of production during evaluation and development drilling in the lease area.
- (7) In addition, if the leaseholder has not paid a license fee or a lease fee or has not paid royalties, and after receiving a written notice from the Petroleum Commissioner fails to do so within thirty days, the Minister of Energy may place a lien on any petroleum inventory, facilities and other items belonging to the leaseholder until the debt is fully discharged.
- (8) The Minister may, after consultation with the Council, require the leaseholders to initially supply, at market price, from the oil they produce in Israel and the Petroleum products produced from it, the quantity of oil and petroleum products which the Minister estimates is required for consumption in Israel (as defined in the Petroleum Law); and for this purpose he may obligate the leaseholders to extract oil from their existing wells at a rate sufficient for such purposes, but no leaseholder shall be required to: (1) produce more than its effective maximum output rate; (2) supply to the general quantity required a percentage of its output that is greater than the percentage required of another leaseholder, unless the Minister sees cause to deviate from this rule for reasons of state security or to prevent waste or dishonesty against a particular leaseholder.

⁷² For further details regarding State royalty calculations, see Section 7.18 below.

(9) The "Administrator" (as defined in the Law) may, after consultation with the Council, require the owner of a pipeline constructed in accordance with the Petroleum Law, to convey the Petroleum of a specified person, to the extent that the pipeline is not needed by its owner for piping its own petroleum, all subject to reasonable terms and conditions as the Administrator may prescribe. A lease may expire following the issuance of an appropriate notice by the Minister of Energy, if the leaseholder has failed to produce or ceased to produce petroleum in commercial quantities.

Likewise, the Law provides that the "Administrator" (as defined by the Law) may revoke a Petroleum right or a right of priority if the holder of the right has not complied with the provisions of the Law or fails to comply with any condition of the Petroleum right or preliminary permit, or has not operated in accordance with the work plan submitted by it or is late in its implementation or fails to invest in Petroleum exploration the sums it committed to invest, notwithstanding a 60-day written notice given to the holder of the Petroleum right or preliminary permit holder.

(10) The Administrator will keep a petroleum register which will be open to the public for inspection (the "**Petroleum Register**"). The Petroleum Register will list any Petroleum right application, grant, extension, revision, and expiration, as well as the transfer and pledge of the Petroleum right or benefits therein, and also the grant of any lease deed. No such transaction will be in force until it is registered in the Petroleum Register.

(11) The Law prescribes that no one person shall have more than twelve Licenses or Licenses for a total area exceeding four million *dunams*, except with prior approval of the Petroleum Council.

(b) The Petroleum Regulations, 5713-1953 (the "**Petroleum Regulations**")

The Petroleum Regulations deal with, inter alia, preliminary permits and rights of priority in the licenses and leases (collectively called: the "**Rights**") and prescribe the manner for submitting applications for Rights, filing reports filed, fees to be paid; conditions with regard to the shape of the area; provisions with regard to the grant of Rights by way of

competition and provisions with regard to payment of royalties pursuant to the Petroleum Law.

(c) The Petroleum Regulations (Principles of Offshore Petroleum Exploration and Production), 5777-2016 (the “Offshore Regulations”)

(1) On November 15, 2016, the Offshore Regulations came into effect, superseding the Petroleum Regulations (Principles for Offshore Petroleum Exploration and Production), 5766-2006. The Offshore Regulations prescribe, inter alia, proof of qualification of the applicant seeking operator certification. The main points of the Offshore Regulations are as follows:

a. The Petroleum Commissioner will certify an applicant as an operator only if the following principal conditions are fulfilled:

- The operator must be the leaseholder with at least 25% of the rights in the petroleum asset.
- The operator or controlling shareholder therein (subject to the conditions in the Offshore Regulations) must have at least five years' experience in the ten-year period preceding the filing of the application, in performing the functions of an operator, including:
 - (a) experience in offshore oil or natural gas exploration;
 - (b) experience in offshore drilling;
 - (c) experience in offshore development and production of oil or natural gas;
 - (d) experience in activities for the preservation of health, safety, and environmental protection relating to activities in petroleum rights.
- Furthermore, the Petroleum Commissioner will not certify a corporation as operator unless it directly employs qualified employees that have at least five years' experience in the offshore oil or natural gas exploration sector, and in the offshore oil or natural gas development and production sector, unless he decides

to certify a corporation as an operator despite its noncompliance with the requirement of experience in offshore oil or natural gas development and production, as described below.

- The Petroleum Commissioner may, according to the stage and characteristics of the right and according to the scope of demand for receipt of the right in that area or according to the composition of the entire group, certify a corporation as an operator even if it fails to comply with the above requirement of necessary experience in offshore oil or natural gas development and production.
 - The Petroleum Commissioner may require that a certain corporation, for certification as an operator, have greater experience than prescribed, if he deems it necessary according to the stage and characteristics of the right, and considering the work plan, its complexity and environmental and safety aspects.
 - The Petroleum Commissioner will not certify a corporation as an operator unless it has sufficient financial capacity and financial soundness. The operator or controlling shareholder thereof (subject to the conditions in the Offshore Regulations) is considered financially sound (as defined in the Offshore Regulations) and has financial capacity that is deemed sufficient if total assets in the balance sheet are at least USD 200 million and total equity in the balance sheet is USD 50 million.
- b. An applicant for a Petroleum right must prove appropriate financial capacity by fulfillment of both of the following:
- Total assets in the balance sheet of the applicant (or of all holders of the Petroleum right jointly, including a member of the group approved as the operator with respect to the Petroleum right) are at least USD 400 million.

- Total equity in the balance sheet of the applicant (or of all holders of the Petroleum right jointly, including a member of the group approved as the operator with respect to the Petroleum right) is at least USD 100 million.

An applicant for a Petroleum right may rely on its controlling shareholder for proof of financial capacity, subject to the conditions prescribed by the Offshore Regulations.

The aforesaid financial ability, financial soundness⁷³, total assets and total equity will be examined according to the data in the audited financial statement as of December 31 of the year preceding the submission of the application, or according to an average of the data in the audited financial statements as of December 31 of the two years preceding the submission of the application, according to the discretion of the Petroleum Commissioner.

- c. The Petroleum Commissioner may, with the approval of the Minister of Energy, deny approval of an application to receive a petroleum right or an application to serve as an operator, even if all the aforesaid conditions are fulfilled, if he is convinced that reasons of national security, foreign relations and international trade relations so justify, or if there are special circumstances due to which approval of the application is not in the best interests of the public or the energy sector in Israel.
- d. Notwithstanding the foregoing, it is possible to approve an operator or grant a petroleum right even if not all of the details which appear above are fulfilled, provided that under the circumstances the non-fulfillment of the conditions is immaterial and the Petroleum Commissioner is convinced that there are special grounds which justify approval.
- e. The Offshore Regulations include additional provisions regarding the details to be included in the application for

⁷³ Financial soundness is proven if the conditions specified in the Regulations are fulfilled.

approval of an operator and reports which an operator and a holder of a petroleum right are required to submit to the Petroleum Commissioner.

(d) **The Natural Gas Sector Law, 5762-2002 (the "Natural Gas Sector Law")**

The Natural Gas Sector Law and the regulations instituted thereunder set out provisions regarding the construction of the transmission system, marketing, and supply of natural gas. The Natural Gas Sector Law provides, inter alia, that:

- (1) The following activities may not be engaged in except with a license issued by the Minister of Energy (in this section: the "**Minister**") and in accordance with its terms:
 - Construction and operation of a transmission system or part thereof;
 - Construction and operation of a distribution network or part thereof;
 - Construction and operation of a liquid natural gas(LNG) facility (hereinafter: "**LNG License**");
 - Construction and operation of a storage facility;
 - Construction and operation of an export pipeline of a non-leaseholder.
- (2) A transmission license will be granted only to a company incorporated in Israel under the Companies Law.
- (3) The holder of a transmission license, an electricity provider, or any controlling shareholder or interest holder thereof may not engage in the sale or marketing of natural gas.
- (4) Engaging in the selling and marketing of natural gas does not require a license. However, the Minister has the discretion under certain conditions set forth in the Natural Gas Sector Law to determine, upon agreement with the Minister of Finance and upon approval of the Knesset's Economic Affairs Committee, that for a certain set period, engagement in natural gas marketing will require a license.
- (5) If a person applies for more than one license, the Minister may, in consultation with the Director General of the Gas Authority, who was appointed under the Natural Gas Law (the "**Director**"), make the

licenses contingent on the terms and conditions specified in the Natural Gas Sector Law.

- (6) The Minister, in consultation with the National Gas Authority Council, which was appointed under Section 63 of the Natural Gas Sector Law (“**National Gas Authority Council**”), may, inter alia, in accordance with the Government’s policy, provide to a corporation, without holding a tender, a license for an export pipeline of a non-leaseholder, for a period set out in the license and subject to the provisions of the Natural Gas Sector Law.
- (7) A storage license and an LNG license will be granted under a tender or other public proceeding. However, the Minister may, with the consent of the Minister of Finance and in consultation with the Natural Gas Sector Council, decide that the storage license or the LNG facility license be granted without a tender or other public proceeding, to the holder of the transmission license. Notwithstanding the foregoing, a leaseholder may, for as long as a lease is in force, store gas produced by it in a reservoir in the lease area. Nevertheless, the Minister may also grant a leaseholder, without a tender or other public proceeding and for as long as the lease is in force, a license to store gas not produced by it, in a reservoir in the lease area; the term of the license will be set out therein and will not exceed the remainder of the lease term. The Minister may instruct that the leaseholder, for as long as the lease is in force, provide others with storage services in the reservoir that is in the lease area and determine the conditions for provision of the services, after giving the leaseholder an opportunity to voice its arguments; if such an instruction is given, the leaseholder will be deemed a holder of a storage license and the provisions of the Natural Gas Sector Law will apply to it.
- (8) Restrictions were placed on additional activities of a license holder; however the Minister, in consultation with the Natural Gas Sector Council, may give the license holder a permit to engage in additional activities under conditions prescribed in the Natural Gas Sector Law.
- (9) The term of a license may not exceed 30 years and cannot be extended. However, this provision does not prevent the license

holder from participating in a tender for the granting of a new license. Notwithstanding the foregoing, the Minister may decide not to limit the term of a distribution license, and if limited in time, he may extend the license term or cancel the term limitation and lay down in the license conditions regarding any such decision.

- (10) The Minister, in consultation with the Director General of the Natural Gas Authority, may set forth conditions in the license to ensure the aims of the Natural Gas Sector Law and compliance with its provisions, including conditions that must be met prior to commencement of the activities the subject of the license.
- (11) The Minister, with the consent of the Minister of Finance, may stipulate in a license given under a tender, an obligation to pay royalties or license fees to the State Treasury, and the manner of their calculation and payment, and if any of these was a subject for bids in the tender – in accordance with the results of the tender. The Minister, with the consent of the Minister of Finance, and with the approval of the Knesset's Economic Affairs Committee, may provide for mandatory royalty payments by a license holder whose license was not granted under a tender.
- (12) The Director General of the Natural Gas Authority, in consultation with the Natural Gas Sector Council and with the approval of the Minister of Finance, and after giving the license holder an opportunity to voice its arguments, may cancel the license at any time, in the event one of the conditions stipulated in the Natural Gas Sector Law was fulfilled.
- (13) A license or any part thereof may not be transferred, pledged, or attached.
- (14) A license holder may not condition the provision of service on the purchase of another service or gas from itself or from another person or on the non-purchase of a service or gas from another person. However, if it has been proven to the National Gas Authority Council that there is a reasonable business connection between the requested service and the fulfillment of the condition, the Council may approve the condition.

- (15) The tariffs charged by the license holder, and any update thereto, will be determined by the Natural Gas Sector Council, in accordance with the rules set forth in the license, and with regard to activities for which the license was granted under a tender, the Natural Gas Sector Council will set the tariffs according to the conditions of the tender; the Natural Gas Sector Council may determine criteria or provisions with regard to the standard, quality and level of the services that the license holder must provide to its consumers, and for ensuring continuity during the license term.
- (16) Gas that is sold by a natural gas supplier to a Private Electricity Producer (as defined in the Electricity Sector Law, 5756-1996) is a commodity that is subject to the Control of Prices of Commodities and Service Law 5756-1996 (the “**Control Law**”) and the level of control that will apply is in accordance with Section E of the Control Law.
- (17) The Minister, in consultation with the Council, may grant a corporation, without a tender, a license for an export pipeline of a non-leaseholder, for a period prescribed in the license, upon the fulfillment of all the following:
 - a. The corporation that submitted the application (including the corporation controlling it or another corporation controlled by the controlling corporation) has entered into a natural gas purchase agreement that fulfills all of the following:
 - A long-term agreement of significant scope for export purposes;
 - The purchased natural gas will be produced from the lease area in accordance with the Petroleum Law, with the facilities used for the operations under the lease connected to the pipeline for which the license was granted;
 - The Minister has preapproved the agreement.
 - b. All of the following were duly incorporated in Israel or in a country which is not an enemy country:
 - The license applicant;

- The controlling shareholder of the license applicant, if it is a corporation;
 - Another corporation controlled by the controlling corporation, which entered into such agreement, insofar as it did;
 - c. If the controlling shareholder of the license applicant is not a corporation, it must not be a citizen of an enemy country;
 - d. The holder of the lease, whose facilities for carrying out the activities are to be connected to the pipeline, holds the approvals required for export through the pipeline.
- (e) Natural Gas Sector Regulations (Management of the Natural Gas Sector in a State of Emergency), 5777-2017 (the “Emergency Regulations”)
- (1) The Emergency Regulations have been instituted by virtue of Section 91 of the Natural Gas Sector Law, which empowers the Minister of Energy, with the Government's approval, to declare a state of emergency in the natural gas sector and promulgate regulations governing the operation of the natural gas sector in a state of emergency.
 - (2) The Regulations distinguish between a situation in which 90% of the total natural gas supply in the national economy comes from one field and one transmission system (“**Significant Field**”), and a situation in which the natural gas supply in the national economy comes from at least two fields connected to INGL through two separate transmission systems:
 - a. Provisions when one Significant Field exists

Whenever the aggregate hourly demand for natural gas by the consumers of the gas supplier which is unable to supply all or some of the natural gas in the field (the “**Failing Supplier**”) exceeds the maximum quantity that can be supplied to them, the Failing Supplier and INGL will allocate the existing gas quantity according to the following provisions:

 - The first allocation of natural gas will be made to the distribution consumers (as defined in the Emergency Regulations). Such allocation will be made according

to the maximum hourly quantity of natural gas consumed by the distribution consumers in the 12 months preceding the date of the declaration (as defined in the Emergency Regulations).

A quantity of up to 3,600 MMBTU per hour will be reserved for the distribution consumers and the Director General of the Natural Gas Authority may determine how the quantity will be divided among the distribution consumers.

A quantity of at least 3,600 MMBTU per hour will be allocated as follows:

1. First to household consumers;
 2. The balance of the allocation will be allocated to the distribution consumers not included in Subparagraph (a).
- The remaining quantity will be divided between electricity producing consumers (in a scope of more than 45 MW) and other consumers, according to the daily consumption average of the two consumer groups in the same month in the previous calendar year.
 - The quantity to be distributed to any other consumer (from the quantity allocated to other consumers as aforesaid) will be determined according to their share in the hourly capacity ordered in the transmission agreement with INGL out of the total hourly capacity ordered by the rest of the other consumers that are not electricity producers.
 - The IEC will offer LNG for sale to consumers who are not electricity producers at the price for which it purchased the LNG plus a markup of up to 10%.
- b. Provisions when at least two fields exist

Non-failing gas suppliers will be obligated to offer for sale their surplus gas (defined as the available daily quantity after the supply of the quantity ordered by such supplier's

consumers, provided that the ordered quantity does not exceed the maximum quantity that may be ordered under the agreements with them) to the failing gas supplier. If the parties fail to reach an agreement as to the price of the surplus gas, the price will be according to the average price on the market (to be determined according to total revenues from natural gas sales to consumers in Israel from all fields, received during the quarter preceding the quarter before the date of the declaration, divided by the aggregate quantity of natural gas in MMBTUs supplied to consumers in Israel during the quarter preceding the quarter before the date of the declaration, as posted by the Natural Gas Authority from time to time on its website). Whenever the aggregate hourly demand for natural gas by the consumers of the failing gas supplier exceeds the maximum quantity that can be supplied to them, the Failing Supplier and INGL will allocate the excess gas quantity purchased to consumers in the Israeli sector only, according to the following provisions:

- The first allocation of natural gas will be made to the distribution consumers. Such allocation will be made according to the maximum hourly quantity of natural gas consumed by the distribution consumers of the failing gas supplier in the 12 months preceding the date of the declaration, as specified below:

A quantity that does not exceed the result obtained from 3,600 MMBTU per hour, minus the quantity supplied to the distribution consumers, provided by the non-failing gas suppliers per hour, will be reserved for the distribution consumers;

A maximum quantity exceeding the result obtained from 3,600 MMBTU per hour, minus the quantity supplied by the non-failing gas suppliers to the distribution consumers, as follows:

1. First to the household consumers;

2. The balance of the allocation will be allotted to the distribution consumers not included in Subparagraph (a).
 - The remaining quantity will be divided between electricity producing consumers and other consumers, according to the daily consumption average of the two consumer groups in the same month in the previous calendar year;
 - The quantity to be distributed to any other consumer (from the quantity allocated to other consumers as aforesaid) will be determined according to their share in the hourly capacity ordered in the transmission agreement with INGL out of the total hourly capacity ordered by the rest of the other consumers that are not electricity producers.
- c. General
- If the Minister finds, after consultation with the Director General of the Natural Gas Authority and the Director General of the Electricity Authority (as pertains to the electricity sector), that the natural gas shortage continuously or extensively compromises the regular functioning of the national economy or the regular supply of electricity to the Israeli market, which cannot be overcome by the use of other fuels, the Minister may deviate from the provisions of the Regulations and prescribe a different allocation of the gas and LNG quantities, provided that the deviation does not exceed what is required.
- The Regulations do not exempt the failing gas supplier from any legal duty applicable to it, nor do they derogate from any and all of the remedies and reliefs included in the agreement between the failing gas supplier and the gas consumer.

(f) The Promotion of Competition and Reduction of Concentration Law, 5774-2013 (the “Concentration Law”)

The Concentration Law, published in the Official Gazette on December 11, 2013 (the “**Commencement Date**”) prescribed, inter alia, that the regulators have the authority to weigh sectoral competitiveness considerations and economy-wide concentration considerations, in the framework of allocation of public assets by the State, in order to ensure an increase in sectoral competitiveness and decentralization of the economy-wide concentration.

Under the Concentration Law, a regulator has authority not to allocate to an organization included in the publicly released list of concentrated entities, which was drawn up based on criteria established in the Concentration Law (“**Concentrated Entity**”), a right (including a contract) in an operating sector where use is made of essential infrastructure or of a public resource, or where an essential public service is provided, which is listed in the Concentration Law (“**Essential Infrastructure Sector**”), after finding that no real damage will be caused to the sector in which the right is allocated and to the regulation of such sector due to non-allocation. A regulator will only allocate a right to such an entity after taking into account considerations for preventing the expansion of the Concentrated Entity's operations, and bearing in mind the associated business sectors and the link between them (“**Economy-Wide Concentration Considerations**”).

Therefore, prior to the allocation of a right in any essential infrastructure (including a business sector in respect of which a petroleum right is granted or a business sector in respect of which a storage license or an LNG facility license is required under the Natural Gas Sector Law) to a Concentrated Entity, the regulator must weigh Economy-Wide Concentration Considerations.

Notwithstanding the foregoing, the aforementioned provisions with regard to Economy-Wide Concentration Considerations will not apply to the allocation of a petroleum right to any holder of another petroleum right in respect of the same area on the allocation date.

In addition, when allocating a right (as defined above), including a license required for activity in a business sector that is not an Essential

Infrastructure Sector, the regulator is required to take into account considerations for the promotion of sectoral competitiveness, apart from any other consideration it must weigh by law, in this regard.

The aforesaid provisions concerning the proceedings for the allocation of a right took effect in December 2014. With respect to an extension of the term of a right, the provisions will apply starting three years after the Commencement Date (i.e., December 10, 2017).

On December 25, 2017, the Committee to Reduce Economic Concentration issued, in accordance with the Concentration Law, a list of the concentrated entities in the economy, a list of the significant real corporations, and a list of the significant financial entities. From a perusal by the Company, close to the approval date of the report, of the lists issued by the Committee to Reduce Economic Concentration, it emerged that the Company is included in the list of concentrated entities. To the best of the Company's understanding, its inclusion was made prior to the Company's initial public offering of shares, that is: when the Company was wholly controlled by Delek Drilling. The Company intends to apply to the Committee to Reduce Economic Concentration for the removal of its name from the aforesaid list.

As of the report publication date, the Company is unable to assess the scope of the effect of the Concentration Law on the oil and gas exploration sector in general and on its own operations in particular.

7.16.6 Directives of the Petroleum Commissioner

(a) Provision of collateral in connection with petroleum rights

(1) On September 17, 2014 the Petroleum Commissioner promulgated, in accordance with Section 57 to the Petroleum Law, a final version of directives for the provision of collateral in connection with petroleum rights, the principles of which (with respect to offshore assets) are as presented below. However, it is noted that after that date, the Petroleum Commissioner required certificates of insurance with a formulation as determined by him, based on insurance plans submitted to him, covering insurances pertaining to the Tamar field. In 2016, draft directives were released for the provision of collateral in respect of petroleum rights, while also updating provisions pertaining to insurance policies. The Petroleum Commissioner is

expected to release updated directives in connection with collateral related to insurance policies. Following are the main points of the directives for the provision of collateral in respect of the petroleum rights (for offshore assets):

- a. Existing offshore license holders will deposit guarantees in an amount equal to USD 2.5 million in a gradual manner, as follows: (a) USD 1.25 million will be deposited by November 30, 2014; (b) USD 1.25 million will be deposited by March 31, 2015. A holder of a right whose approved work plan for the right includes or will include the performance of drilling prior to the aforesaid dates must provide the base guarantee in full prior to the issuance of the drilling approval. In addition, in exceptional circumstances so justifying, the Petroleum Commissioner may demand a different guarantee amount from that specified above.
- b. Prior to performing drilling, license holders will be required to provide an additional guarantee in an amount to be determined by the Petroleum Commissioner, based on the drilling characteristics and drilling plan. The sum of the additional guarantee for the offshore licenses will not be less than the equivalent of USD 5 million. If the Petroleum Commissioner believes that the drilling characteristics justify it, he may demand a guarantee in a lower amount than aforesaid.
- c. In the petroleum leases, the Petroleum Commissioner will determine the sum of the guarantee, taking into account, inter alia, the development plan, the lease characteristics, the development stage of the lease, and the size of the petroleum field. In any event, the guarantee will not be less than the equivalent of USD 7.5 million for an offshore lease. Guarantees in respect of new leases will be deposited upon the grant of the lease, for a term to be determined by the Petroleum Commissioner. Furthermore, the Petroleum Commissioner reserves the right to update the amount of the guarantee following a change in circumstances.

- d. The aforesaid guarantees will remain in force even after expiration of the right for which they were given, until the Commissioner advises otherwise, but for no more than seven years after expiration of the right for which they were provided.
- e. In the event that, in the opinion of the Petroleum Commissioner, a petroleum right holder did not act with due diligence in respect of the petroleum right or caused damage by his actions due to the petroleum right or did not incur expenses or failed to fulfill obligations that he was required to fulfill under the Petroleum Law, and the Petroleum Commissioner, during the term of the right, ordered the petroleum right holder by written notice to take actions or incur expenses or fulfill obligations pertaining to the petroleum right, and the petroleum right holder failed to follow such order and did not provide a warranted reason for such failure, the Petroleum Commissioner may order the forfeiture of the guarantees or a part thereof, after hearing the arguments of the right holder regarding the forfeiture of the guarantee.
- f. The petroleum right holder will take out and maintain, at its expense, throughout the entire term of the petroleum right, all the insurances which are customary among international companies for exploration or production of oil or gas.
- g. If the petroleum right holder fails to comply with the directives, or if it is found that the guarantee or insurance that were made were revoked or terminated for any reason whatsoever, prior to their renewal, extension or replacement by another guarantee or insurance, the Petroleum Commissioner will be entitled to forfeit the existing guarantee in respect of the right and act to mitigate the possible damage, at the expense of the right holder. In addition, the Petroleum Commissioner may view this as non-compliance with the work plan and with the provisions of the right, and take steps in accordance with the provisions of the Petroleum Law.

- h. In addition, the directives include, inter alia, provisions regarding the furnishing of guarantees with respect to applicants for new onshore licenses, existing onshore licenses, updating the guarantee amount and extending the guarantee, as well as general provisions regarding guarantees.
- (2) In the framework of the publication of the competitive proceeding described in Section 7.1.9(a) above, rules were set with respect to guarantees for new offshore licenses, as follows: (a) the basic guarantee sum per license is USD 2.5 million; (b) if the developer seeks to obtain a license in bordering areas, the guarantee sum for the additional area is USD 0.5 million for each additional license, up to a maximum guarantee sum of USD 4 million (for four bordering areas). The guarantee amount required for an area regarding which the license applicant has committed to execute a drilling is USD 10 million. Insofar as the license holder fails to execute a drilling during the license term and seeks to extend it under law, it will have to provide an additional guarantee in the sum of USD 5 million prior to the execution of the drilling.
- (3) The partners in the Tamar and Dalit Leases deposited a bank guarantee of USD 35 million for the Tamar Lease and a bank guarantee of USD 7.5 million for the Dalit Lease, in connection with compliance with the terms and conditions of said leases, the provisions of the Petroleum Law, and the aforesaid directives of the Petroleum Commissioner, and in connection with any damage that may be caused in relation to the activity or inactivity in said leases, including in connection with the execution or non-execution of an abandonment plan (in respect of 100% of the rights). The Company's share in such guarantees amounts to USD 3.9 million (USD 3.2 million for the Tamar Lease and USD 0.7 million for the Dalit Lease). In the framework of the sale agreement with Noble, it was agreed that the guarantees furnished by Noble within the aforesaid framework will remain in force until such time as the Company furnishes substitute guarantees. It was also agreed that until such guarantees are provided, the Company will not be allowed to distribute dividends except for the first dividend distribution,

which is expected to be carried out by the Company during April 2018. In the event these guarantees are not replaced within 90 days of the transaction's closure date, as of this date, the amounts of the guarantees will start to bear 3% nominal annual interest. The substitute guarantees are in the amount of USD 2.6 million for the Tamar Lease and USD 0.6 million for the Dalit Lease.

(b) The Transfer and Pledge of a Petroleum Asset Right and Benefit in a Petroleum Asset Right

On December 31, 2015, the Petroleum Commissioner issued directives for the purpose of Section 76 of the Petroleum Law, the objective of which is to regulate the procedure for the transfer and pledge of a petroleum right (preliminary permit, license and lease) and a benefit (including a right to contractual royalties) in a petroleum right⁷⁴ (in this section: the “**Directives**”) whose main points are as follows:

In this section, “benefit in a license” and “benefit in a lease” - including the holding of any of the following: (1) control of a licensee or a leaseholder, or of a corporation that holds part of a license or of a lease, or of a group, as the case may be; (2) more than 25% of a particular type of means of control in a license holder or a leaseholder, or in a corporation that holds part of a license or of a lease, or of a group, as the case may be; (3) a right to contractual royalties.

“Means of control” – means of control in a group or means of control in a corporation, as the case may be”;

“Means of control in a group” – each of the following: (1) voting right at a meeting, operating committee or other forum where decisions are made that are binding on the group as regards exercising the petroleum right; (2) the right to appoint members at a meeting, operating committee or other forum where decisions are made that are binding on the group as regards exercising the petroleum right, or appointing a person whose job is to make the aforementioned decisions; in this regard, “operating committee” – a body which the group members agreed would direct the group’s activity in

⁷⁴ It should be noted that directives with respect to Section 76 were also applied to the transfer of a petroleum right or a benefit between anyone who has a direct share in a petroleum right within the framework of a group by virtue of the agreement between them, and will also apply to a transfer or allotment of means of control which confer a benefit in a petroleum right or control in the corporation or group holding a petroleum right or benefit in a petroleum right.

exercising the petroleum right or determine the manner of exercising the petroleum right, and the performance of the duties imposed on the petroleum right holder according to the terms of the right or its policy in these matters or oversee them.

“Means of control in a corporation” – each of the following: (1) the voting right at a general meeting of a company or a corresponding body of another corporation; (2) the right to appoint a director at the company or its CEO, or corresponding officers at another corporation.

“Control” - control in a group or control in a corporation, as the case may be.

“Control in a group” - the ability, alone or together with others acting collaboratively on a regular basis, to direct the activity of the group, except for the ability of an individual deriving only from filling a position in the group or from filling a position of director or other officer in one of its members and except for ability deriving only from filling the role of operator; without derogating from the generality of the foregoing, it is presumed that a person controls the group (1) if he holds half or more of the petroleum right held by the group; (2) if he holds half or more of the means of control in the group; (3) if he has the ability to make decisions for the group regarding actions relating to the petroleum right and the activity for its implementation, or to prevent the making of such decisions in the group.

“Control in a corporation” - the ability, alone or together with others acting collaboratively on a regular basis, to direct the activity of the corporation, except for the ability deriving only from filling the position of a director or other officer in the corporation; without derogating from the generality of the foregoing, it is presumed that a person controls a corporation (1) if he holds half or more of a certain type of means of control in the corporation; (2) if he has the ability to make decisions regarding the exercise of the petroleum right for the corporation, or to prevent such decisions being made in the corporation, by virtue of the corporation’s bylaws or by virtue of an agreement. In a corporation that is a limited partnership – each of the aforementioned rights in a corporation that is the General Partner.

- (1) The Petroleum Commissioner may approve the transfer of a license and of a benefit in a license prior to the Petroleum Commissioner’s

confirmation of the existence of a discovery (as defined in the Petroleum Law), if all the following conditions are fulfilled:

- a. The application was filed at least a year after the grant date of the license and at the time of filing the application, the transferor was the holder of the transferred right for at least one year;
- b. The exploration and development experience of the license holder after the transfer meets the requirements of the Petroleum Law and the provisions of the Petroleum Commissioner;
- c. If the transferor is an operator, and following the transfer it will cease holding such capacity, the transferee will fulfill all the conditions required of the operator, in accordance with the Petroleum Law and the provisions of the Petroleum Commissioner;
- d. The financial capacity of the license holder after the transfer meets the requirements under the Petroleum Law and the provisions of the Petroleum Commissioner;
- e. If the transferor provides a monetary commitment to prove financial capacity also for the other partners directly holding rights in the petroleum asset, said partners must also prove financial capacity as stated in Subsection d. above;
- f. The time remaining until expiration of the license as of the filing date of the application is greater than three months, and in any event the validity of the license prior to the filing of the application may not exceed six and a half years;
- g. If the license and the preliminary permit which preceded it were granted without payment to the State, and the consideration exceeds double the transferor's expenses in the purchase of the transferred rights and in the financing of the pro rata share, according to the percentage of the transferred rights, of the expenses in performing the actions enumerated in the Directives, and linked to the representative rate of the dollar, the difference between the expenses and the financing,

as stated, will be used for the continued performance of the actions under the license.

- (2) The Petroleum Commissioner may approve transfer of a lease or a benefit in a lease after the production of petroleum commenced in the lease area, provided that the conditions specified in Subsections (1)c-(1)d above are fulfilled.
- (3) The Petroleum Commissioner may approve transfer of a preliminary permit in respect of which priority was given to an entity controlled by the entity controlling the preliminary permit holder, provided that the conditions set out in Subsections (1)c, (1)e and (1)g above are fulfilled.
- (4) The Petroleum Commissioner may approve transfer of petroleum rights, as stated in Subsections (1) and (2) above, even if not all the specified conditions are fulfilled, in the case of a transfer of rights in a negligible scope (no more than 5% in a right) or if there are special grounds and additional circumstances as detailed in the Directives.
- (5) The Petroleum Commissioner will not approve a transfer of contractual royalties (as defined in these Directives) whose value exceeds 5% of the value of the petroleum produced and utilized in the framework of the right. In exceptional cases, the Petroleum Commissioner may approve the transfer of royalties whose value exceeds 5% of the value of the petroleum produced and utilized in the framework of the right, provided that it does not exceed 10% of the value of such petroleum. It should be noted that the Petroleum Commissioner will not allow the transfer of contractual royalties which is made as part of a transfer of a license or benefit prior to the Petroleum Commissioner confirming the existence of a discovery (as defined in the Petroleum Law).
- (6) The Petroleum Commissioner will not approve transfer of a petroleum right or of a benefit in a petroleum right, if in his opinion one of the following is fulfilled:
 - a. The transfer may delay or harm the performance of the duties of the holder of the petroleum right for exploration or production of petroleum according to the license or lease or according to the Petroleum Law, as the case may be;

- b. The transfer may significantly harm the competition in the field of exploration and production;
 - c. The transfer may significantly harm the payment of the royalties which are due to the State Treasury according to the Petroleum Law and the law;
 - d. The transferee or its controlling shareholder breached the provisions of the Petroleum Law, or the provisions and requirements prescribed by the Petroleum Commissioner by virtue thereof, in relation to another petroleum right which it has or had or a benefit related thereto, or the conditions of such petroleum right, or acted with respect to such petroleum right inefficiently or irresponsibly, and as a result it is not fit to be a holder of a petroleum right or a holder of part of a petroleum right or a holder of a benefit in a petroleum right, as the case may be;
 - e. The transferor or transferee have not yet paid an amount they are required to pay to the State Treasury with regard to a petroleum right which they have or had.
- (7) In addition, the Petroleum Commissioner has the discretion not to approve a transfer even if all the conditions for providing the approval which are detailed in these Directives are fulfilled, if he is convinced that reasons of public security, national security, foreign relations or international trade relations so justify, including in a case where the transferee is a corporation controlled by a foreign country or where there are other special circumstances due to which the transfer is not in the best interests of the public or the energy sector in Israel.
- (8) The Petroleum Commissioner may approve a pledge of a petroleum right or benefit in a petroleum right prior to the commencement of commercial production, if the pledge is meant to serve as collateral for receiving a loan to finance activities which the petroleum right holder must perform, or to ensure the receipt of contractual royalties or on special grounds which the Petroleum Commissioner deemed fit to approve. Additionally, similar conditions were established for

approving a pledge of petroleum rights after commercial production commences.

- (9) Permission for a pledge does not constitute permission to transfer the pledged right, and if the conditions for realizing the pledge are fulfilled, the license or lease or any part thereof or a benefit in the license or lease, as the case may be, will not be transferred to the pledge holder or any other entity, unless the Petroleum Commissioner allows the transfer to the transferee in advance and in writing, pursuant to the Directives. The appointment of a receiver for the pledged right will not be subject to the rules applicable to the transfer thereof, provided that the Petroleum Commissioner agreed in advance and in writing to the identity of the receiver and the powers provided to him.

On January 31, 2016, Noble filed an appeal with the Minister of Energy, following the issuance of such Directives. It was alleged that the Directives create ambiguity regarding the conditions for the transfer of petroleum rights, and the scope thereof exceeds the realm recognized in Israeli law for administrative directives, and they should not be left in place. It was further argued that the Directives are inconsistent with the customary practice on this issue worldwide. On June 4, 2017, Noble submitted a letter to the Minister of Energy complaining about the fact that a decision had not yet been rendered on the filed appeal, relating to the damage caused to Noble owing to the ambiguity of the Directives, and requesting once again, in accordance with the appeal, the revocation of the Directives, or at the very least, their amendment. A decision has not yet been handed down on the appeal.

(c) Export permit applications

On December 31, 2015, the Petroleum Commissioner issued directives concerning the submission of applications for the receipt of a permit to export natural gas, which determine, inter alia, the date and the manner for submitting an application for receipt of a permit to export natural gas from the lease area, the details to be included in such application and the documents to be attached thereto, as well as clarifications pertaining to such export permit. It should be emphasized that an export permit will be granted in accordance with the terms and conditions specified in the Gas

Framework, as set out in Section 7.16.1(c)(2) above, and subject to any law.

As of the report publication date, export permits have been received for the export agreement specified in Section 7.4.5(a) above.

7.16.7 Additional regulatory restrictions

(a) **Government Resolution on the recommendations of the Tzemach Committee**

In October 2011, a committee was formed to examine the government's policy with regard to the natural gas sector in Israel and its future development, headed by Mr. Shaul Tzemach, the then Director General of the Ministry of Energy(in this section: the "**Committee**"). On September 12, 2012 the Committee released a final report. On June 23, 2013 the Israeli Government adopted the principal recommendations of the Committee, with certain changes (in this section: the "**Government Resolution on the Tzemach Committee**"). The Gas Framework described in Section 6.7.16(a) above, which took effect on December 17, 2015, included several clarifications and amendments to the aforesaid Government Resolution. The main points of the Government Resolution (as amended in the Gas Framework), which may affect the Company's activity, are as follows:

- (1) The volume of natural gas that must be assured for the domestic market is 540 BCM (the "**Minimum Amount for the Domestic Market**"), which will enable a supply of natural gas for the economy's needs, for a period of 29 years commencing on the date of the Government Resolution on the Tzemach Committee.
- (2) Every reservoir's obligation of minimum supply to the domestic market will be determined according to its size, as specified below:

| <u>Amount of Natural Gas in Reservoir</u> | <u>Rate of Minimum Supply to Domestic Market out of Natural Gas Amount in Reservoir</u> |
|-------------------------------------------------------|------------------------------------------------------------------------------------------------|
| Exceeding 200 BCM (inclusive) | 50% |
| Exceeding or equaling 100 BCM, but lower than 200 BCM | 40% |
| Exceeding or equaling 25 BCM, but lower than 100 BCM | 25% |
| Lower than 25 BCM | To be determined by the Petroleum Commissioner |

In respect of reservoirs shared by Israel and other countries, the Petroleum Commissioner will determine specific arrangements and conditions⁷⁵. In addition, export facilities must be located in Israeli-governed territory that is in its exclusive economic zone, unless otherwise stipulated in a bilateral agreement between Israel and another country.

- (3) The export of natural gas will require approval from the Petroleum Commissioner⁷⁶, and the amount of gas permitted for export will be in accordance with the pro rata part of the quantities permitted for export in the reservoirs at that time, subject to ensuring the minimum quantity for the domestic market, as aforesaid.
- (4) A lease holder in a developed reservoir may substitute its export quota for mandatory supply to the domestic market in accordance with the size thereof and the rates as specified in the table in Subsection b. above, and subject to the approval of the Petroleum Commissioner and the Antitrust Commissioner, after weighing all the relevant considerations.
- (5) Notwithstanding the aforesaid, a reservoir developed prior to the Government Resolution on the Tzemach Committee (i.e. Yam Tethys and Tamar Project), may export 50% of the amount which the leaseholders have not yet committed to the domestic market as of the date of the Government Resolution on the Tzemach Committee and no more, with immediate effect, provided that export approval is given. If a consumer exercises the option to reduce quantities granted to it by an agreement signed with the leaseholders prior to such date, the quantity of natural gas for which the option to reduce quantities was exercised, will be deemed part of the quantity of natural gas which the leaseholders have not yet committed to the domestic market.
- (6) Every leaseholder must connect each natural gas reservoir in the lease area to the domestic market, subject to the timing and quantity

⁷⁵ The permitted export quota from the Karish and Tanin reservoirs in the amount of 47 BCM was exchanged, as of the date of approval by the Petroleum Commissioner of the transfer of rights in Karish and Tanin, against the duty to supply to the domestic market imposed on the holders of the Leviathan leases.

⁷⁶ For details regarding the Petroleum Commissioner's directives with respect to the submission of applications for receipt of a natural gas export permit, see Section 7.16.6(c) below.

determined in the lease deed and in accordance with the prescribed conditions.

- (7) Planning, allocation and construction of onshore and offshore infrastructure for the transmission and processing of natural gas for the domestic market will be executed with government involvement, to the extent required.
- (8) The Energy Minister will examine, in consultation with the Prime Minister, the Minister of Finance, and the Minister of Economy, the need to set rules for the sale of natural gas to consumers in the domestic market that is designated for the manufacture of export products.⁷⁷
- (9) It was proposed to task the Minister of Finance with submitting legislative amendments within 120 days of the date of the Government Resolution on the Tzemach Committee, in order to ensure the receipt of the public's full share in the natural gas resource in the case of export thereof.
- (10) The Israeli government will act to create redundancy in the natural gas supply systems for the domestic market, and accordingly is instructing the Minister of Energy to examine the need for the various alternatives for creating such redundancy, including the possibility of using and adapting existing infrastructures, and the possibility of constructing an additional pipeline, from the Mari B rig to the National Transmission System in the area of Ashkelon, including a processing facility.
- (11) In addition, it was determined that after five years have passed from the date of approval of the Committee's recommendations by the Government, the Government will assess the situation, in light of the supply of natural gas and the projected demand for natural gas for 25 years from that point in time, as to the need to update the total export quota. Export approval for each field will be in accordance with the obligation to supply to the domestic market, as detailed in the Government Resolution on the Tzemach Committee.

⁷⁷ However, the natural gas quantities used by the plant to be built following the tender for the construction of an ammonia production plant in Mishor Rotem will not be deemed as export.

(12) On January 21, 2018, the Ministry of Energy announced the formation of a panel for a periodic review of the Committee's recommendations. The panel will examine the developments that have taken place since adoption of the Government Resolution on the Tzemach Committee concerning natural gas demand and reexamine the issues of natural gas supply and demand, policy, learning of lessons, etc. The panel will be headed by the director general of the Ministry of Energy and its members will comprise representatives of the National Economic Council, the Budget Department at the Ministry of Finance, the Ministry of Environmental Protection, the Antitrust Authority, the Attorney General, the Natural Gas Authority, the Ministry of Foreign Affairs and the Natural Security Council. According to the announcement of the Ministry of Energy, the panel is slated to complete its work by June 2018.

The Ministry of Energy carried out an independent estimate of the amount of reserves in the Tamar reservoir, through external consultants, *inter alia* for the purpose of calculating the quotas for export from the Tamar reservoir, in accordance with the Government Resolution, as specified in Section 7.16.7(a) below. To the best of the Company's knowledge, there is no material difference between the Ministry of Energy's estimate and the reserves estimate presented in Section 7.2.15(a) below. As of the publication date of this report and to the best of the Company's knowledge, the Ministry of Energy intends to review said estimate.

(b) Natural Gas Price Control

On May 25, 2011, the Ministry of Energy requested the Joint Prices Committee of the Ministry of Finance and the Ministry of Energy (the "**Prices Committee**") to examine the need for the imposition of control on the prices of natural gas sold in Israel.

Pursuant to the recommendation by the Prices Committee, the Control of Prices of Commodities and Services Order (Application of the Law to Natural Gas and Determination of the Control Level), 5773-2013, was issued on April 24, 2013. The order imposes control on the gas sector in terms of reporting on profitability and prices, with said reporting obligation

imposed separately in respect of every project. The need to control natural gas prices in Israel in terms of price fixing will be examined based on information to be received. According to the Gas Framework, as long as Delek Drilling, Avner, and Noble comply with all the terms of the Gas Framework, such reporting obligation will remain in force. Such reporting obligation applies to the partners in the Yam Tethys Project and in the Tamar Project, and also applies separately to each project.

For details regarding the effect of the imposition of price control on natural gas prices in Israel at the price fixing level, see Section 7.24.14 below.

- (c) Regulation of the use of the capacity of the gas pipeline from the production platform of the Tamar Project to the natural gas exit from the Terminal in Ashdod (the “**Regulation of Pipeline Capacity Allocation**”)

On December 9, 2012 the Natural Gas Authority at the Ministry of Energy (in this section: the “**Authority**”) issued a decision regarding the regulation of allocation of capacity in the pipeline, including with regard to the preservation of gas capacity for consumers and marketers in the distribution network and in connection with the resolution of the issue of supply capacity shortage in the Tamar Project. It is the Authority’s position that the Tamar Partners will not refuse to sign contracts for the sale or marketing of natural gas with consumers wishing to enter into an agreement with them merely because the agreement means that the total hourly quantity of natural gas to pass through the gas pipeline overruns the maximum capacity estimated as of such time at 40,000 MMBTU per hour. In the Company’s estimation, as of the report publication date, the main parties that could be affected by this decision are the consumers of natural gas from the Tamar reservoir, who have binding agreements that include capacity assurance, as distinct from consumers of natural gas on an interruptible basis.

- (d) Decision of the Natural Gas Authority Council regarding the financing of export projects via the National Transmission System

On September 7, 2014, the Natural Gas Sector Council released its decision regarding the financing of export projects via the National Transmission System. The decision determines the transmission rates that will apply to the transmission of Israeli natural gas via the National Transmission System to neighboring countries or to the Palestinian Authority, as well as

the financing of the construction of those segments of the transmission system designated for export of natural gas as aforesaid. The decision establishes the following principles:

- (1) The exporter (the entity selling or marketing the natural gas for export) and the transmission license holder will enter into a transmission agreement that must be approved in advance and in writing by the Director General of the Natural Gas Authority. The exporter will pay the transmission license holder the transmission tariff that will be the regular transmission tariff applicable to Israeli consumers, as in effect from time to time.
- (2) The exporter will bear the full costs of constructing the segment of the transmission system designated for export only (the "**Segment Designated for Export**") as well as the construction costs of an additional transmission line adjacent to an existing segment ("**Duplicated Segment**"), plus management fees at a rate of 2%.
- (3) For as long as the transmission agreement between the exporter and the transmission license holder is in effect, and an additional consumer will join the Segment Designated for Export in the future, the Director General of the Natural Gas Authority will determine the cost attributed to the additional consumer out of the total cost of construction of the Segment Designated for Export, according to the proportion of the additional consumer's capacity out of the total capacity that may be transported through the Segment Designated for Export. The exporter will be credited with the amount of such cost that will be attributed to the additional consumer.
- (4) If a certain segment of the transmission system leading to the Segment Designated for Export is slated to serve also Israeli consumers in the future, but the segment leading to the Segment Designated for Export would not have been duplicated at the time of its construction if not for the export of natural gas via the transmission system, the exporter will pay (in addition to the cost of construction of the Segment Designated for Export as aforesaid) the pro rata portion in respect of the duplication of the Segment Designated for Export. The Council will determine the division of the cost between the exporter and the transmission license holder.

- (5) In the event that the Director General of the Natural Gas Authority determines that there is sufficient capacity in the transmission system at the time the agreement is signed between the transmission license holder and the exporter, but that it is likely that during the ten years after the commencement date of the initial natural gas flow, there will be a capacity shortage in respect of the transmission system's Israeli consumers, in the segment leading to the Segment Designated for Export, then at the date of signing the transmission agreement, the exporter will choose between one of the following alternatives: (1) to pay the transmission license holder 50% of the future duplication budget for the relevant segment of the transmission system, and this amount will not be repaid to the exporter even if said segment is ultimately not duplicated; or (2) not to pay said amount and in the event of duplication of the segment as aforesaid, the provisions of Subsection (4)(d) above will apply.
- (6) The Director General of the Natural Gas Authority will determine, in each case, the point in the Transmission System from which the beginning of the segment leading to the Segment Designated for Export will be calculated and such point will be explicitly indicated in the transmission agreement.
- (7) Although the construction cost is imposed (in whole or in part) on the exporter, the latter will not own the segment and will not have any stake in such segment.
- (8) This decision will not apply to export transmission agreements signed with the transmission license holder up to November 2, 2014 (including the transmission agreement signed in connection with an agreement dated February 19, 2014, for the export of gas from the Tamar Project to consumers in Jordan (as detailed in Section 7.4.5 above).
- (9) In the framework of the export agreements and the non-binding letters of intent which were signed by the Tamar Partners thus far, it was agreed that the costs of the National Transmission System shall be borne by the customers of gas for export, according to mechanisms prescribed in the export agreements and non-binding letters of intent.

(e) Government Resolution regarding the reduction of Israeli dependence on petroleum for transportation

Further to Government Resolution No. 2790 of January 30, 2011 with regard to implementation of a national plan for the development of petroleum alternatives for transportation (the “**National Plan for Petroleum Alternatives**”), Government Resolution No. 5327 was released on January 13, 2013 regarding promotion of the transition of transportation in Israel in the years 2013–2025 to alternative energy sources for petroleum, in order to enable the feasibility of cutting the use of petroleum as a source of energy in Israel by around 30% by 2020 and around 60% by 2025, in accordance with the consumption projections and to the extent that such transition is economically viable. The aforementioned decision focuses on implementing technologies that reduce the use of petroleum in Israel in transportation, and on setting up regulation that will enable the implementation of alternative energy sources, that are not petroleum-based, in the domestic market, such as: compressed natural gas (CNG), natural gas converted to fuel (GTL) and a mixture of benzene and methanol, and also by creating processes for examining future policies with regard to new fuels.

This decision may expand the potential market for natural gas in the Israeli economy.

(f) The Marine Zones Bill

On November 6, 2017, a government bill – the Marine Zones Bill, 5778-2017, was placed before the Knesset. The proposed law seeks to establish the legal framework governing the offshore areas (including the areas beyond the borders of the State), the rights that the State of Israel has in such areas, and the limits to the powers it may exercise with regard to activities carried out therein.

On November 13, 2017, the Marine Zones Bill passed its first reading in the Knesset, and is currently awaiting deliberation by the Knesset Finance Committee to be prepared for its second and third readings. The proposed law, to the extent it passes its second and third readings, may have an effect on the Company's operations and costs, the scope of which cannot be estimated as of the report publication date.

In this connection, it should be noted that in January 2013 an opinion was provided by the Deputy Attorney General (Economic-Fiscal) which determined that according to Israeli law and considering the provisions of international law, the State of Israel's laws regarding regulation of the natural gas and petroleum sector in Israel, as well as its environmental protection laws and fiscal laws can be applied in the maritime areas beyond the State borders. This opinion did not negate the applicability of additional laws.

(g) The Decision of the Minister of Energy to Reduce the Use of Coal

On December 29, 2015, the Minister of Energy instructed the IEC that the use of coal for electricity production should be reduced in 2016 by 15% relative to 2015. As of 2017, a further reduction of 5% took place, resulting in a total cutback of 20% in the use of coal in comparison to the use made in 2015.

On August 24, 2016, the Minister of Energy notified the IEC of his decision to shut down four of its coal-operated production units upon connection of the Leviathan, Karish, and Tanin reservoirs to the shore, and the construction of new natural gas-operated power plants within a period of up to six years. A Government Resolution setting the principles for the implementation of this decision is expected to be adopted in the course of this year. Further thereto, on September 30, 2016, the IEC received emission permits under the Clean Air Law, 5768-2008, for its coal-fired power plant sites, which prescribe, *inter alia*, the duty to continue installing means of emission reduction and to discontinue the operation of Units 1-4 in the coal-fired power plant at the "Orot Rabin" site, no later than June 1, 2022.⁷⁸

On May 28, 2017, the Ministry of Energy website announced the decision of the Minister of Energy, which provides that the private sector will construct power plants fired by natural gas in place of the coal-fired units 1-4 at "Orot Rabin," to ensure that the timetables set for the discontinuation of coal usage by these units are met. In addition, the Minister directed the Electricity Authority to examine by the beginning of 2018, ways for constructing additional power plants with an aggregate capacity of 700

⁷⁸ According to an Immediate Report of IEC from October 5, 2016.

megawatts, according to developments in the power sector. To the best of the Company's knowledge, on December 27, 2017, the government panel, headed by the Ministries of Finance and Energy, reached basic understandings with the IEC and Histadrut Labor Federation regarding the framework for reform in the IEC, whereby, inter alia, part of the production segment will be gradually transferred from the IEC to private electricity producers. Said production segment will undergo several changes, one of them being that the IEC will sell to private entities, gradually over several years, five old sites (Eshkol, Ramat Hovav, Reading, Alon Tavor, and two units at Hagit) with a total capacity of 4,000 megawatts, accounting for half of IEC's production capacity. In addition, the power stations retained by the IEC will be divided into two government subsidiaries: one for coal-fired power stations – Orot Rabin in Hadera and Rutenberg in Ashkelon, and the other for power stations using natural gas; this is being done with a view to selling the companies in the future. It was also determined in the framework of the aforesaid understandings that the IEC will set up new production units in place of units 1-4 at the Orot Rabin power station, which supersedes that provided in the previous decision mentioned above. The coming into force of these understandings involves a government resolution and a legislative process in the Knesset, to the extent necessary. For details regarding the relevant provisions in the gas supply agreement between the Tamar Partners and the IEC as regards the reform framework described above, see Section 7.4.4(d) above.

On November 12, 2017, the Minister of Energy decided, in accordance with his authority under Sections 21A and 57A in the Electricity Sector Law, 5756-1996, on principles of policy regarding minimal operation of coal-fired production units, whereby at any and all times preference will be given to natural gas-fired power generation over coal-fired power generation, by operating coal-fired units at minimal capacity, thus enabling flexible and reliable supply to the national economy. Said policy, which is used also today in the system's administration, will continue to be implemented also after discontinuation of the operation of the aforesaid coal-fired units, in such manner as to reduce total electricity production by coal, subject to redundancy of the natural gas infrastructures through the

connection of three natural gas reservoirs, each of which is connected to the National Transmission System by separate infrastructure.

On January 3, 2018, the Minister of Energy announced that he had decided to direct IEC to reduce coal-fired electricity production by 30% compared to 2015. According to a joint announcement by the Ministry of Energy and Ministry of Environmental Protection, this decision will lead to a considerable reduction in air pollution by coal-fired power stations, and is expected to increase demand for natural gas in the economy. According to that stated in the Ministries' announcement, these steps, which were approved by the Minister of Energy, as well as power stations under the Clean Air Law, 5768-2008, will lead to over 70% of power generation in the economy being based on natural gas and renewable energy sources by the end of 2018.

- (h) Fuel Excise Tax Order (Imposition of Excise Tax) (Amendment and Temporary Order), 5778-2018; Fuel Excise Tax Order (Exemption and Refund) (Tax Amendment and Temporary Order), 5778-2018 (Green Taxation); Customs Tariff and Exemptions and Purchase Tax on Goods Order (Amendment No. 8), 5778-2018 (Coal) (hereinafter jointly called: the "**Orders**")

On March 14, 2018, the Knesset Finance Committee, followed by the Knesset Plenum, approved the Orders, which provide that as of March 15, 2019, the excise tax on coal will go up by 125%, in view of the government's policy to include external costs of fuels and to encourage expansion of uses of natural gas.

In addition, it was decided that, as of January 1, 2024, the excise tax on compressed natural gas (CNG) will increase gradually, subject to the existence of at least 25 CNG fueling stations, which will receive all the approvals required for operation. It was also provided that the refund of the excise tax on diesel oil, which is used primarily for transportation purposes, will be phased out as of May 1, 2018.

In the Company's estimation, these Orders will lead to a reduction in the use of coal for electricity production and to a reduction in the use of diesel oil for transportation purposes, in turn giving rise to increased demand for natural gas in the economy, which will surpass the natural growth in demand for natural gas and electricity in the Israeli economy.

(i) Environmental directives for offshore oil and natural gas exploration and development

In September 2016, the Ministry of Energy, in conjunction with the Ministry of Environmental Protection and other government ministries, issued directives intended to regulate the environmental aspects of offshore oil and natural gas exploration, development and production operations. These directives are meant to instruct the holders of offshore petroleum rights regarding the actions and documents they are required to prepare in the framework of their operations in the areas of their rights, in order to prevent, or minimize to the greatest extent possible, environmental hazards that might be created during offshore oil and natural gas exploration, development and production operations. Such directives constitute an integral part of the petroleum right and the work plan therefor, and deviation therefrom may lead to the revocation of the right. Therefore, the Ministry of Energy specifies, inter alia, the following directives:

- (1) Environmental directives for the performance of a seismic survey (geological and geophysical research): In view of the strong noise level created as a result of the performance of a seismic survey, and its consequences, it is required to report to the Commissioner on the noise level of, and the routes and dates planned for the seismic survey, and to obtain approval from the Petroleum Commissioner for the performance thereof. In cases where the activity is carried out in reservations or in proximity to infrastructure facilities, the activity must be coordinated with the competent authorities or entities. In addition, it is mandatory to prepare a plan for the performance of the survey, and to obtain the Petroleum Commissioner's approval for the survey's performance.
- (2) Environmental directives for licenses: At the license granting stage, a right is granted for petroleum exploration by means of exploration wells and appraisal wells, in the area of the license. Insofar as discoveries are made, further tests are carried out, with the purpose of examining the quantity and quality of the discoveries. As a condition for receiving a drilling permit, the license holder must submit an application for the Petroleum Commissioner's approval, which includes the following documents: (1)an environmental

document that includes a background monitoring plan for the marine environment; and (2) an enterprise emergency plan for the treatment of sea pollution by oil, approved by the National Marine Environment Protection Division. In addition, the license holder is also required to obtain a sea discharge permit and a poisons permit.

- (3) Environmental directives for post-discovery licenses and for leases: As a condition for the receipt of approval for the development plan and the operation permit, the leaseholder must submit the following documents to the Commissioner: (1) an environmental document that includes a background monitoring plan for the marine environment, which relates to the development and production plan; (2) an enterprise emergency plan for the treatment of incidents of sea pollution by oil. In addition, the leaseholder is also required to obtain the following permits: a sea discharge permit, a poisons permit, and an emission permit.

- (j) National Outline Plan 37/H for the Reception and Processing of Natural Gas

In order to create the planning infrastructure for the connection of the natural gas reservoirs to the National Transmission System and construct the facilities required for such purpose, the National Planning & Building Council (in this section: the “**National Council**”) and the Israeli Government approved the “detailed partial national outline plan for the reception and processing of natural gas from discoveries to the national transmission system” (in this section: the “**Plan**” or “**NOP 37/H**”).

The Plan designates areas (onshore and offshore) for the construction of the facilities required in the process of production and transmission of natural gas, which include, inter alia, natural gas reception and processing terminals and pipelines for transmission of the gas.

Several petitions were filed with the High Court of Justice (HCJ) against the Plan. On December 22, 2015, a judgment was issued on the petitions, which determined that the Plan had overcome most of the legal hurdles placed in its path by the petitioners, and on the whole, passed the test of judicial review. However, the court accepted two specific arguments that had been raised in the aforesaid petitions, and ruled that the National

Council would be granted 18 months to remedy the two specific flaws found in the Plan.

On February 2, 2016, the National Council decided to make adjustments and additions to the Plan in accordance with the HCJ ruling, as aforesaid, subject to the approval of the Government of Israel. On March 27, 2016, the Ministerial Committee for Planning, Construction, Real Estate and Housing (the Housing Cabinet) approved the amendments made in the Plan by the National Council according to the ruling of the High Court of Justice in the matter. Said approval was given the force of a government resolution on April 14, 2016.

- (k) Decision of the Electricity Authority – principles for recognizing gas costs for private producers that use natural gas
- (1) On September 12, 2016, the Electricity Authority laid down principles for recognizing costs for a vital service provider in respect of natural gas purchase agreements, as follows (in this section: the “**Authority’s Decision**”):
- a. The manner of calculating the recognized price in NIS per one MMBTU, for a producer that has signed a gas agreement in which the gas price is linked to the production component.
 - b. The Authority’s Decision will apply to license holders that fulfill the following two cumulative conditions: (1) license holders that have signed a gas agreement in which the price is linked to the production component up to no later than December 31, 2018; (2) license holders that have not yet received a rate confirmation as of August 16, 2015 and that will complete financial closing and receive a rate confirmation no later than December 31, 2018.
 - c. The Authority’s Decision does not derogate from the authority of any governmental entity vis-à-vis the gas agreements and specifically not vis-à-vis the authority of the Committee for Price Control. It was further clarified in the Authority’s Decision that if gas price control is imposed, the price recognized by the Electricity Authority will be according to the controlled price.

- d. It was determined that if electricity producers show an intention to sign gas agreements at a price that is not linked to the production component, the Electricity Authority will act to issue a separate decision regarding the recognized cost of gas, in accordance with the Gas Framework, for electricity producers that have signed a gas agreement with a different linkage mechanism.

In this Decision the Electricity Authority has determined a mechanism that incentivizes private electricity producers to enter into gas sale and purchase agreements, whereby the gas price will be lower than the maximum price set in the Gas Framework by recognizing a higher price than the de facto gas price. This decision also provides an incentive for private electricity producers to enter into agreements with new gas suppliers (i.e., gas suppliers unrelated to the Tamar partners), if the price of gas in these agreements is lower than the maximum price set in the Gas Framework.

- (2) The Electricity Authority's decision of June 12, 2017 states that the Electricity Authority will recognize IEC's costs arising from the IEC agreement, including costs arising from the minimum consumption commitment (Take or Pay), subject to the following conditions:
 - a. IEC will act in a reasonable manner to minimize the costs of the agreement and to meet the minimum consumption commitment, while utilizing all the tools at its disposal, including investing all efforts to reduce the price of gas at any date that the agreement allows, including the resale of gas. This decision provides that the gas price in a resale to other electricity producers may not exceed the cost of purchasing gas from the gas supplier.
 - b. IEC may not resell natural gas to a non-electricity producer if the system administrator determines that on the following day there is a requirement for the use of diesel or liquid gas as part of the general loading plan of the electricity sector, except for the use of diesel in the loading plan for testing purposes only. This clause will expire following the commencement of

commercial operation by an additional gas supplier in the gas market.

- c. IEC may not order gas in a quantity exceeding the quantities required for the generation of electricity according to the individual loading plan, less than stated in Subsection 1 above. IEC will use diesel and liquefied gas as per the instructions of the system administrator.
- d. The Electricity Authority's recognition of the costs of the IEC agreement will be subject to annual cost control which will be conducted by the Electricity Authority, taking into account IEC's activities to minimize the costs of the agreement and the IEC's compliance with the conditions detailed above.

7.16.8 Permits and licenses for the facilities of the Tamar Project

In the framework of the Tamar Project development plan, the Tamar Project partners received approval to construct a permanent rig for the production of natural gas and petroleum and also an approval for the operation of a production system of natural gas and condensate from the Tamar Project, according to which the Tamar Project partners were required, *inter alia*, to provide guarantees in the amount of NIS 100 million (in terms of 100%).⁷⁹

Furthermore, on August 29, 2016, the Minister of Energy granted Tamar 10-Inch Pipeline Ltd. (a company owned by the Tamar Partners according to their respective pro rata interests in the lease) a temporary transmission license for the operation of a pipeline to be used for the transport of natural gas originating in the Tamar Lease, from the Tamar rig to the entry point of the natural gas processing terminal in Ashdod, all subject to the conditions of the license. The pipeline was constructed as part of the Production System, as defined in the operation approval for Tamar, mainly in order to serve for the transport of condensate, and its operation for the purpose of natural gas transmission is for a limited period, following which it will revert to being used for the transport of condensate.

⁷⁹ The Tamar Partners provided a guarantee in the amount of USD 35 million to ensure said commitment and to ensure the terms and conditions of the Tamar Lease deed.

7.17 Material Agreements

Following are listed the agreements to which the Company is a party and which may be deemed material agreements, outside the Company's ordinary course of business, as well as joint venture agreements.

- 7.17.1 Sale agreement with Delek Drilling – For details see Section 6.2 of the Prospectus; these details are included herein by reference.
- 7.17.2 Sale agreement with Noble – For details see the Immediate Report from January 30, 2018 (Ref. No. 2018-01-008823) and the Supplementary Immediate Report from March 1, 2018 (Ref. No. 2018-01-016854), the information of which is included herein by reference.
- 7.17.3 Joint Operating Agreement in respect of the Tamar Lease – For details see Section 7.2.13 above.
- 7.17.4 Agreements for the sale of natural gas to the domestic market from the Tamar Project – For details see Section 7.5.1 above.
- 7.17.5 Agreement for the sale of natural gas by the Tamar Partners to the IEC – For details see Sections 7.4.4 and 7.4.4(d) above.
- 7.17.6 Agreement for the sale of natural gas by the Tamar Partners to ORL – For details see Sections 7.4.4 and 7.4.4(c) above.
- 7.17.7 Agreements for the export of natural gas from the Tamar Project – For details see Sections 7.4.4 and 7.4.5 above.
- 7.17.8 Agreement for the grant of usage rights in the facilities of the Yam Tethys project:
Under an agreement dated July 23, 2012 between the Yam Tethys Partners and the Company jointly with the other Tamar Partners (the "**Usage Agreement**") it was agreed, inter alia, as follows:
 - (a) The Yam Tethys partners grant the Tamar Partners usage rights in the existing facilities of the Yam Tethys Project, including the wells, the Mari-B platform, the compression system, the pipeline and the terminal, and the Tamar Partners are also granted the right to upgrade and/or construct facilities for the transmission and storage of natural gas from the Tamar Project (the "**Yam Tethys Facilities**"). The usage rights in the Yam Tethys Facilities are granted subject to the reservation of capacity for gas produced from the Yam Tethys Project in the pipeline and in the Terminal.

- (b) The term of the Usage Agreement will end upon the earlier of: (1) the expiration or termination of the Tamar Lease, and in the event that the Dalit field is developed such that use is made of the Yam Tethys Facilities, the expiration or termination of the Dalit Lease; (2) the giving of notice by the Tamar Partners of the permanent cessation of commercial gas production from the Tamar Project; (3) the abandonment of the Tamar Project.
- (c) In consideration for the use of the Yam Tethys facilities, the Tamar Partners paid the Yam Tethys Partners a total amount of \$380 million, in payments that ended in December 2015. As of the date of approval of the report, the consideration was paid in full.
- (d) The Agreement includes, *inter alia*, provisions that regulate relations between the Tamar Partners and the Yam Tethys Partners throughout the term of use of the Yam Tethys Facilities, including with respect to the management of the Yam Tethys Facilities, the mechanism for the division of operating expenses of the Yam Tethys Facilities and the division of capital expenses of the Yam Tethys Facilities in connection with the preparation and upgrade of the facilities for the receipt of natural gas from the Tamar Project, based on the gas capacity ratios between the Yam Tethys Project and the Tamar Project, restrictions on the transfer and/or encumbrance of the rights of the parties to the Usage Agreement, and an arbitration mechanism for the resolution of disputes between the parties.
- (e) Ownership of the upgraded Yam Tethys Facilities will remain with the Yam Tethys Partners, and the Usage Agreement will establish an account-settling mechanism relating to the value of said facilities at the end of the period of production from the Tamar Project.

7.17.9 The trust deed for Series A bonds – for details see Note 9 to the financial statements.

7.17.10 The trust deed for Series B bonds – for details see Note 23B to the financial statements.

7.18 Payment of royalties to the State and the manner of their calculation from the Tamar Project

The Petroleum Law 1952 (the "**Petroleum Law**") prescribes that a lease holder shall pay royalties to the State at the rate of one eighth of the quantity of petroleum produced from the area of the lease and exploited, excluding the amount of petroleum used by the lease holder for operating the area of the lease, but in any event no less than the minimum royalty

provided for by law. The sum of royalties is calculated according to the market value of the royalties at the wellhead.

As of the date of the report, the partners in the Tamar Project are in discussions with the Petroleum Commissioner regarding the manner of calculating the market value of the royalties at the wellhead in the Tamar Project. Pending the completion of such discussions, the Tamar Partners are paying the State, under protest, advance payments on account of royalties at the rate demanded by the State.

Until December 31, 2016, the Tamar Partners paid advance payments at a rate of 12% on revenues from the Tamar Project. Pursuant to a letter received from the Ministry of Energy, as of January 1, 2017 the Tamar Partners pay royalty advances for 2017 at a rate of 11.65%. 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 in it and the amount of investment in the project compared to the Yam Tethys Project.

It is noted that according to a calculation based on the principles of the "English formula," which constitutes the closest estimate to the agreement signed with the State in the Yam Tethys Project (this calculation, as determined in the agreement, is not accepted by the State as a basis for calculating the royalties in the Tamar Project), the rate of the royalties to the State, which the Company applied in its financial statements, in the Tamar project in 2015, 2016 and 2017 is 11.26%, 11.15% and 11.22%, respectively. As stated above, these rates do not reflect the royalty rate actually paid to the State in these years. It is further noted that for the discounted cash flow of the Tamar reservoir the Company assumed a royalty rate of 11.5%, which is lower than the royalty rate actually paid to the State as an advance payment, which was 11.65%, as detailed in Section 7.2.15(a)c above. There is no certainty that the Company will succeed in the negotiations for setting a lower royalty rate in the future.

Regarding the liability and rights of Delek Drilling in relation to the obligation to pay royalties to the State or the reimbursement of royalties from the State for the period before July 1, 2017 with respect to the rights in the Tamar Project which the Company acquired from Delek Drilling, see Section 7.17.1 above. Regarding the liability and rights of Noble in relation to the obligation to pay royalties to the State or the reimbursement of royalties from the State for the period before January 1, 2018 with respect to the rights in the Tamar Lease which the Company acquired from Noble, see Section 7.17.2 above.

7.19 Royalties to related parties and to third parties

7.19.1 Under the Sale Agreement with Delek Drilling, the rights in the Tamar and Dalit Leases that were transferred to the Company are subject to commitments that applied to Delek Drilling for payment of royalties to related parties and to third parties, according to the terms that applied to those royalties before the transfer of the rights to the Company. Following is information on the royalties applying to the Company's rights in the Tamar and Dalit Leases:

| Holder of right to royalties | Rate of the royalties | Additional information |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Delek Group Ltd. and Delek Energy Systems Ltd. | Collectively: 1.5% before the return-on-investment date and 6.5% thereafter, of the Company's share ⁸⁰ | Said royalties originate in a rights transfer agreement from 1993, under which Delek Energy Systems Ltd. and Delek Israel Fuel Company Ltd. ("Delek Israel") ⁸¹ transferred certain petroleum rights to Delek Drilling (the " Delek Group Royalties "). For details regarding the main terms of the Delek Group Royalties, as prescribed in said rights transfer agreement, see Paragraphs b) and e) below. |
| Cohen Development and Industrial Buildings Ltd., YNU Nominee Company Ltd., Allied LP – Limited Partnership, and JOEL Jerusalem Oil Exploration Ltd. | Collectively: 3% of the Company's share | Said royalties derive from the right of the general partner of Avner Oil Exploration – Limited Partnership that was determined in Avner's limited partnership agreement (the " Avner Royalties "). For details regarding the main terms of the Avner Royalties, see Paragraphs c) and e) below. |

⁸⁰ Regarding the return-on-investment date, see footnote 51 above.

⁸¹ Following a reorganization, the Delek Group currently holds the royalty right of Delek Israel.

| Holder of right to royalties | Rate of the royalties | Additional information |
|-------------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Dor Chemicals Ltd. ("Dor") | 0.48% of the Company's share, calculated after the royalties to the State (i.e. 0.42%) | Said royalties originate in an agreement dated January 21, 2007 signed between the Delek Partnerships and Dor, whereby the Delek Partnerships purchased from Dor 2.5% (out of 100%) of the rights in the Michal and Matan Licenses, in whose place the Tamar and Dalit leases were later granted (respectively) (the " Dor Royalties ") and undertook to pay Dor royalties at a rate of 6% for the rights purchased. For details regarding the main terms of the Dor Royalties, as prescribed in said rights purchase agreement, see Paragraphs d) and e) below. |

7.19.2 Delek Group Royalties

- (a) The Delek Group Royalties at a total rate of 1.5% before the return-on-investment date ("**ROI Date**"), and 6.5% thereafter, shall apply in respect of all of the working interests in the Tamar and Dalit Leases that were acquired by the Company under the Sale Agreement with Delek Drilling (i.e. rights at a rate of 9.25% out of 100%).

In this regard, the term "**ROI Date**" means – the date on which the Net Value of Revenues (as defined below) that Delek Drilling/the Company received or is entitled to receive for the petroleum and/or natural gas and/or other valuable substances that were produced and exploited from the petroleum asset, calculated in dollars, reaches a sum equal to the Value of All Expenses of Delek Drilling/the Company (as defined below), calculated in dollars.

It is noted that the sum of all such expenses must be equal to the sum of the investments made by Delek Drilling prior to the date of closing of the sale of the rights (such that the Company steps into Delek Drilling's shoes in respect of such investments), plus investments to be made by the Company from the date of closing of the sale of the rights.

The term "**Net Value of Revenues**" means – the value of all of the revenues, as certified by the auditors of Delek Drilling/the Company, for petroleum and/or natural gas and/or other valuable substances that were produced and exploited from the petroleum asset ("**Gross Value of Revenues**"), after deduction of all the expenses for the production thereof and the royalties paid thereon.

The term "**Value of All Expenses of Delek Drilling/the Company**" means – all the expenses that Delek Drilling/the Company incurred on the petroleum asset, except for expenses (up to the Net Value of Revenues) that were deducted from the Gross Value of Revenues for determining the sum of the Net Value of Revenues, as certified by auditors of Delek Drilling/the Company.

(b) Expert's ruling on the definition of "ROI Date"

In 2002 Delek Drilling and the holders of the Delek Group Royalties appointed by consent an expert to determine the correct meaning of certain definitions and terms relating to the royalties which Delek Drilling is required to pay as stated above.

In his decision the appointed expert stated his opinion, setting out, inter alia, the calculation method and the different elements that should and should not be taken into account in determining the "ROI Date," including the following:

- (1) Only revenues/receipts received for petroleum and/or natural gas and/or other valuable substances (jointly: "**petroleum and/or gas**"), that were produced and exploited from the petroleum assets (and certified as such by the auditor of Delek Drilling), should be taken into account; and
- (2) Only the value of the expenses of Delek Drilling that were incurred in the petroleum asset (the license or the lease) in which the petroleum and/or gas were produced (and certified as such by the auditor of Delek Drilling) should be taken into account; and – if an expense was incurred in more than one such petroleum asset, it should be split among the petroleum assets in which it was incurred and/or which it was meant to serve. Thus, where the expense was incurred in petroleum asset A from which, at the end of the day, no petroleum and/or gas was produced – this expense will not be taken

into account in determining the ROI Date for petroleum asset B from which petroleum and/or gas are being produced; and

- (3) The expenditure on exploration activities (including dry drilling) will be taken into account as an expense of the petroleum asset within whose area these activities were carried out, for the purpose of determining the ROI Date, and the same applies to development activities and activities for determining the boundaries of the field; and
- (4) Expenses in respect of facilities (on land and on the continental shelf), including for the production, treatment, transmission, measurement, storage, operation, maintenance, marketing and sale (including sale agreements) of the gas, should be taken into account; and
- (5) The expenses taken into account for the purpose of determining the ROI Date must be full expenses (without depreciation) and finance expenses; and

The determination of the ROI Date is a one-time determination that cannot be retracted, even if subsequently a situation arises in which the expenses in the petroleum asset exceed the revenues received from the petroleum and/or gas output from that petroleum assets.

- (c) Additionally, the Delek Group Royalties are subject to the conditions set out in Paragraph (e) below.

7.19.3 Avner Royalties

The Avner Royalties at a total rate of 3% shall apply in respect of all of the working interests in the Tamar and Dalit Leases that were acquired by the Company under the Sale Agreement with Delek Drilling (i.e. rights at a rate of 9.25% out of 100%).

In addition, the Avner Royalties shall be subject to the terms specified in Paragraph (e) below.

7.19.4 Dor Royalties

The Dor Royalties at a total rate of 0.48% shall apply in respect of all of the working interests in the Tamar and Dalit Leases that were acquired by the Company under the Sale Agreement with Delek Drilling (i.e. rights at a rate of 9.25% out of 100%).

The Dor Royalties shall be calculated from the share of the Company in the petroleum and/or natural gas and/or other valuable substances that will be produced and exploited from the Tamar Lease, after deduction of the royalties to the State (i.e. 0.42%).

7.19.5 Further conditions

(a) The Royalty Holders or any of them shall be entitled to receive all or any of the royalties in kind, i.e. to receive in kind a part of the petroleum and/or natural gas and/or other valuable substances that will be produced and exploited from the petroleum asset. If any of the Royalty Holders elects to receive the royalties in kind, the parties shall stipulate the manner in and dates on which it shall receive the royalties. Should any of the Royalty Holders not elect to receive the royalties in kind, the Company shall pay such royalty holder the market value at the wellhead of the royalties to which the royalty holder is entitled. Such payment shall be made once every month. The measurement of the quantities of petroleum and/or natural gas and/or other valuable substances that will be produced and exploited from the petroleum asset, for the purpose of calculating the royalties, shall be made in accordance with accepted principles in the petroleum industry.

It is noted that the market value at the wellhead of the royalties paid to the Royalty Holders by Delek Drilling is calculated according to the same principles as said market value is calculated for the State royalties.

(b) The right to royalties shall be linked to the Company's share in the petroleum asset. Should the Company transfer its rights in a petroleum asset, the Company shall ensure that the transferee assumes all the undertakings to pay royalties as aforesaid. The foregoing shall not apply in the event of asset forfeiture due to the Company being behind on payments.

The Company shall keep complete and accurate records regarding its share in the petroleum and/or natural gas and/or other valuable substances that will be produced and exploited from the petroleum asset. Each of the Royalty Holders shall be entitled to appoint an accountant who shall be entitled to inspect, examine and copy, during normal work hours, the Company's books and other documents and records relating to the Royalty Holders' right to the royalties.

7.20 Payment of royalties to the State from the Dalit Lease

It is noted that the discussions that are being conducted with the Petroleum Commissioner regarding the manner of calculation of the royalties as aforesaid, relate to the Tamar Lease only. Therefore, as of the date of the report, it is not possible to estimate how the market value at the wellhead will be calculated for the royalties that will be paid from the Dalit Lease to the State and to the holders of royalty rights, if and when production commences.

7.21 Legal proceedings

7.21.1 For details regarding a class action certification motion that was filed by a consumer of the Israel Electric Corp. against the Tamar Partners with the Tel Aviv District Court, see Note 11K to the financial statements.

Regarding Delek Drilling's liability, in relation to the certification of the class action, in respect of the amounts received by it for the rights in the Tamar Lease which it sold to the Company, see Note 4F4 to the financial statements. Regarding Noble's responsibility, in relation to the certificating of the class action, in respect of the amounts received by it for the rights in the Tamar Lease which it sold to the Company, see Note 23A to the financial statements.

7.21.2 Further to the Petroleum Commissioner's decision of June 4, 2014 to reject the plan for the development of the Tamar SW reservoir that was submitted to him by the Tamar Partners, in light of the fact that some of the reserves in the Tamar SW reservoir overflow into the Eran license, the Tamar Partners filed a petition with the High Court of Justice against said decision to (in this section: the "**Petition**"). On December 1, 2014, the court decided to strike the Petition on the grounds of failure to exhaust proceedings. It was decided in the judgment that an appeal should be submitted to the Minister of Energy (the "**Minister**") within 30 days, and it was specified that the Minister's decision on the appeal should be given as soon as possible, within three months from the date of submission thereof. In accordance with the foregoing agreement, on December 9, 2014 the Tamar Partners submitted to the Minister an appeal against the Commissioner's decision. As of the date of approval of the financial statements, the Minister's decision on this matter had not been received.

7.22 Goals and business strategy

The Company's business strategy focuses on generating value for the shareholders by developing the Company's business as follows:

- 7.22.1 Continued optimal supply of natural gas and condensate from the Tamar Project in accordance with the signed agreements, and the conduct of negotiations and entry into additional agreements for the sale of natural gas and condensate to the various potential consumers in Israel and in the region.
- 7.22.2 Expansion of the production capacity of the Tamar Project as specified in Section 7.2.7 above, or by means of other alternatives.
- 7.22.3 Continued promotion of projects for export by means of pipelines from the Tamar Project to consumers in Egypt and in Jordan.
- 7.22.4 Examination of alternatives for the acquisition of additional rights in the Tamar and Dalit Leases, in a manner that creates value for the Company's shareholders.
- 7.22.5 Examination of the geological potential in the deep-water prospects within the area of the Tamar Lease. In the Company's estimation, an oil discovery in the deep-water prospects of the Leviathan Lease may constitute a positive indication for discovering oil in the deep-water prospects within the Israeli economic waters, *inter alia*, in the Tamar Lease.

Caution regarding forward-looking information – The Company's strategy and goals, as set out above, constitute intentions and general targets, and, as such, there is no certainty that they will be realized, *inter alia*, due to changes in the Tamar Project, changes in market conditions, geopolitical changes, regulatory changes, changes in the tax laws, changes in priorities based on the results of drilling and surveys carried out, and due to unforeseen events and risk factors as set out in Section 7.24 below.

7.23 Insurance coverage for the Company's operations in the Tamar Project

The Company from time to time purchases insurance policies that provide the customary insurance coverage in the energy industry for exploration, development and production of natural gas, subject to changes dictated by statutory and regulatory requirements, license terms, obligations towards the trustee for the bondholders, the scope of the Company's operations and the Company's exposures.

The insurance that is taken out covers the assets and liabilities in the Company's various operations, against only some of the potential risks. The insurance includes, *inter alia*, coverage for property forming a part of the Project, including partial coverage for consequential damage related to insured damage to property in the stage of production from the wells (coverage for finance expenses and debt repayment), control-of-well coverage covering costs in the event of loss of control of a well following an accidental occurrence, including coverage for regaining control, sealing and redrilling of the well and coverage

for pollution damage resulting from uncontrolled release of liquids and/or gas, as well as insurance of legal liability towards third parties covering damage to person or property due to drilling and/or production activities, including pollution damage resulting from an accidental occurrence.

The aforesaid insurance policies are taken out partly independently and/or in the framework of group policies that include several insured parties and partly in the framework of the insurance program of Noble, who is the Operator of the Tamar Project.

The Company reviews, from time to time, the scope of the purchased insurance, taking into account exposure as well as insurance costs and coverage supply in the energy industry. Consequently, the Company is able to decide to modify and/or adjust the purchased coverage, including reducing the purchased amount insured and and/or not purchasing insurance at all for one or another risk.

7.24 Risk factors

Petroleum and natural gas exploration, the development of petroleum and natural gas discoveries and production therefrom entail considerable financial expenses and a very high level of financial risk, mainly for the reasons specified below. This is especially true with respect to the operations of offshore exploration, development and production of petroleum and natural gas.

7.24.1 Changes in the Electricity Production Tariff and/or U.S. CPI and/or other energy sources and/or global fuel prices

The prices paid by the consumers for the natural gas produced from the Tamar Project derive, inter alia, from the Electricity Production Tariff to which the gas agreements with private electricity customers are linked, the U.S. CPI, the price of a Brent barrel and the prices of the fuel alternatives to gas, such as fuel oil and diesel oil. For details regarding the various types of linkage in the natural gas price formulas, see Section 6.7.1 above. Regarding the Electricity Production Tariff, it is noted that the frequent methodological changes made by the Electricity Authority in the manner of calculation thereof makes the tariff levels difficult to predict, and may lead to disputes between gas suppliers and their customers with respect to the manner of calculation thereof.

A decrease in the Electricity Production Tariff and/or the U.S. CPI and/or the prices of alternative fuels may adversely affect the prices the Company is able to receive from its customers for the natural gas sold by it and/or impact on the viability of the production from the Tamar Project and from new reservoirs that

will be discovered (insofar as discovered) by the Company. In addition, a considerable change in the prices of other energy sources (including coal and other gas substitutes) may cause a change in the IEC's usage model, so as to give priority to coal-fired power plants over natural gas-fired operated power plants and vice versa, subject to environmental laws.

7.24.2 Geopolitics

The security and economic situation in Israel as well as the political situation in the Middle East may affect the willingness of countries and foreign bodies, including in the Middle East, to engage in business relations with Israeli bodies, including the Company, in the different projects. Several countries and various organizations still limit their business activity in Israel and with Israeli companies. Therefore, any deterioration in the geopolitical situation in the Middle East may undermine the Company's ability to promote its business with such countries and bodies and export gas to neighboring states. In addition, deterioration in the bilateral relations between Israel and its neighbors in the relevant target markets, for security and/or political and/or economic reasons, may adversely affect the Company's ability to export gas from the Tamar Project.

7.24.3 Difficulties in obtaining financing

For the promotion of the expansion of the Tamar Project, to the extent it is approved, and/or for the development of additional reservoirs in the future, the Company may need additional significant financing sources. In case of an economic crisis expressed in the reduction of available credit sources and the toughening of requirements by the financing bodies for granting funding, the Company may encounter difficulties in obtaining bank and/or non-bank financing on convenient terms if at all.

7.24.4 Competition in gas supply

In recent years a number of gas reservoirs of considerable size have been discovered in Israel, which materially exceed the estimates of the Ministry of Energy with respect to the demand for gas in the domestic market. In light of the approval of the Gas Framework, in the upcoming years at least two additional reservoirs will be developed: the Leviathan reservoir, and also the Karish and/or Tanin reservoirs, which are expected to be additional substantial suppliers of natural gas to the domestic market. Therefore, a part of the gas reserves from the Tamar Project (in which the Company is a partner) are expected to be designated for export purposes, subject to the restrictions on natural gas export, as laid down

in the Government Resolution on Export (as specified in Section 7.16.1(c)(2) above). Furthermore, additional discoveries may be made in the future, both in Israel and in other countries in the East Mediterranean Basin, the development of which may lead to the entry of additional competitors into the area of natural gas supply to the domestic market and neighboring countries. In view of the relatively small scope of the domestic gas market, the entry of additional competitors into the domestic gas market and the limitations on the volume of exportable gas, the Company may face considerable competition in selling gas reserves that were or will be discovered by it in the future to the domestic market and neighboring countries. Likewise, the Company may face competition vis-à-vis alternative energy sources, such as coal, liquid fuels (e.g., diesel oil and fuel oil), and sources of renewable energy. Competition in natural gas supply to the domestic market and neighboring countries may undermine the Company's ability to market all of the gas reserves discovered or to be discovered by it in the future (if any) and/or lead to a reduction of the price at which the Company will sell the natural gas, thereby adversely affecting its revenues. A decrease in the amount and price of the gas sold from the Tamar reservoir could also adversely affect the Company's revenues. In addition, if the IEC requests a price adjustment, according to the mechanism prescribed in the agreement signed with it, this could negatively affect the Company's business (for additional information, see Section 7.4.4(d) above). For further details with respect to competition, see Section 7.1.9 above.

For details regarding the option given to natural gas buyers to reduce the quantities under the gas agreements signed with them, see Section 7.4.4(c) above. For details regarding the Electricity Authority's decision, which incentivizes private electricity producers to enter into gas sale and purchase agreements, at a lower price than the maximum price set in the Gas Framework, and also incentivizes private electricity producers to enter into natural gas purchase agreements with new gas suppliers that are not Tamar partners, see Section 7.16.7(k) above.

7.24.5 Restrictions on export

The volume of the gas reserves in the Tamar Project is greater than the potential market demand in Israel for the coming years. Therefore, the Company's results of operations depend on the ability to commercialize the gas, including the ability to export and sell the gas on the international market. The Government Resolution on Export (the Tzemach Committee), as specified in Section 7.16.7(a) above,

limits the quantity of exportable gas. For details regarding the formation of a panel to periodically review the recommendations of the Tzemach Committee, see Section 7.16.7(a)(12) above. A reduction of the exportable natural gas quantities due to a review of the Tzemach Committee's recommendations could significantly impact the Company's business. Moreover, the possibility of exporting and selling the gas depends on several other highly uncertain factors, such as the foreign relations between the State of Israel and countries that are target markets for gas export, the setup of an export and transport system that is subject to various regulatory approvals, the economic viability of setting up such a system, locating potential customers on the international market and finding funding sources for the investments required for the development and construction of the export system.

7.24.6 Dependence on the proper operation of the National Transmission System

The Company's ability to supply the gas discovered by it to existing consumers and to additional potential consumers in Israel and for export, including the IEC, is contingent, inter alia, on the development and proper operation of the National Transmission System for gas supply, regional distribution networks and pipelines connecting with consumers in the neighboring countries. Any significant malfunction or disruption in the National Transmission System could limit the Company's ability to supply gas to its customers, exposing the Company to loss of revenues and potential legal proceedings, which could adversely impact on the Company's business operations.

7.24.7 Operational risks and lack of sufficient insurance coverage

Oil and gas exploration, development and production operations are exposed to a variety of risks, including an eruption of fluids and gas from the drilling well, explosion, collapse of the drilling well and combustion, breakdowns, accidents, and other events that may harm the operation of the production and transmission system, each of which may cause the destruction of or damage to oil or gas wells, transmission and production facilities, exploration equipment, person and property of third parties. Another potential risk is tools becoming stuck in the drilling well, such that the continuation of the drilling will be impossible or entail considerable expenses. Should any such events occur at sea, the results may be very grave and serious damage may be caused. A further risk is the liability for damage resulting from pollution due to an eruption and/or leakage of liquids and/or gas. Although the Company is insured against various kinds of damage

that may be caused in connection with its operation, these policies do not cover all possible risks (some of which are covered only partially and some of which are not covered at all), and thus the insurance payments will not necessarily cover the entire scope of the damage and/or all of the possible losses (with respect to third party damage, possible loss of income, the costs of constructing the production system in case of an event due to which damage is caused to the production system, including due to terrorism, war and loss of control of the well, and damage to any kind of property in the wells). In addition, there is no certainty that suitable policies may be further purchased in the future on reasonable commercial terms or at all. Furthermore, with respect to certain insurance policies, such as cyber and gradual pollution, the Company may decide not to take them out at all. Thus, in case of a large-scale catastrophe, the insurance policies taken out may be insufficient for covering all of the damage to the Company and/or third parties, including with respect to environmental pollution damage. Such risks, if they materialize, may cause postponements and delays in the Company's development and production activities, and in an extreme case may even lead the Company to insolvency. It should be noted that the decision on the type and scope of the insurance is usually made separately for every well and/or activity, taking into consideration, *inter alia*, the insurance costs, type and scope of the offered coverage, the regulatory requirements, the ability to obtain suitable coverage in the insurance market and the foreseeable risks.

7.24.8 Dependence on contractors and on professional services and equipment providers

There are currently no contractors in Israel for the performance of deep-sea well drilling, development works and seismic surveys of the type carried out by the Tamar Partners, and therefore the Tamar Partners enter into agreements with foreign contractors for the performance of such work. Agreements with contractors are made vis-à-vis the Operator of the Tamar Project for the execution of the works, with the contractors being instructed to hire, to the extent possible, local consultants and services. Moreover, the number of facilities that are capable of drilling and performing development activities offshore, in general, and in deepwater, in particular, is relatively small and there is no certainty that a suitable facility will be found for performing the aforesaid operations on the dates to be scheduled therefor. Consequently, the aforesaid offshore operations may entail high costs and/or considerable delays may be caused in the timetable established for the performance of the works or any part thereof. Most of the equipment and

manpower that are suitable for the performance of the aforesaid operations cannot be ordered within short periods of time and therefore it is necessary to order professional equipment and manpower services from abroad, which significantly increases the costs of and delays the activities. Entering into agreements with foreign contractors for the performance of offshore oil and/or natural gas exploration, development and production operations (including contractors for the performance of maintenance and repair work) may encounter difficulties also due to the political and security situation of the State of Israel. The price of services and the costs of exploration, development and production operations are set according to market supply and demand, which are affected, *inter alia*, by commodity prices, regulatory changes, the supply of alternative products and the level of activity in the sector.

7.24.9 Risks of exploration activity and reliance on partial and estimated data

Oil and gas explorations are not an exact science and therefore entail a high level of risk, as for example, in the event of failure in test drills where all of the investment funds may be lost. The geological and geophysical means and techniques do not provide an exact projection of the location, form, characteristics or size of oil or gas reservoirs, such that the determination of the exploration goals and the estimates concerning the size of reservoirs and the gas and/or oil resources therein may be based to a great extent on partial or hypothetical data and unproved assumptions. Naturally, it is impossible to guarantee that as a result of these explorations any oil or gas will be discovered, or such that may be commercially produced and utilized. In addition, in accordance with the aforesaid, some changes may also occur from time to time in the estimates concerning the scope of gas resources in the reservoirs. The estimated oil and gas quantity in the Tamar reservoir for the reported period is determined every year based on, *inter alia*, the opinion of independent experts in the appraisal of resources of oil and natural gas reservoirs. The estimation of the gas resources as aforesaid is a subjective procedure that is based on various assumptions and partial information and therefore estimates by different experts concerning the same reservoirs may sometimes vary significantly. In light of the aforesaid, it is noted that the information appearing in the report on the gas resources in the Tamar and Dalit reservoirs is only an estimate and should not be seen as information on exact quantities, and therefore changes may occur from time to time in the estimates of the volume of producible gas and condensate

resources. In addition, the gas reserves estimate is used to determine the rate of amortization of the producing assets in the Company's financial statements. Oil and gas assets include, inter alia, the costs of planning the development of the reservoirs, development wells, the purchase and construction of production facilities, pipelines for gas transmission, construction of a terminal and asset retirement costs. Such costs are amortized to profit or loss as follows: the cost of the wells is amortized according to the quantity of proved and developed reserves, and the cost of the additional components (such as, a platform, pipeline and terminals) is amortized according to the quantity of the proved reserves (developed and to be developed in the future).

7.24.10 Merely estimated costs and timetables and possible lack of means

The estimated costs of the performance of exploration and development activities and the estimated timetables for the performance thereof are based on merely general estimates and may contain considerable deviations. Exploration plans may change to a significant degree, inter alia, following findings obtained in the course of the performance of such activities, and cause considerable deviations in the timetables and estimated costs of such activities. Malfunctions during exploration and development activities, as well as other factors, might cause the timetable to be extended for much longer than planned and the actual expenditure required for completion of the exploration activities to be much higher than the costs planned for such activities. In certain cases, in consequence of the aforesaid, the Company may also forgo the performance of certain activities in the petroleum assets required in their work plans, which may result in the loss of its rights therein.

7.24.11 Forfeiture of the Company's rights in the Tamar Lease

The future activities related to the exploration and expansion of the Tamar Project and preservation of the production capacity thereof will entail financial expenses that the Company will be unable to cover. Under the Joint Operating Agreement in the Tamar Lease, failure to timely pay the Company's share in an authorized budget for the performance of an approved work plan constitutes a breach that may lead to the loss of the Company's rights in the Tamar Lease.

In addition, given the responsibility of each party to the Joint Operating Agreement to timely pay its pro rata share, in a case where other parties have failed to pay sums that they were supposed to pay, thereby breaching the agreement, the Company may be required to pay sums that considerably exceed

its pro rata share according to the percentage of its participation in the petroleum asset(s) with respect to which the breach was committed, and should it fail to timely make this payment, it will risk losing all of its rights in such asset(s). Due to the especially high cost of development expenses and offshore drillings, the deviations (both foreseen and unforeseen) may result in the Company being unable to meet its financial commitments, in consequence of which the Company will lose its rights in the Tamar and/or Dalit Leases.

7.24.12 Dependence on the receipt of approvals from external entities

The performance of activities in natural gas and oil assets requires various approvals. To the best of the Company's knowledge, the principal approvals required are approvals under the Petroleum Law and the Natural Gas Sector Law, approvals from the security authorities and the IDF, the Israel Nature and Parks Authority, the environmental authorities, the Civil Aviation Authority, local authorities and/or planning and building committees, the Ministry of Agriculture – Department of Fishing, the Ports Authority and shipping officials at the Ministry of Transportation. Obtaining these approvals may entail additional expenses beyond the budgets designated for the aforesaid activities or cause a delay in the date of performance of the planned activities. Without derogating from the aforesaid, part of the Company's activity is subject to coordination and timetable scheduling with Israel's national security authorities. This dependency on the national security authorities may disrupt the Company's plans for such activities, both with respect to the actual ability to perform the planned activities and with respect to the timetables and costs of these activities.

7.24.13 Regulatory changes

Many regulatory approvals are required in the Company's operating sector in Israel, mainly from the entities authorized pursuant to the Petroleum Law and the Natural Gas Sector Law, as well as related approvals from the state authorities (including the Ministry of Defense, the Ministry of Environmental Protection, the tax authorities and the various planning and zoning authorities). In recent years, several proposals have been made for amendments to the laws and/or regulations and/or directives relevant to the Company's operating sector, and several decisions, laws and directives relevant to the Company's operating sector have been issued, the implementation of which may adversely affect the Company's business, and which include, inter alia, the aforementioned Gas Framework. The tightening of regulation with respect to exploration, development and production,

the terms of natural gas supply, natural gas export, taxation of oil and gas profits, rules for allocation, transfer and pledge of petroleum rights, antitrust, control of gas prices, planning regulation and so forth, may adversely affect the Company's business. For further details regarding the regulation applicable to the Company's activities, see Section 6.7.2 above.

7.24.14 Potential control over natural gas prices

As indicated in Section 7.16.7(b) above, on April 22, 2013, the Control of Prices of Commodities and Services Order (Application of the Law to Natural Gas and Determination of the Control Level), 5773-2013, was enacted, which imposes control on the gas sector in terms of profitability and price reporting. Such reporting duty is separately imposed in respect of every project. According to information to be received, the need to control natural gas prices in Israel in terms of price fixing will be examined. In the event that price control is imposed and a maximum price is determined, which is lower than the prices set forth in the Company's natural gas sale agreements, insofar as such determination withstands judicial review, this may adversely affect the Company's business, the scope of which will be a function of the maximum price determined. On the other hand, price control may make it difficult for competing suppliers to enter the market, thereby helping the Company's business. In accordance with the Gas Framework, the Price Control Committee was approached on the matter, and it decided that for as long as Delek Drilling and Noble comply with all the conditions of the Framework, control should be kept on the level of reporting on profitability and prices as aforesaid, during the transition period, as detailed in Section 7.16.1(c).

7.24.15 Motion for class certification in connection with the IEC agreement price

To the extent that the class action which was filed by an IEC consumer against the Tamar Partners as described in Section 7.20 is accepted, and a final and absolute decision is handed down, it may have a material adverse effect on the prices at which the Company and the other Tamar partners will sell natural gas to their customers, the scope of which will be determined by the results of the class action.

7.24.16 Environmental regulation

The Company is subject to various laws, regulations and directives concerning environmental protection, which address various issues, such as: leakage of oil or natural gas or other pollutants into the sea, the discharge of pollutants and waste of various types into the sea (sewage, remnants of drilling equipment, drilling

mud, cement, etc.), chemical substances used in the various stages of work, the emission of pollutants into the air, lighting hazards, noise, the construction of pipeline infrastructure on the seabed and related facilities. In addition, the Company is required to obtain, through the Operator, approvals for its activity from the competent entities under the Petroleum Law and the Natural Gas Sector Law.

Non-compliance with the provisions of such environmental regulation may expose the Company and the Tamar Partners to various enforcement measures, which also include lawsuits, penalties and various sanctions, including on the criminal level, as well as to delays in and even the discontinuation of the Company's activity. The Company may also be liable for the acts of others, such as the Operator or third party contractors related to the Operator.

Recent years have seen a tightening of the environmental regulation governing the operations of the Tamar Partners, in terms of supervision and enforcement. In the Company's estimation, this trend is expected to continue and even increase in the coming years.

As aforesaid, in September 2016, the Ministry of Energy, in conjunction with the Ministry of Environmental Protection and other government ministries, issued directives that regulate the environmental aspects of offshore oil and natural gas exploration, development and production activity. Such directives may have an effect on the costs and manner of the Company's activity, the scope of which cannot be estimated as of the publication date of the report.

In addition, as of the report publication date, the Company is studying the implications of the proposed laws, regulations and directives in the field of environmental protection, taking action to prevent or minimize the environmental risks that may occur in the course of its activity, preparing itself for the economic, legal and operational implications of these laws, regulations and directives, and within the framework of the work plans for its various assets, is allocating budgets for the compliance therewith. Nevertheless, there is no certainty that the costs that will be required of the Company in connection with the existing and foreseeable laws, regulations and directives in the field of environmental protection will not exceed the amounts allocated by the Company for such purposes.

7.24.17 Dependence on weather and sea conditions

Offshore operations are subject to a variety of operational risks that are unique to the marine environment, such as capsizing, collisions, and damage or loss caused as a result of harsh weather conditions and sea conditions. Such conditions may cause substantial damage to the facilities and disrupt the operations. Stormy sea conditions and incompatible weather may cause damage to the production and transmission system of the Tamar Project as well as delays in the timetable scheduled for the work plan of the Tamar Project and extension of the duration of its performance. Such delays may cause an increase in the projected costs and even non-compliance with timetables to which the Company is obligated.

7.24.18 Information security risks

The partners in the Tamar Project, including the Company and also the Operator thereof (directly and via subcontractors) (in this section: the “**Corporations**”), rely in their work on information systems. For example, computer software is used for analyzing seismic surveys, for operating drillings, production and transmission systems and so forth. Breakdowns in information systems and failures of information security, including hacking of the Corporations’ computer systems, may cause interruptions and damage to the information and the current operation of the systems supporting the business activity, including disruption and, in extreme cases, even discontinuation of the gas supply and loss of information, and may cause material costs in respect of the recovery of the information systems. In addition, intentional harm to the Corporations’ IT systems may cause damage to the administrative networks of the Company and Operator, leakage of information to unauthorized entities and corruption of the information in its possession, which could have a material adverse effect on the Company’s business, financial position, results of operations or prospects. As of the report publication date, the Corporations take action to prevent failures in the information systems, *inter alia*, by means of back-up and security mechanisms, mechanisms for preventing failures in their computer system and increasing the level of information security.

7.24.19 Tax risks

Tax issues, including the duty imposed under the Taxation of Profits from Natural Resources Law, which are related to the Company’s activity have not yet been discussed in the rulings of Israeli courts. The Taxation of Profits from Natural Resources Law was enacted in 2011. Implementation of this law is relatively new

and has not been examined by the Israeli courts, and it is therefore hard to determine or predict how the tax authorities and the courts will interpret and rule on issues pertaining to this law, if and when such issues are brought before them. Likewise, it is impossible to foresee the position of the tax authorities on some of the legal issues. Changes resulting from changes in legislation, case law or a change in the position of the Israel Tax Authority, as aforesaid, may have material adverse implications for the tax arrangement applicable to the Company and its shareholders.

7.24.20 Dependence on a major customer

The IEC is currently the Company's primary gas consumer. The Company estimates that its revenues from IEC over the next three years will account for 42% of its total revenues during said period. The Company cannot predict what changes (if any) will occur in the IEC's license terms and how such changes will affect IEC's financial position. It is further noted that the government's policy for increasing the competition in the electricity sector by including private electricity producers, as well as the Government's intention to act to bring about the privatization of the IEC, may damage the IEC's financial soundness and consequently lead to the impairment of its ability to fulfill its obligations under the natural gas purchase agreement with the Tamar Partners. The agreement with the IEC provides that on the occurrence of several specified events of "*force majeure*", the IEC is not obligated to continue making payments under such agreement. Additionally, the agreement with IEC sets two dates on which any party to the agreement may request a price adjustment. In the event that the IEC requests a price adjustment for the gas it purchases, according to the mechanism prescribed in the Agreement, this may have a material adverse effect on the Company's business and the results of its operations. For further details see Section 7.4.4(d) above. Therefore, significant loss of or damage to the Company's revenues from the IEC could have a material adverse effect on the Company's business, financial position, results of operations or prospects. Nevertheless, it should be noted that the Tamar Partners have signed gas supply agreements with other significant customers, which mitigate the Company's dependency on the IEC. To the extent that the Tamar Partners exercise the export options available to them, as specified in Section 7.4.5 above, the dependency on the IEC will be significantly reduced.

7.24.21 Financial soundness of the other customers of the Company

Non-compliance of the Company's customers from the Tamar Project with their obligations, while the Company is unable to sell the contractual quantity determined in such agreements to other customers, will adversely affect the Company's revenues.

7.24.22 Dependence on the Operator

The Company relies to a great extent on Noble, the operator of the Leases, both in light of the provisions of the joint operation agreements and as a result of the experience accumulated by Noble in carrying out projects of a similar magnitude elsewhere around the world and the Company's relative lack of experience in such projects. Noble's withdrawal, for any reason whatsoever, from the Tamar Project or a change in its status and/or rights such that it ceases to be the operator of the Tamar Project may impair the Company's ability to meet its obligations under the work plans of the Tamar Project and/or under the gas sale agreements and may affect the production costs and its expenses in the Tamar Project, which may have a material adverse effect on the Company's business, financial condition, results of operation or prospects.

7.24.23 Minority vote

The Company holds a relatively low participation percentage in the Tamar Project, and consequently also a low voting percentage. Since resolutions are passed by a majority vote (at the rate defined in the Joint Operating Agreement), the Company will not be able to ensure the adoption of resolutions desirable to it and/or prevent the adoption of resolutions undesirable to it. In addition, in these transactions, it is possible that the withdrawal of one of the participants, while the other participants did not assume its share (of the expenses that were not yet approved) in the exploration or development actions, will lead to the termination of such activities before the completion of the plan determined in the transaction and the surrender of the petroleum assets in which they are performed. As noted above, the Company relies to a great extent on Noble in the petroleum rights in which it serves as operator, and the Company thus has a limited ability to influence the activities of exploration, development and production in the Tamar Project.

7.24.24 Risk and lack of means for development and production in the event of a finding

The process of deciding whether it is justified to invest in the development of a field and its commercial production and perform interim actions until commercial production as well as performing the development and commercial production (should it be decided that they are justified) may extend over long periods of time and require the Company to invest considerable sums that exceed the sums currently held by it. These sums, especially in case of offshore discoveries (such as discoveries in which the Company is a partner), are very high and the aforesaid actions would also entail risks, including operation risks. Even in the case of a discovery wherein the Company holds a valuable asset, there is no certainty that the pledge of this asset will be sufficient to allow the Company to obtain credit for the development and production. The viability of production for the Company may be adversely affected also by a significant increase in the production expenses, a considerable augmentation of the tax burden, additional regulation, potential control over natural gas prices as described in Section 7.24.14, or a significant decrease in the petroleum and gas prices.

It is further noted that development and production in deep waters (such as the water depth of the Tamar natural gas discoveries) is a complex high-risk operation that requires the construction of special production facilities.

7.24.25 Revocation or expiration of petroleum rights and assets

Petroleum rights are granted under the Petroleum Law for a limited period of time and the validity thereof is contingent on the fulfillment of obligations on dates set forth in the terms of the petroleum asset. In case of non-compliance with the terms, the petroleum right may be revoked, subject to the Petroleum Law. Non-compliance with the terms set forth in the petroleum rights may lead to a loss of the rights, and all of the funds that were invested in such rights may be lost.

7.24.26 Overflow of reservoirs

Petroleum or natural gas reservoirs discovered or to be discovered in areas in which the Company holds rights may “overflow” (in terms of the geological structure and scope of the reservoir) into other areas in which the Company does not hold rights, and vice versa. In the event that the reservoir overflows into areas in which other parties hold rights, there may be necessary to reach agreements as to joint utilization of and production from the reservoir, in order to achieve

efficient utilization of the petroleum or natural gas reserves, possibly resulting in deferrals and delays in development activities the Company plans to carry out.⁸²

7.24.27 Security risk

The production facilities of the Yam Tethys Project and Tamar Project are located at sea in relative proximity to the maritime border between Israel and the Gaza Strip and are therefore exposed to security risks, including terrorist attacks. Furthermore, the Terminal is exposed to security risks, including terrorist attacks. The materialization of such security risks may, inter alia, impair the Company's ability to find the appropriate human capital and cause damage and/or harm to the production facilities, the Terminal and other equipment, which may disrupt the gas supply and even lead to the termination of gas sale agreements or to the reduction of sums payable by customers due to a claim of a "force majeure" event, which could have a material adverse effect on the Company's business, financial condition, results of operation or prospects.

7.24.28 Fluctuations in the dollar rate

The Company is exposed to changes in the dollar rate. Most of the Company's revenues and expenses are in dollars, but the Company's taxable income is measured in NIS. The Company has an excess of liabilities over financial assets denominated dollars, which exposes the Company to fluctuations in income tax. A depreciation in the exchange rate of the shekel against the dollar will result in the recording of income from exchange rate differences for tax purposes, while an appreciation in said exchange rate will result in the recording of expenses for exchange rate difference for tax purposes.

7.24.29 Sale of rights in petroleum assets without obtaining full consideration therefor

Exploration and production activity requires considerable sums, which in many cases cannot be raised by means of loans or debt and therefore some cases may require that additional partners join the petroleum asset in which the Company is a partner, with the Company selling some of its rights in the petroleum assets at a lower price than the market value of such rights.

7.24.30 The Company's position as a monopoly in natural gas supply in Israel

The Tamar Partners were declared as monopoly holders in natural gas supply in Israel. Due to this declaration, limitations may be imposed on the Company's

⁸² See in this regard Section 7.2.8 in connection with a small overflow from the Tamar SW reservoir into the Eran license.

business, including a prohibition on unreasonable refusal to supply natural gas as well as a prohibition on abuse of its market position in a manner that may undermine business competition or harm the public. Restrictions on the Company in light of its position as a monopoly in natural gas supply in Israel may affect its ability to expand its activity in Israel.

7.24.31 Obligations related to the repayment of the Company's bonds

The Company's noncompliance with the obligations assumed by it in relation to the repayment of the Company's bonds may lead to the acceleration of such amounts, which could affect the Company's financial resilience. For details with respect to the financial covenants with which the Company is required to comply, see Part Six of the Board of Directors Report (Chapter B of this report).

In addition, taking loans by the Company means increasing its financial leverage. This means that the greater the extent of the liabilities assumed by the Company relative to the value of its assets, the greater the risk that the Company might be unable to meet its obligations and the financial covenants with which it is required to comply.

7.24.32 Reliance on a single asset

The rights in the Tamar and Dalit Leases are the only petroleum assets of the Company and the Tamar reservoir constitutes its only producing petroleum asset. Damage to the Tamar reservoir and/or damage to its production capacity in such manner that the quantity of gas produced from it will be significantly reduced, as well as impairment of the quantities sold or the selling prices from the Tamar reservoir, may have a material adverse effect on the Company's business, economic strength, activity and prospects.

The following table presents the above-described risk factors according to their nature (macro-risks, industry risks and risks specific to the Company), which were rated based on the Company's estimates, according to their effect on the Company (big, medium, and small):

| | Extent of Risk Factor's Effect on Company's Business | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|---------------|----------------------------|
| | Big Effect | Medium Effect | Small ⁸³ Effect |
| Macro Risks | | | |
| Changes in the Electricity Production Tariff and/or changes in the U.S. CPI and/or in global fuel prices and/or in other sources of energy and/or in global fuel prices | | X | |
| Difficulties in obtaining financing | | | X |
| Geopolitics | X | | |
| Industry-Specific Risks | | | |
| Competition in gas supply | X | | |
| Restrictions on export | X | | |
| Dependence on the proper function of the National Transmission System | | X | |
| Operational risks and insufficient insurance coverage | | X | |
| Dependence on contractors and on professional services and equipment providers | | X | |
| Exploration risks and reliance on partial and estimated data | | X | |
| Forecasts and estimated assumptions | | X | |
| Merely estimated costs and timetables and possible lack of means | | X | |
| Forfeiture of the Company's rights in the Tamar Lease | | | X |
| Dependence on the receipt of approvals from external entities | | X | |
| Regulatory changes | | X | |
| Possible control on natural gas prices | | X | |
| A request to approve a class action in connection with the IEC agreement price | | | X |
| Environmental regulation | X | | |
| Dependence on weather and sea conditions | | | X |
| Information security risks | | X | |
| Company-Specific Risks | | | |
| Tax risks | | | X |
| Dependence on primary customer | | X | |

Direct translation of Hebrew term. Does not mean that the possible effect is insignificant.⁸³

| | Extent of Risk Factor's Effect on Company's Business | | |
|--------------------------------------------------------------------------------------|------------------------------------------------------|---------------|----------------------------|
| | Big Effect | Medium Effect | Small ⁸³ Effect |
| Financial soundness of the Company's other customers | | | X |
| Dependence on the Operator | X | | |
| Minority votes | | | X |
| Risk and lack of means for development and production in the event of a finding | X | | |
| Revocation or expiration of petroleum rights and assets | | | X |
| Overflow of reservoirs | | X | |
| Security risk | X | | |
| Fluctuations in Dollar rate | | X | |
| Sale of rights in petroleum assets without receiving the full consideration therefor | | | X |
| The Company's position as a monopoly in natural gas supply in Israel | | X | |
| Obligations in relation to the repayment of the Company's bonds | | X | |
| A single asset in the Company | X | | |

The extent of the effect of the aforesaid risk factors on the Company's operations is based on assessment only and the actual extent of the effect may differ.

Professional Terms Annex

"Appraisal well" – A well drilled as part of the appraisal well plan whose purpose is to determine the scope of the reservoir (inter alia with respect to reserves and resources) and the quality and location of the reservoir rocks.

"BCF" – One billion cubic feet which are 0.001 TCF or approximately BCM 0.0283.

"BCM" – One billion cubic meters.

"Commercial quantities" – Sufficient petroleum quantities allowing the production thereof on a commercial basis.

"Condensate" – (1) Hydrocarbon compound that is produced from natural gas, separated from the gas and liquefied by cooling and expansion procedures; (2) Hydrocarbons which are in the gaseous state under reservoir conditions but which are liquefied in the transition from the reservoir to the surface; (3) Condensed hydrocarbons from petroleum refining.

"Confirmation well" – A well drilled for the purpose of confirming the existence of a petroleum reserve that was discovered by drilling of the discovery and verifying the conclusions from its results.

"Contingent resources" – Defined according to the SPE-PRMS as the petroleum quantities that are evaluated from time to time as potentially producible from known reservoirs by implementing a development plan, but that are not yet considered economically producible, due to one or more conditions.

"Development" – The drilling and equipping of the area of a petroleum asset in order to determine its productive capacity, produce gas therefrom and market the same.

"Early permit" – As defined in the Petroleum Law.

"Exploration" – All activities related to petroleum and gas exploration.

"Hydrocarbons" – A general designation for petroleum and gas that are carbon and hydrogen compounds.

"Lease" – As defined in the Petroleum Law.

"License" – As defined in the Petroleum Law.

"Logs" – Various tests that are performed during or after the drilling activity for continuous recording of the properties and content of rocks, for the purpose of locating the potential strata in which petroleum may be found.

"LNG" – Liquid natural gas.

"MMCF/D" – One million cubic feet per day.

"MMCF" – One million cubic feet which are 0.001 BCF or approximately 0.00003 BCM.

"Petroleum" – Flowing petroleum, either liquid or vaporous, including oil, natural gas, natural gasoline, condensates and hydrocarbons, flowing thereto, and also asphalt and other solid petroleum carbons dissolved within flowing petroleum and producible together with it

"Petroleum asset" – The direct or indirect holding of a preliminary permit, license or lease; In another country – the direct or indirect holding of a right of a similar nature that was granted by the body authorized to do so. As petroleum asset shall also be deemed a right to receive benefits resulting from the direct or indirect holding of a petroleum asset or a right of a similar nature (as the case may be).

"Petroleum exploration"

(1) Any other action of petroleum exploration, including geological, geophysical, geochemical and similar tests and experiments, as well as drillings for obtaining geological information only.

(2) Test drilling;

"Petroleum field" – Any soil, with its geological layers, which is known to have under it petroleum reservoir(s) from which petroleum may be produced in commercial quantities.

"Petroleum Resources Management System 2007 (SPE-PRMS)" – A system for reporting petroleum resources and reserves evaluation, as published by the Society of Petroleum Engineers (SPE), the American Association of Petroleum Geologists (AAPG), the World Petroleum Council (WPC) and the Society of Petroleum Evaluation Engineers (SPEE), as amended from time to time.

"Petroleum right" – A license or lease, as defined in the Petroleum Law.

"Petroleum"; "Prospective Resources"; "Discovered"; "Discovery"; "Reserves"; "Contingent Resources"; "Proved Reserves"; "Probable Reserves"; "Possible Reserves"; "Low Estimate"; "Best Estimate"; "High Estimate"; "Contingent Resources in 1C,2C,3C Categories"; "On Production"; "Approved for Development"; "Justified for Development"; "Development Pending"; "Development Unclarified or on Hold"; "Well Abandonment"; "Development Not Viable"; "Condensate"; "Dry Hole"; "Reserves in 1P/2P/3P Categories" – Within the meaning of such terms in the SPE-PRMS.

"Preemptive right to receive a license" – As defined in the Petroleum Law.

"Reserves" – Defined according to the SPE-PRMS as petroleum quantities that are expected to be producible by implementing a development plan on accumulations discovered from a certain date on, under defined conditions. Reserves must fulfill four conditions: (1) They must be discovered; (2) producible; (3) commercial and stable/permanent (from the evaluation day); (4) based on the implemented development project.

"Seismic survey" – A method enabling (onshore or offshore) sub-surface imaging and detecting of geological structures. The survey is performed by transmitting seismic waves into the sub-surface and recording the waves returned from the various horizons in the examined section. The surveys currently used are mainly 2D and 3D. The 2D surveys mainly serve for preliminary reconnaissance of the sub-surface in the surveyed area and for general detection of structures that may serve as petroleum traps. 3D surveys are performed in areas that were detected as promising in the 2D surveys (the cost of which is higher than a 2D survey and the data and results of a higher quality) and the image obtained therein is detailed and allows, inter alia, finding an optimal position for performing the drillings and for a more accurate estimation of the size of the structure.

"TCF" – One trillion cubic feet which are 1,000 BCF or approximately 28.32 BCM.

"Test drilling" – Drilling of test wells for discovering petroleum or determining the size or boundaries of a petroleum field.

"Working interest" – An interest in a petroleum asset that grants its owner the right to participate, proportionally to his share, in the exploitation of the petroleum asset for the purpose of petroleum exploration, development and petroleum production, subject to his participation in a proportional share of the related expenses that will be incurred, after the purchase of the working interest.

The unit conversion coefficients used in the above report are as follows:

| BCM | BCF | MMCF |
|------------|------------|-------------|
| 1 | 35.3107 | 35310.7 |

| BCF | MMCF | BCM |
|------------|-------------|------------|
| 1 | 1000 | 0.0283 |

| MMCF | BCF | BCM |
|-------------|------------|------------|
| 1 | 0.001 | 0.00003 |

Appendix A

**Confirmation of NSAI concerning
the absence of material changes in
the Tamar Project and Consent of
NSAI to the inclusion of the reserves
reports in Tamar Lease and the
resources reports in Dalit Lease**

March 20, 2018

Mr. Yuval Raikin
Tamar Petroleum Ltd.
11 Galgalei Haplada Street
Herzlia 4672211
Israel

Dear Mr. Raikin:

This no change letter is regarding new well data for certain gas properties located in Tamar and Tamar Southwest Fields, Tamar Lease I/12, offshore Israel. Since our report dated February 13, 2018, we, Netherland, Sewell & Associates, Inc. (NSAI), have received daily well production data through March 16, 2018. This daily well production data has been reviewed by NSAI and it is our opinion that there are no material changes to our production profile for each category and our proved, proved plus probable, and proved plus probable plus possible reserves referenced in our February 13 report.

The February 13 report sets forth our estimates of the proved, probable, and possible reserves and future revenue, as of December 31, 2017, to the Tamar Petroleum Ltd. working interest in certain gas properties located in Tamar and Tamar Southwest Fields, Tamar Lease I/12, offshore Israel.

Sincerely,

NETHERLAND, SEWELL & ASSOCIATES, INC.

By: 
Danny D. Simmons, P.E.
President and Chief Operating Officer

RBT:LNH

March 20, 2018

Mr. Yuval Raikin
 Tamar Petroleum Ltd.
 11 Galgalei Haplada Street
 Herzlia 4672211
 Israel

Dear Mr. Raikin:

As independent consultants, Netherland, Sewell & Associates, Inc. hereby grants permission to Tamar Petroleum Ltd. (Tamar Petroleum) to use the following reports issued to Tamar Petroleum in public reports to be filed with the Israel Securities Authority and the Tel Aviv Stock Exchange (including by way of reference):

- The report dated February 13, 2018, sets forth our estimates of the proved, probable, and possible reserves and future revenue, as of December 31, 2017, to the Tamar Petroleum working interest in certain gas properties located in Tamar and Tamar Southwest Fields, Tamar Lease I/12, offshore Israel.
- The report dated February 13, 2018, sets forth our estimates of the proved, probable, and possible reserves and future revenue, as of December 31, 2017, to the Tamar Petroleum interest and the Potential Acquisition interest in certain gas properties located in Tamar and Tamar Southwest Fields, Tamar Lease I/12, offshore Israel. It is our understanding that Tamar Petroleum acquired a 9.25 percent direct working interest in these properties in July 2017 and has signed a definitive agreement to purchase a 7.5 percent direct working interest from Noble Energy Mediterranean Ltd.
- The report dated March 7, 2018, sets forth our estimates of the unrisked contingent and prospective gas resources, as of December 31, 2017, to the Tamar Petroleum working interest in discoveries and prospects located in the Dalit Discovery area, offshore Israel.
- The report dated March 7, 2018, sets forth our estimates of the unrisked contingent and prospective gas resources, as of December 31, 2017, to the Tamar Petroleum working interest and the Potential Acquisition working interest in discoveries and prospects located in the Dalit Discovery area, offshore Israel. It is our understanding that Tamar Petroleum owns a 9.25 percent direct working interest in these properties and has signed a definitive agreement to purchase a 7.5 percent direct working interest from Noble Energy Mediterranean Ltd.

In addition to the reports listed above, NSAI hereby grants permission to Tamar Petroleum to use our Tamar No Material Change letter dated March 20, 2018, which sets forth our opinion that there are no material changes to our production profiles for each category and our proved, proved plus probable, and proved plus probable plus possible reserves referenced in our February 13, 2018, report for properties located in Tamar and Tamar Southwest Fields, issued to Tamar Petroleum.

Sincerely,

NETHERLAND, SEWELL & ASSOCIATES, INC.

By: 
 Danny D. Simmons, P.E.
 President and Chief Operating Office

RBT:LNH



Tamar Petroleum Ltd.

Chapter B

**Board of Directors Report for the year
ended December 31, 2017**

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

March 20, 2018

Tamar Petroleum Ltd.

Board of Directors' Report **For the period ended December 31, 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 year ended December 31, 2017.

Part One – Board of Directors' Explanations on the State of the Corporation's Affairs

1. Main data from the description of the Company's business

The Company was incorporated on November 4, 2015. Until the date of fulfillment of the conditions precedent in the sale agreement signed on July 2, 2017 between the Company and Delek Drilling – Limited Partnership ("Delek Drilling") (the "Sale Agreement"), as described in Note 4 to the financial statements as of December 31, 2017 attached hereto (the "Financial Statements"), the Company was wholly owned and controlled by Delek Drilling. In the course of July 2017 the Company raised funding by a public offering of series A bonds at a par value of \$650 million and shares. Said funding was used to pay a part of the consideration for the acquisition of a working interest at a rate of 9.25% (out of 100%) in the Tamar and Dalit leases (the "Leases") from Delek Drilling, in accordance with the terms of the Sale Agreement. The balance of the consideration due to Delek Drilling was paid by an allotment of shares of the Company to Delek Drilling amounting to 40% of the issued and paid-up share capital. Under an irrevocable waiver provided by Delek Drilling to the Company immediately prior to the Company's supplemental prospectus and shelf prospectus of July 4, 2017 (the "Prospectus"), which took effect upon the completion of the share offering, Delek Drilling unilaterally waived all the voting rights attached to all the shares held by it, other than shares in an amount equal to up to 12% of the issued and paid-up share capital of the Company after the completion of the offering.

Since the Company acquired rights in the Leases from Delek Drilling, which was a controlling shareholder of the Company immediately prior thereto, the acquisition does not constitute a business combination within the scope of IFRS 3. Therefore, the transaction of acquisition of 9.25% of the Leases was accounted for in the Financial Statements using the pooling method. Accordingly, the Company prepared the Financial Statements to reflect therein the acquisition of 9.25% of the Leases as if the transaction was closed on January 1, 2015, while carrying out the adjustments specified in Note 2A to the Financial Statements.

As explained in Note 2A to the Financial Statements, the Company began recording finance costs related to the bond issue as well as income taxes in Q3/2017. Pro forma statements of comprehensive income were included in Note 22 to the Financial Statements, having been prepared under the assumptions specified in said Note 22, including the recording of finance costs and income tax expenses for all the reported periods.

In March 2018 the Company acquired from Noble Energy Mediterranean Ltd. an additional working interest in the Leases at a rate of 7.5% (out of 100%), in consideration for an allotment of shares amounting to 43.5% of the Company's issued and paid-up share capital and in consideration for cash raised in an issue of Series B bonds at a par value of \$560 million. For further details see Notes 23A and 23B to the Financial Statements, as well as the pro forma financial statements as of December 31, 2017 on the transaction for acquisition of a 7.5% interest in the Tamar and Dalit leases, attached hereto.

2. Results of Operations

A. Analysis of statements of comprehensive income

Below are main figures from the Company's statements of comprehensive income, in dollars in thousands:

| | Year ended December 31 | |
|------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------|
| | 2017 | 2016 |
| Revenues from gas and condensate sales | 172,334 | 159,850 |
| Less royalties | 27,246 | 24,843 |
| Net revenues | 145,088 | 135,007 |
| Costs and expenses | | |
| Cost of production of natural gas and condensate | 12,234 | 11,638 |
| Depreciation, depletion and amortization expenses | 16,934 | 16,156 |
| General and administrative expenses | 1,698 | 1,200 |
| Total costs and expenses | 30,866 | 28,994 |
| Income from ordinary activities | 114,222 | 106,013 |
| Finance expenses | (15,859) | (342) |
| Finance income | 332 | 131 |
| Finance expenses, net | (15,527) | (211) |
| Income before income taxes | 98,695 | 105,802 |
| Income taxes | 10,469 | - |
| Total comprehensive income | 88,226 | 105,802 |
| Total pro forma comprehensive income for the year for the acquisition of rights from Delek Drilling¹ | 63,537 | 60,180 |
| Gas sales in BCM² | 9.7 | 9.3 |
| Condensate sales in thousands of barrels³ | 455 | 448 |

¹ For the pro forma assumptions see Note 22 to the annual financial statements.

² The figures refer to sales of natural gas by all of the Tamar partners, rounded off to one tenth of a BCM.

³ The figures refer to condensate sales (100%) from the Tamar project, rounded off to thousands of barrels.

Net revenues in the reporting year amounted to \$145.1 million compared with \$135.0 million the year before, an increase of 7%. The year-over-year increase in revenues mainly derives from a 4% growth in the quantities of natural gas and condensate sold in the Tamar project.

Revenues net of royalties in Q4/2017 amounted to \$34.5 million compared with \$34.4 million in the year-before period.

Natural gas was supplied in 2017 to the Israel Electric Corporation (53% of total revenues) and to another major customer (11% of total revenues) as well as to various other customers.

The cost of production of natural gas and condensate mainly includes the management and operation expenses of the Tamar project, which comprise, inter alia, expenses of shipping and transportation, payroll, consulting, maintenance and insurance. The cost of gas and condensate production in the reporting year amounted to \$12.2 million compared with \$11.6 million the year before, an increase of 5%. The increase in the cost of gas and condensate production is mainly due to higher payroll costs, which were partly offset by a reduction in shipping and transportation costs and in the operator fees in the Tamar project.

The cost of gas and condensate production in Q4/2017 amounted to \$3.4 million compared with \$3.1 million in the year-before period, an increase of 10%.

Depreciation, depletion and amortization expenses amounted in the reporting year to \$16.9 million compared with \$16.2 million the year before, an increase of 4%. Depreciation expenses include depletion deduction in the Tamar project. The increase mainly derives from a year-over-year increase in the quantity of gas produced due to a rise in the demand for natural gas in the Israeli market.

Depreciation and amortization expenses in Q4/2017 amounted to \$3.8 million compared with \$3.4 million in the year-before quarter.

General and administrative expenses for periods prior to July 1, 2017 were included, according to management's estimate, in the amount of the share attributed to the Tamar project in the total of general and administrative expenses of Delek Drilling, as described in Note 2A to the Financial Statements. General and administrative expenses in the reporting year amounted to \$1.7 million compared with \$1.2 million the year before, and include, inter alia, expenses for professional services and payroll expenses.

General and administrative expenses in Q4/2017 amounted to \$0.7 million compared with \$0.3 million in the year-before quarter.

Net finance costs amounted in the reporting year to \$15.5 million compared with \$0.2 million the year before. Finance costs in the reporting year mainly derived from costs of interest on the bonds issued during July 2017.

Net finance costs in Q4/2017 amounted to \$8.1 million compared with an amount below \$0.1 million in the year-before quarter. The increase derives from the issue of Series A bonds.

Income taxes in 2017 amounted to \$10.5 million. As explained in Note 2B to the Financial Statements, the acquisition of 9.25% of the Tamar and Dalit leases by the Company was accounted for by the pooling method, and therefore, until June 30, 2017 the Financial

Statements do not include income taxes, since the Company's operations up to that date were carried out within Delek Drilling, which does not include income taxes in its financial statements, as the tax liability for its profits is imposed on the holders of participating units therein.

3. Financial position, liquidity and financing sources

A. Financial position

Following are details of the main changes in the items of the statement of financial position as of December 31, 2017 compared with the statement of financial position as of December 31, 2016:

Total assets in the statement of financial position as of December 31, 2017 amounted to \$575.3 million compared with \$408.3 million as of December 31, 2016.

Current assets increased from \$21.8 million as of December 31, 2016 to \$48.1 million as of December 31, 2017. The change is mainly attributable to the following factors:

- (1) **Cash and cash equivalents** amounted to \$28.4 million as of December 31, 2017. As of December 31, 2016 there was no balance of cash and cash equivalents.
- (2) **Trade receivables** amounted to \$15.7 million as of December 31, 2016 compared with \$18.3 million as of December 31, 2017.
- (3) **Other accounts receivable** decreased from \$6.1 million as of December 31, 2016 to \$1.3 million as of December 31, 2017. The decrease is mainly due to a decrease in the balance with the joint venture operator.

Non-current assets increased from \$386.5 million as of December 31, 2016 to \$527.3 million as of December 31, 2017. The change is mainly attributable to the following factors:

- (1) **Investments in oil and gas assets** decreased from \$384.5 million as of December 31, 2016 to \$380.1 million as of December 31, 2017. The decrease, in the amount of \$4.4 million, derives from depreciation expenses of \$16.9 million in the Tamar project, as against investments of \$12.5 million (mainly in the drilling of Tamar 8).
- (2) **Deferred taxes** amounted to \$134.7 million as of December 31, 2017. As explained above, until June 30, 2017 the Financial Statements do not include income taxes, and therefore, as of December 31, 2016 there was no balance of deferred taxes. The tax asset recognized in the Financial Statements is attributable to the difference between the acquisition cost of the Leases for tax purposes and their carrying amount. On June 29, 2017, a tax ruling by agreement was received from the Israel Tax Authority regarding the manner of amortization of the acquisition cost of the Leases for tax purposes.
- (3) **Restricted deposit** amounted as of December 31, 2017 to \$10 million. This deposit serves as a safety buffer for payment of the principal and interest to the holders of Series A bonds and is pledged in favor of the trustee for said bonds.

Current liabilities as of December 31, 2017 amounted to \$38.9 million compared with \$12.2 million as of December 31, 2016. The increase is mainly attributable to the following factors:

- (1) **Current maturities of Series A bonds** issued in July 2017, in an amount of \$11.4 million.

- (2) **Other accounts payable** as of December 31, 2017 amounted to \$24 million compared with \$12.2 million as of December 31, 2016. The increase mainly derives from costs of interest payable to the bondholders in an amount of \$14.6 million and from an increase in balances with interested parties (mainly royalties) in an amount \$0.5 million. On the other hand, the increase was offset mainly by a decrease of \$3.8 million in the Company's share in the liabilities of the joint venture in connection with the Tamar reservoir.
- (3) **Income taxes payable** amounted to \$3.5 million as of December 31, 2017. As of December 31, 2016 the Company had no tax liability.

Non-current liabilities as of December 31, 2017 amounted to \$639.6 million compared with \$9.2 million as of December 31, 2016. The increase of \$630.4 million mainly derives from the bonds issued during July 2017, which are presented net of issue expenses and current maturities of \$629.7 million.

The Company's equity as of December 31, 2017 amounts to a negative \$103.1 million compared with positive equity of \$386.8 million as of December 31, 2016. The decrease in equity is attributable to the pooling method used to account for the acquisition of the Leases, as well as the recognition of a premium and a negative capital reserve in a total negative amount of \$523.4 million, as against an increase of \$32 million in retained earnings from profits recorded for the Tamar project, net of distributions to shareholders, and an increase of \$1.4 million in share capital.

B. Cash flow

Net cash flows provided by operating activities amounted in the reporting year to \$107.7 million compared with net cash flows provided by operating activities amounting to \$120 million the year before. The decrease is mainly due to a decrease in profit for the year and to net changes in assets and liabilities in an amount of \$3.1 million.

Net cash flows used for investing activities amounted in the reporting year to \$20.3 million compared with \$8.8 million the year before. The increase mainly derives from an amount of \$9.9 placed in a restricted deposit which serves as a safety buffer for the holders of Series A bonds and from an increase of \$8.1 million in investments in oil and natural gas assets, as against a decrease of \$8 million in the balance with the joint venture operator.

Net cash flows used for financing activities amounted in the reporting year to \$58.9 million, and included payments in a total sum of \$902 million (payment for the acquisition of the Leases from a former controlling shareholder – \$845.3 million, distributions to the shareholders – \$49.1 million, repurchase of bonds – \$7.5 million), as against receipts of \$843.1 million (net bond issue proceeds – \$647.9 million, net share issue proceeds – \$195.2). Cash flows used for financing activities in the year before amounted to \$111.2 million and were used for distributions to shareholders.

The balance of cash and cash equivalents as of December 31, 2017 amounted to \$28.4 million.

C. Financing

1. In July 2017 the Company raised \$658 million in a public offering of NIS 2,315,668,000 par value Series A bonds. During the third quarter the Company completed the implementation of a bond repurchase program for NIS 26,368,000 par value of said bonds, in consideration for \$7.5 million. The bonds bear 4.69% annual interest and are linked (principal and interest) to the dollar. Approximately 60.75% of the bond principal is payable in 20 unequal semiannual installments, from August 2018 until February 2028,

and the remaining 39.25% of the principal is payable in August 2028. The interest is payable semiannually, from February 2018 until the final principal payment date. The bonds were assigned a rating of A1.il with stable outlook by Midroog Ltd.

A sum of \$650 million from the proceeds of said bond issue was used by the Company to finance the acquisition of 9.25% of the Tamar and Dalit leases from Delek Drilling, in accordance with the Sale Agreement, as described in Note 4 to the Financial Statements.

For further details on the Series A bonds see Note 9 to the Financial Statements.

2. In March 2018 (subsequent to the date of the statements of financial position) the Company raised \$519 million in a public offering of NIS 1,940,113,000 par value Series B bonds. On March 11, 2018 the board of directors decided on a program for the repurchase of bonds issued beyond a sum of \$560 million according to a representative exchange rate of NIS 3.459 to the dollar (i.e. above NIS 1,937,040,000 par value). The bonds bear 4.69% annual interest and are linked (principal and interest) to the dollar. Approximately 53.62% of the bond principal is payable in 20 unequal semiannual installments, from August 2018 until February 2028, and the remaining 46.38% of the principal is payable in August 2028. The interest is payable semiannually, from August 2018 until the final principal payment date. The bonds were assigned a rating of A1.il with stable outlook by Midroog Ltd.

For further details on the Series B bonds see Note 23B to the Financial Statements.

- D.** In accordance with the provisions of Regulation 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports) 1970, a corporation which on the date of publication of the financial statements has outstanding bonds, must test for the existence of warning signs as defined in those regulations. As of the date of publication of the Financial Statements the Company has two outstanding bond series – Series A and Series B, pursuant to the closing of a transaction for the acquisition, from Noble, of a 7.5% interest in the Tamar and Dalit leases and a pro rata share of approvals, rights and obligations under related agreements, which was partly funded by the Series B bond issue. Since on the date of publication of the financial statements all of the Company's outstanding bonds must be taken into account (including Series B, which was issued on March 13, 2018), the Company tested for the existence of warning signs based on its pro forma statements as of December 31, 2017 (attached to this report), which include the rights that were acquired from Noble, and determined that none of the warning signs exists. It is noted in this regard that a test for warning signs based on the financial statements that include only the activity prior to the acquisition of the rights shows that the equity-deficit warning sign exists. However, given that those financial statements do not reflect the Company's activity on the date of publication of the financial statements, the Company is of the opinion that the correct test is the one based on the pro forma statements, pursuant to which, as stated, none of the warning signs exists.

Part Two – Exposure to and Management of Market Risks

Report on exposure to and management of market risks

1. The person in charge of market risk management in the Company

The person in charge of market risk management in the Company is the CFO, Mr. Yuval Raikin. For details about the CFO see Regulation 26A in Chapter Four (Additional Information on the Company) of the Periodic Report.

2. Description of the main market risks to which the Company is exposed

A. Exchange rate risk

The Company's activities, assets and liabilities are mainly denominated in U.S. dollars, and therefore the Company's functional currency is the U.S. dollar.

Exchange rate risk derives mainly from assets and liabilities stated in a currency other than the U.S. dollar. As of the date of the statement of financial position, the Company has non-material balances in currencies other than the U.S. dollar. Nevertheless, the existing excess of liabilities over financial assets stated in U.S. dollars exposes the Company to fluctuations in income taxes, given that changes in the exchange rate of the shekel against the dollar may affect its results for tax purposes. Thus, a decrease in the exchange rate of the shekel against the dollar would result in the recording of tax income in respect of exchange rate differences, while an increase in said exchange rate would result in the recording of tax expenses in respect of exchange rate differences.

B. Natural gas and condensate price risk

The gas prices stated in the agreements for the sale of natural gas from the Tamar project are based on different price formulas which include, inter alia, linkage to the U.S. CPI, 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 Company's exposure to fluctuations in the Electricity Production Tariff and in the price of a Brent oil barrel in the agreements for the sale of natural gas from the Tamar project is hedged by a bottom limit set in those agreements, since all the agreements linked to such components include a "floor price." Therefore, any additional decrease in the price of a Brent oil barrel or in the Electricity Production Tariff as aforesaid would have a relatively moderate effect on the Company's revenues by virtue of the agreements to which it is party.

3. The Company's policy for managing market risk associated with exchange rates

The Company invests liquidity surpluses in bank deposits in accordance with the terms of the bond indentures. Regarding exposure to fluctuations in income taxes as stated in 2A above, the Company has requested the Israel Tax Authority to discuss with it the application of the Income Tax Regulations (Rules for Keeping the Books of Foreign-Invested Companies and of Certain Partnerships and Determination of Their Taxable Income) 1986 to the Company for the purpose of measuring its taxable income on a dollar basis.

4. Means of supervision and implementation of the policy

No events were determined regarding which the board of directors is required to pass a special resolution on market risk matters.

5. Sensitivity tests

In accordance with the 2007 amendment to the Second Schedule to the Securities Regulations (Periodic and Immediate Reports) 1970, the Company performed sensitivity tests on changes in risk factors that affect the fair value of "sensitive instruments."

Sensitivity tests for changes in dollar/shekel exchange rate (dollars in thousands)

| Sensitive Instrument | Gain/(loss) from the changes | | Fair Value | Gain / (loss) from the changes | |
|-----------------------------|-------------------------------------|--------------|-------------------|---------------------------------------|--------------|
| | 10% | 5% | | -5% | -10% |
| | 3.814 | 3.640 | | 3.294 | 3.120 |
| Cash and cash equivalents | (44) | (22) | 441 | 22 | 44 |
| Other accounts payable | 55 | 28 | (552) | (28) | (55) |
| Total | 11 | 6 | (111) | (6) | (11) |

* Dollar/shekel representative exchange rate as of December 31, 2017.

6. Report according to linkage basis, as of December 31, 2017 (dollars in thousands)

| | Financial Balances | | | |
|-----------------------------------|-------------------------------------------|----------------------------|-------------------------------|------------------|
| | In dollars or linked to the dollar | In unlinked shekels | Non-financial balances | Total |
| Assets | | | | |
| Cash and cash equivalents | 27,998 | 441 | - | 28,439 |
| Trade receivables | 18,296 | - | - | 18,296 |
| Other accounts receivable | 533 | - | 791 | 1,324 |
| Investments in gas and oil assets | - | - | 380,065 | 380,065 |
| Deferred taxes | - | - | 134,698 | 134,698 |
| Restricted deposit | 9,969 | - | - | 9,969 |
| Other long-term assets | 2,109 | - | 412 | 2,521 |
| Total assets | 58,905 | 441 | 515,966 | 575,312 |
| Liabilities | | | | |
| Other accounts payable | 21,805 | 552 | 1,635 | 23,992 |
| Income taxes payable | - | - | 3,543 | 3,543 |
| Bonds | 641,042 | - | - | 641,042 |
| Asset retirement obligation | - | - | 9,871 | 9,871 |
| Total liabilities | 662,847 | 552 | 15,049 | 678,448 |
| | (603,942) | (111) | 500,917 | (103,136) |

Part Three – Aspects of Corporate Governance

1. The Company's policy on donations

The Company has no set policy on donations and, accordingly, did not make any monetary donations during the reporting year.

2. Directors having accounting and financial expertise

The Company's board of directors determined that the appropriate minimum number of directors having accounting and financial expertise shall be one. The board of directors believes that given the type of activity of the Company, as well as the extensive business experience of the directors (including those who do not meet the definition of "having accounting and financial expertise"), the above minimum number allows the board to fulfill the duties imposed on it by law and by the Company's documents of incorporation regarding the monitoring of the Company's financial condition and the preparation and approval of the financial statements. Added to all the above reasons is the fact that in accordance with the Company's work procedures, the auditors of the financial statements are invited to each board meeting at which the financial statements are discussed, and they are available to the directors for the provision of any explanation required in connection with the financial statements and the Company's financial condition, both at the meetings attended by them and outside those meetings. Additionally, in accordance with the law, any director who so wishes may, in justified circumstances and subject to the conditions prescribed by law, receive professional advice, including accounting and financial advice, at the Company's expense, for the purpose of performing his duties.

As of the report publication date, five of the directors on the Company's board have accounting and financial expertise (Giora Inbar (outside director), Alon Cohen (outside director), Sigalia Hefetz, Avraham Eini and Ran Efrati). For information on the education, experience and qualifications of these directors, see Regulation 26 in Chapter Four (Additional Information on the Company) of the Periodic Report.

3. Independent directors

The Company's articles do not include any provision regarding the number of independent directors. Beyond what is necessary, on June 25, 2017 Ms. Sigalia Hefetz was appointed as a director of the Company, and her classification as an independent director was endorsed on August 2, 2017 by the board of directors.

4. Disclosure regarding the Company's internal auditor

A. Details of the internal auditor

- (1) Name: Mr. Alon Amit
- (2) Commencement of tenure: October 1, 2017
- (3) Qualifications for the position:

The internal auditor meets the conditions specified in Sections 3(a) and 8 of the Internal Audit Law 1992 (the "**Internal Audit Law**") and in Section 146(b) of the Companies Law 1999 (the "**Companies Law**").

The internal auditor holds a BA in Political Science and Communications and an MA in Public Administration with major in Internal and Public Auditing, both from Bar Ilan University. He also holds CISA and CIA certifications.

- (4) The internal auditor is not an employee of the Company but provides it with internal audit services as an external service provider. In addition, the internal auditor provided the Company with services in connection with the adoption of work procedures. The internal auditor serves as the CEO of Raveh Ravid Internal Audit Services Ltd., which is owned by Raveh Ravid & Co., Certified Public Accountants (Isr.).
- (5) The internal auditor does not hold another position in the Company apart from internal auditor.
- (6) The internal auditor is not an interested party or a relative of an interested party in the Company and does not act as or on behalf of the Company's independent auditor.
- (7) The internal auditor does not hold securities of the Company or of a related entity.

B. Manner of appointment

Mr. Alon Amit's appointment as the internal auditor was approved by the board of directors on October 1, 2017, at the recommendation of the audit committee, which found him suitably qualified to fill the position, inter alia in light of his expertise and extensive experience in the field of internal auditing, and after he stated that he meets all the qualifications required by law for filling the position of internal auditor.

C. Identity of the internal auditor's organizational superior

Up to December 20, 2017 – the chairman of the board, and thereafter – the Company's CEO.

D. Work plan

The internal auditor follows an annual work plan which forms part of a multiannual plan. The internal auditor recommended an annual and multiannual audit plan based on a risk survey conducted to determine the internal audit objectives. Under the multiannual plan, key processes within the Company are audited at a frequency determined according to a level of prioritization weighted on the basis of exposure to fraud and an estimation of the probability of a failure event and the extent of the damage. The internal audit work plan for 2018 was approved by the audit committee.

The plan was prepared by the internal auditor in collaboration with the Company's management, following which it was presented to the audit committee and board of directors and approved by the audit committee.

E. Scope of employment

The number of hours provided by the internal auditor is based on the Company's audit needs and determined by the audit committee, the board of directors and management. In the reporting year the internal auditor provided internal audit services on a scope of 150 hours.

The scope of employment of the internal auditor is determined, inter alia, based on the size and complexity of the Company's business operations. The Company's management, audit committee and board of directors may change the scope of the internal audit services according to circumstances.

F. Audit performance

Internal auditing is performed in accordance with Israeli and international generally accepted auditing standards and in accordance with professional guidelines for internal auditing, as provided in Section 4(b) of the Internal Audit Law.

The board of directors is satisfied that the internal auditor has complied with all the requirements and conditions specified above, taking into account the internal auditor's statement as submitted to the board.

G. Access to information

The internal auditor has full and unrestricted access to the Company's information systems, including financial data, for the purpose of performing the audit, in accordance with Section 9 of the Internal Audit Law.

H. Internal auditor's report

The internal auditor's report must be submitted in writing.

To date, a risk survey report and an annual and multiannual audit plan have been submitted. For further details see (d) above.

I. Board of directors' assessment of the internal auditor's activity

In the board of directors' assessment, the scope, nature and continuity of the internal auditor's activity and the internal audit work plan are reasonable, considering the Company's organizational structure and the nature and scope of its business activities, and enable the realization of the internal audit objectives.

J. Remuneration

The Company paid for internal audit services in 2017 (starting from October 1, 2017, the date on which Mr. Alon Amit was appointed) a total of \$11,000. In the board of directors' assessment, the remuneration is reasonable does not affect the exercise of the internal auditor's independent professional judgment.

5. Fee of independent internal auditors

Following are details of the working hours and fee amounts of the Company's independent auditors for 2017 – Ziv Haft, CPA, jointly with Kost Forer Gabbay & Kasierer, CPA:

For audit, audit-related and tax services – 2,279 hours; NIS 373 thousand.

For other services (mainly in connection with the issue of securities of the Company) – 2,559 hours; NIS 1,508 thousand.

6. The Company's policy on negligible transactions

On March 20, 2018 the board of directors adopted, for the first time, guidelines and rules for the classification of a transaction of the Company with an interested party as a negligible transaction, within the meaning of the term in Regulation 41(a)(6)(a) of the Securities Regulations (Periodic and Immediate Reports) 2010 (the "Negligibility Procedure").

The board of directors determined that a transaction will be deemed a negligible transaction if it meets all the following conditions:

- a. It is not an extraordinary transaction (as this term is defined in the Companies Law).
- b. In any transaction tested for negligibility, each of the criteria that are relevant to such transaction will be examined before the event as specified below, and insofar as it applies to the transaction at a rate of less than 1% or in an amount below \$500,000, whichever is lower, the transaction will be deemed negligible:
 - 1) Acquisition/sale of a fixed asset – the amount of the asset involved in the transaction divided by total assets according to the latest reviewed or audited financial statements, as the case may be.
 - 2) Sale of products or services – the amount of the sales involved in the transaction divided by total annual sales, calculated based on the last four quarters regarding which reviewed or audited financial statements were published.
 - 3) Purchase of products or services – the amount of the expenses involved in the transaction divided by total annual operating expenses that are relevant to the transaction, calculated based on the last four quarters regarding which reviewed or audited financial statements were published.
 - 4) Assumption of a financial liability – the amount of the liability involved in the transaction divided by total liabilities according to the latest reviewed or audited financial statements, as the case may be.
 - 5) Insurance transaction – the premium will be considered as the transaction amount, as distinct from the amount of the insurance coverage granted.
- c. In cases where, in the board of directors' judgment, none of the above criteria is relevant to the transaction in question, the board of directors will set another criterion, provided that the scope of the transaction is not greater than specified in the above rules.
- d. The transaction is negligible also in qualitative terms.
- e. When testing a future transaction for negligibility, it is necessary to consider, inter alia, the probability of its realization.
- f. For purposes of the periodic report, the test for negligibility of a transaction will be made on an annual basis, combining all transactions of the same kind that were made with the interested party in the reporting year.
- g. In a multiannual transaction (for example, the lease of an asset for several years), the test for negligibility will be made on an annual basis (in the above example, the annual rent will be examined).
- h. Each transaction will be examined individually; however, the negligibility of interrelated or contingent transactions will be examined in the aggregate. Transactions made at a high frequency during the year and in close time proximity to one another will be deemed interrelated transactions.

In cases where questions arise regarding the application of the above criteria, the board of directors will exercise judgment and examine the negligibility of the transaction based on the purpose of the Reporting Regulations and the above rules and guidelines.

7. Internal enforcement plan

As of the date of the report, the Company had not adopted an internal enforcement program in the securities and corporate field. The Company intends to adopt such a program in the course of 2018.

Part Four – Repurchase Program

Regarding the Series A and Series B bond repurchase programs that were adopted by the board of directors, see immediate report dated July 17, 2017 (reference number 2017-01-061543) and immediate report dated March 13, 2018 (reference number 2018-01-019917), respectively, the contents of which are included herein by reference. Up to the date of the report the Company had fully completed the implementation of the Series A and Series B bond repurchase programs, as set out in immediate reports dated July 26, 2017 (reference number 2017-01-064543), July 26, 2017 (reference number 2017-01-064789), July 27, 2017 (reference number 2017-01-065281), August 21, 2017 (reference number 2017-01-084813) and March 18, 2018 (reference number 2018-01-021120 and 2018-01-021123), the contents of which are included herein by reference.

Part Five – Disclosure in Connection with the Company's Financial Reporting

1. Events after the date of the statement of financial position

See Note 23 to the Financial Statements.

2. Critical accounting estimates

See Note 2D to the Financial Statements.

Part Six – Details on Bonds Issued by the Company (NIS in thousands)

| <u>Bonds</u> | <u>Series A</u> | <u>Series B</u> |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Is the series material? | Yes | Yes |
| Par value on issue date | 2,315,668 | 1,940,113 |
| Issue date | July 9, 2017 | March 13, 2018 |
| Par value as of December 31, 2017 | 2,289,300 | - |
| Linked par value as of December 31, 2017 | 2,253,550 | - |
| Value in the Company's books as of December 31, 2017 | 2,222,493 | - |
| Stock exchange value as of December 31, 2017 | 2,297,770 | - |
| Amount of accrued interest as of December 31, 2017 | 50,674 | - |
| Annual fixed interest rate | 4.69% | 4.69% |
| Principal payment dates | See <u>Annex A</u> to this report | See <u>Annex B</u> to this report |
| Interest payment dates | Semiannual payments, on February 28 and August 30 of each of the years 2018 to 2028, from February 28, 2018 to August 30, 2028 (inclusive) | Semiannual payments, on February 28 and August 30 of each of the years 2018 to 2028, from February 28, 2018 to August 30, 2028 (inclusive) |
| Linkage basis, base rate (principal and interest) | Linked to the U.S. dollar; base rate – 3.522 NIS/\$ | Linked to the U.S. dollar; base rate – 3.459 NIS/\$ |
| Conversion right | None | None |
| Right for early payment | <ul style="list-style-type: none"> • Regarding early redemption of the bonds initiated by the Stock Exchange, see Section 9.1 of the indenture attached as Annex A to the supplementary notice released on July 6, 2017 (reference number 2017-01-057724) (the "Series A Indenture"). • Regarding the right for full or partial early redemption of the bonds initiated by the Company, see Section 9.2 of the Series A Indenture. • Regarding the obligation for early redemption of the bonds, see Section 9.3 of the Series A Indenture. | <ul style="list-style-type: none"> • Regarding early redemption of the bonds initiated by the Stock Exchange, see Section 9.1 of the indenture attached as Annex A to the shelf offering report dated March 12, 2018 (reference number 2018-01-019125) (the "Series B Indenture"). • Regarding the right for full or partial early redemption of the bonds initiated by the Company, see Section 9.2 of the Series B Indenture. • Regarding the obligation for early redemption of the bonds, see Section 9.3 of the Series B Indenture. |
| Guarantee for payment of the liability | None | None |

| <u>Bonds</u> | <u>Series A</u> | <u>Series B</u> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name of trustee | Strauss Lazer, Trust Company (1992) Ltd. | Strauss Lazer, Trust Company (1992) Ltd. |
| Name of responsible person at the trust company | Ori Lazer, CPA and Adv. | Ori Lazer, CPA and Adv. |
| Address and email of the trustee | NIP Tower, 17 Yitzhak Sadeh St., Tel Aviv 677775 ori@slcpa.co.il | NIP Tower, 17 Yitzhak Sadeh St., Tel Aviv 677775 ori@slcpa.co.il |
| Name of company rating the bonds | Midroog Ltd. | Midroog Ltd. |
| Rating as of the issue date | A1.il | A1.il |
| Ratings from the issue date and rating as of the report date ⁴ | A1.il | A1.il |
| Has the Company complied with all the conditions and obligations under the Series A Indenture until December 31, 2017 and during the reporting year? | 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 | No |
| Pledges for securing the bonds | <ul style="list-style-type: none"> • For pledges given for securing the Series A bonds see Section 5.8.1 of the Series A Indenture, whose contents are included herein by reference. • As of December 31, 2017, all the pledges set forth in Section 5.8.1 of the Series A Indenture have been registered and are valid according to any law and the Company's documents of incorporation. • For restrictions regarding the transfer and pledge of the Company's assets see Section 5.9 of the Series A Indenture, whose contents are included herein by reference. | <ul style="list-style-type: none"> • For pledges given for securing the Series B bonds see Section 5.8.1 of the Series B Indenture, whose contents are included herein by reference. • As of the date of approval of the Financial Statements, all the pledges set forth in Section 5.8.1 of the Series B Indenture have been registered and are valid according to any law and the Company's documents of incorporation. • For restrictions regarding the transfer and pledge of the Company's assets see Section 5.9 of the Series B Indenture, whose contents are included herein by reference. |

⁴ Series A bonds were rated on June 25, 2017, July 2, 2017, July 5, 2017, July 12, 2017, February 20, 2018 and March 12, 2018; series B bonds were rated on February 20, 2018 and March 12, 2018. For details see immediate report dated March 12, 2018 (reference number 2018-01-019119), the contents of which are included herein by reference.

| <u>Bonds</u> | <u>Series A</u> | <u>Series B</u> |
|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <ul style="list-style-type: none"> For details regarding the Company's right to issue additional Series A Bonds by way of a series expansion, and its right to issue bonds of other series and other additional debt, subject to certain conditions, see Section 2.2 of the Series A Indenture, whose contents are included herein by reference. | <p>are included herein by reference.</p> <ul style="list-style-type: none"> For details regarding the Company's right to issue additional Series B Bonds by way of a series expansion, and its right to issue bonds of other series and other additional debt, subject to certain conditions, see Section 2.2 of the Series B Indenture, whose contents are included herein by reference. |
| Financial covenants as of December 31, 2017 | <ul style="list-style-type: none"> Equity (including minority interests) net of capital reserve and with the addition of loans subordinate to the rights of the bondholders (as specified in Section 5.10.1 of the Series A Indenture) as of December 31, 2017 – \$606 million.⁵ Expected debt service coverage ratio for the examination period (as defined in Section 5.10.2 of the Series A Indenture) (for the 12 months beginning April 1, 2018) – 1.45.⁶ Economic equity (as defined in Section 5.10.3 of the Series A Indenture) as of December 31, 2017 – \$490 million.⁷ | <ul style="list-style-type: none"> Equity (including minority interests) net of capital reserve and with the addition of loans subordinate to the rights of the bondholders (as specified in Section 5.10.1 of the Series B Indenture) – will be examined for the first time on March 31, 2018.⁸ Expected debt service coverage ratio for the examination period (as defined in Section 5.10.2 of the Series B Indenture) (for the 12 months beginning April 1, 2018) – 1.45.⁹ Economic equity (as defined in Section 5.10.3 of the Series B Indenture) as of December 31, 2017 – will be examined for the first time on March 31, 2018.¹⁰ |

⁵ According to the terms of the Series A Indenture, said equity may be no less than \$250 million.

⁶ According to the terms of the Series A Indenture, said ratio will be no less than 1.05.

⁷ According to the terms of the Series A Indenture, said economic equity may be no less than \$250 million during two consecutive quarters.

⁸ According to the terms of the Series B Indenture, said equity may be no less than \$350 million.

⁹ According to the terms of the Series B Indenture, said ratio may be no less than 1.05.

¹⁰ According to the terms of the Series B Indenture, said economic equity may be no less than \$350 million during two consecutive quarters.

Additional Information

The board of directors expresses its appreciation to the Company's management and personnel for their dedicated work and significant contribution to the advancement of the Company's business.

Sincerely,

Yossi Abu
Chairman of the Board

Liami Vaisman
CEO

Tamar Petroleum Ltd.

Annex A
Schedule of Amortization of Series A Bonds

| Payment Date | Percentage of Principal Paid |
|---------------------|-------------------------------------|
| 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% |
| Total | 100.00% |

Annex B
Schedule of Amortization of Series B Bonds

| Payment Date | Percentage of Principal Paid |
|---------------------|-------------------------------------|
| 30/08/2018 | 3.256% |
| 28/02/2019 | 4.609% |
| 30/08/2019 | 4.349% |
| 28/02/2020 | 4.513% |
| 30/08/2020 | 2.845% |
| 28/02/2021 | 1.611% |
| 30/08/2021 | 4.328% |
| 28/02/2022 | 1.289% |
| 30/08/2022 | 3.040% |
| 28/02/2023 | 2.692% |
| 30/08/2023 | 2.389% |
| 28/02/2024 | 2.167% |
| 30/08/2024 | 2.502% |
| 28/02/2025 | 2.410% |
| 30/08/2025 | 2.473% |
| 28/02/2026 | 1.998% |
| 30/08/2026 | 1.901% |
| 28/02/2027 | 1.651% |
| 30/08/2027 | 1.834% |
| 28/02/2028 | 1.764% |
| 30/08/2028 | 46.379% |
| | 100.00% |



Tamar Petroleum Ltd.

Chapter C

Financial Statements

Tamar Petroleum Ltd.

Financial Statements as of December 31, 2017

In U.S. Dollars in Thousands

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

Tamar Petroleum Ltd.
Financial Statements as of December 31, 2017
In U.S. Dollars in Thousands

Contents

| | <u>Page</u> |
|-------------------------------------------|--------------------|
| Independent auditors' reports | 2-3 |
| Statements of financial position | 4 |
| Statements of comprehensive income | 5 |
| Statements of changes in equity (deficit) | 6 |
| Statements of cash flows | 7 |
| Notes to the financial statements | 8-77 |

Independent Auditors' Report to the Shareholders of Tamar Petroleum Ltd.

We have audited the accompanying financial statements of Tamar Petroleum Ltd. (the "Company") as of December 31, 2017 and 2016 and the statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2017. These financial statements are the responsibility of the board of directors and management of the Company. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016 and the results of operations, the changes in equity and the cash flows for each of the years in the three-year period ended December 31, 2017, in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 2010.

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

Tel Aviv, March 20, 2018

Independent Auditors' Report to the Shareholders of Tamar Petroleum Ltd.

We have audited the information contained in Note 22 to the financial statements of Tamar Petroleum Ltd. (the "Company"), which includes the pro forma statements of comprehensive income for each of the years in the three-year period ended December 31, 2017. Said pro forma financial information is the responsibility of the board of directors and management of the Company. Our responsibility is to express an opinion on said pro forma financial information based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. These standards require that we plan and perform the audit to obtain reasonable assurance that said pro forma financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the pro forma financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall pro forma financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the information contained in the aforementioned Note 22 to the financial statements presents fairly, in all material respects, the pro forma results of operations of the Company for each of the years in the three-year period ended December 31, 2017, in accordance with the provisions of Regulation 9A of the Securities Regulations (Periodic and Immediate Reports), 1970 and subject to the assumptions set out in Note 22 to the financial statements.

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

Tel Aviv, March 20, 2018

Tamar Petroleum Ltd.

Statements of Financial Position (dollars in thousands)*

| | | December 31 | |
|------------------------------------------|--------|------------------|----------------|
| | Note | 2017 | 2016 |
| Assets: | | | |
| Current assets: | | | |
| Cash and cash equivalents | 20A | 28,439 | - |
| Trade receivables | 20E(2) | 18,296 | 15,692 |
| Other accounts receivable | 5 | 1,324 | 6,134 |
| | | <u>48,059</u> | <u>21,826</u> |
| Non-current assets; | | | |
| Investments in oil and gas assets | 6 | 380,065 | 384,488 |
| Deferred taxes | 19B | 134,698 | - |
| Restricted deposit | 20A | 9,969 | - |
| Other long-term assets | 7 | 2,521 | 1,968 |
| | | <u>527,253</u> | <u>386,456</u> |
| | | <u>575,312</u> | <u>408,282</u> |
| Liabilities and equity (deficit): | | | |
| Current liabilities: | | | |
| Current maturities of bonds | 9 | 11,351 | - |
| Other accounts payable | 8 | 23,992 | 12,229 |
| Income taxes payable | | <u>3,543</u> | <u>-</u> |
| | | <u>38,886</u> | <u>12,229</u> |
| Non-current liabilities | | | |
| Bonds net of current maturities | 9 | 629,691 | - |
| Asset retirement obligation | 10 | 9,871 | 9,228 |
| | | <u>639,562</u> | <u>9,228</u> |
| Total liabilities | | <u>678,448</u> | <u>21,457</u> |
| Equity (deficit): | 13 | | |
| Ordinary share capital | | 1,399 | ** |
| Share premium | | 570,648 | 386,825 |
| Retained earnings | | <u>32,023</u> | <u>-</u> |
| | | <u>604,070</u> | <u>386,825</u> |
| Capital reserve | | (707,206) | - |
| | | <u>(103,136)</u> | <u>386,825</u> |
| | | <u>575,312</u> | <u>408,282</u> |

* Regarding the basis for presentation of the data attributable to the period before the start of the Company's operations (July 1, 2017) – see Note 2.

** Less than one thousand dollars.

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

March 20, 2018

Date of approval of the
financial statements

Yossi Abu

Chairman of the Board

Liami Vaisman

CEO

Yuval Raikin

CFO

Tamar Petroleum Ltd.

Statements of Comprehensive Income (dollars in thousands)*

| | | Year ended December 31 | | |
|-----------------------------------------------------|-------------|-------------------------------|-------------------|-------------------|
| | Note | 2017 | 2016 | 2015 |
| Revenues from gas and condensate sales | 14 | 172,334 | 159,850 | 146,142 |
| Less royalties | 15 | 27,246 | 24,843 | 22,935 |
| Net revenues | | <u>145,088</u> | <u>135,007</u> | <u>123,207</u> |
| Costs and expenses | | | | |
| Cost of production of natural gas and condensate | 16 | 12,234 | 11,638 | 12,249 |
| Depreciation, depletion and amortization expenses | 6 | 16,934 | 16,156 | 14,190 |
| General and administrative expenses | 17 | 1,698 | 1,200 | 1,200 |
| Total costs and expenses | | <u>30,866</u> | <u>28,994</u> | <u>27,639</u> |
| Income from ordinary activities | | | | |
| | | <u>114,222</u> | <u>106,013</u> | <u>95,568</u> |
| Finance expenses | 2B,18 | (15,859) | (342) | (580) |
| Finance income | 18 | 332 | 131 | 10 |
| Finance expenses, net | | <u>(15,527)</u> | <u>(211)</u> | <u>(570)</u> |
| Income before income taxes | | | | |
| Income taxes | 2B,19 | (10,469) | - | - |
| Total comprehensive income | | <u>88,226</u> | <u>105,802</u> | <u>94,998</u> |
| Basic and diluted earnings per share (in \$) | | | | |
| Weighted number of shares for the above calculation | 2A(4) | <u>50,000,000</u> | <u>50,000,000</u> | <u>50,000,000</u> |

* Regarding the basis for presentation of the data attributable to the periods before the start of the Company's operations (July 1, 2017) and pro forma information – see Notes 2 and 22.

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

Tamar Petroleum Ltd.

Statements of Changes in Equity (Deficit) (dollars in thousands)*

| | Ordinary share capital | Share premium | Capital reserve | Retained earnings | Total |
|-----------------------------------------------------------------|---------------------------------------|--------------------------|----------------------------|------------------------------|------------------|
| Balance as of January 1, 2015 | ** | 372,503 | - | - | 372,503 |
| Changes in the year 2015: | | | | | |
| Total comprehensive income | - | - | - | 94,998 | 94,998 |
| Owners' investments (distributions to owners) | - | 19,671 | - | (94,998) | (75,327) |
| Balance as of December 31, 2015 | ** | 392,174 | - | - | 392,174 |
| Changes in the year 2016: | | | | | |
| Total comprehensive income | - | - | - | 105,802 | 105,802 |
| Distributions to owners | - | (5,349) | - | (105,802) | (111,151) |
| Balance as of December 31, 2016 | ** | 386,825 | - | - | 386,825 |
| Changes in the year 2017: | | | | | |
| Total comprehensive income | - | - | - | 88,226 | 88,226 |
| Owners' investments (distributions to owners) | - | 7,112 | - | (56,203) | (49,091) |
| Transaction with a former controlling shareholder (see Note 2A) | - | (17,050) | (707,206) | - | (724,256) |
| Share issue | 1,399 | 193,761 | - | - | 195,160 |
| Balance as of December 31, 2017 | 1,399 | 570,648 | (707,206) | 32,023 | (103,136) |

* Regarding the basis for presentation of the data attributable to the period before the start of the Company's operations (July 1, 2017) – see Note 2.

** Less than one thousand dollars.

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

Tamar Petroleum Ltd.

Statements of Cash Flows (dollars in thousands)*

| | Year ended December 31 | | |
|-----------------------------------------------------------------------------------------------|------------------------|------------------|-----------------|
| | 2017 | 2016 | 2015 |
| Cash flows – operating activities: | | | |
| Net income | 88,226 | 105,802 | 94,998 |
| Adjustments required to reconcile net income to net cash used in operating activities: | | | |
| Depreciation, depletion and amortization | 16,934 | 16,156 | 14,190 |
| Income taxes | 6,937 | - | - |
| Finance expenses, net | 849 | 197 | 181 |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in trade receivables | (20,844) | (2,696) | 219 |
| Decrease (increase) in other accounts receivable | (2,307) | 50 | (110) |
| Increase (decrease) in other accounts payable | 17,877 | 483 | (807) |
| Net cash provided by operating activities | <u>107,672</u> | <u>119,992</u> | <u>108,671</u> |
| Cash flows – investing activities: | | | |
| Deposit in restricted deposits | (9,940) | - | - |
| Investments in oil and gas assets | (18,507) | (10,383) | (17,263) |
| Investment in other long-term assets | (1,666) | - | (445) |
| Decrease (increase) in balance of the Joint Venture operator | 9,545 | 1,543 | (1,511) |
| Interest received | 109 | - | - |
| Receipts in connection with other long-term assets | 130 | - | - |
| Net cash used for investing activities | <u>(20,329)</u> | <u>(8,840)</u> | <u>(19,219)</u> |
| Cash flows – financing activities: | | | |
| Payment to a former controlling shareholder in respect of the Sale Agreement (see Note 4D) | (845,299) | - | - |
| Proceeds from a bond issue, net | 647,955 | - | - |
| Proceeds from a share issue, net | 195,160 | - | - |
| Repurchase of bonds | (7,523) | - | - |
| Receipt of short-term credit from a former controlling shareholder (see Note 4E) | 34,000 | - | - |
| Repayment of short-term credit from a former controlling shareholder | (34,000) | - | - |
| Payments for the lease of oil and gas assets | - | - | (14,125) |
| Distributions to owners | (49,091) | (111,152) | (75,327) |
| Interest paid | (106) | - | - |
| Net cash used for financing activities | <u>(58,904)</u> | <u>(111,152)</u> | <u>(89,452)</u> |
| Increase in cash and cash equivalents | 28,439 | - | - |
| Cash and cash equivalents at the beginning of the year | - | - | - |
| Cash and cash equivalents at the end of the year | <u>28,439</u> | <u>-</u> | <u>-</u> |
| Annex A – Investing activities not involving cash flows | | | |
| Investments in oil and gas assets against other accounts payable | 485 | 5,141 | 2,548 |
| Investment in other long-term assets against other accounts payable | - | 1,615 | - |
| Asset retirement obligation against oil and gas assets | 197 | 635 | 2,385 |
| Annex B – Additional information on cash flows | | | |
| Income tax paid | 3,530 | - | - |
| Interest paid | 106 | - | 1,497 |

* Regarding the basis for presentation of the data attributable to the period before the start of the Company's operations (July 1, 2017) – see Note 2.

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

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 1 – General:

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

Up to 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 controlled by Delek Drilling Limited Partnership (the "Partnership" or "Delek Drilling").

As of December 31, 2017, the Company held a working interest at a rate of 9.25% (out of 100%) in the I/12 "Tamar" and I/13 "Dalit" leases (jointly, the "**Leases**" or the "**Tamar and Dalit leases**" or the "**Joint Venture**"), including the agreements relating to their operations (see the definition of the object of sale in Note 4 below). Said Leases and the rights associated with them were transferred to the Company following the closing of the public offering (see B below) and upon the fulfillment of the conditions precedent in the Sale Agreement, and the Company commenced operations retroactively as of July 1, 2017. The Company's articles provide that the Company shall only perform operations of exploration, development, production and transmission to the oil and gas target markets in connection with the Tamar and Dalit leases. Regarding the acquisition of additional rights in the Leases at a rate of 7.5% after the date of the statement of financial position, see D below.

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

- B.** In the course of July 2017 the Company raised funding through a public offering of series A bonds and shares (see Notes 9 and 13 below), which served as part of the consideration for the acquisition of the working interest in the Tamar and Dalit leases from Delek Drilling, according to the terms of the Sale Agreement signed between the parties as described in Note 4 below. Following the closing of the share offering, Delek Drilling's stake in the Company decreased to 40% of the equity rights (regarding the voting rights of the shares retained by Delek Drilling, see Note 13 below). Trading in shares of the Company on the Tel Aviv Stock Exchange Ltd. (the "**TASE**") commenced on July 24, 2017.
- C.** The Company is engaged in the sale of natural gas and condensate produced from the Tamar reservoir within the area of the Tamar lease (the "**Tamar project**") to various customers, and primarily to the Israel Electric Corp. Ltd. (the "**IEC**"), industrial customers, private electricity producers and natural gas marketing firms, as well as in promoting the expansion of the Tamar project's production system and examination of the geological potential in the deep-water prospects 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 11C below).

- D.** In March 2018 (after the date of the statements of financial position) the Company acquired from Noble Energy Mediterranean Ltd. ("**Noble**" or the "**Operator**") an additional working interest at a rate of 7.5%, in consideration for an allotment of shares at a rate of 43.5% of the Company's issued and paid-up share capital and in consideration for cash raised in an issue of Series B bonds at a par value of \$560 million. For further details see Notes 23A and 23B below.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 2 – Basis for Preparation of the Financial Statements:

- A.** The acquisition of the rights in the Tamar and Dalit leases, which constitutes a transaction with a controlling shareholder as stated in Note 1A above, does not constitute a business combination within the scope of IFRS 3, and therefore it was accounted for in the financial statements using the pooling method. Accordingly, the Company prepared the financial statements to reflect therein the acquisition of the working interest in those leases as if it was closed on January 1, 2015, while carrying out the following adjustments:
- 1) For periods prior to July 1, 2017, the Company did not participate in assets and liabilities arising from the following differences: differences in the rate of royalties to the State and to third parties due to a disagreement of the partners in the Joint Venture with the Ministry of Energy (see Note 11H1); differences due to disagreements between the Tamar partners and several customers in connection with the price of gas linked that is to the Electricity Production Tariff.
 - 2) General and administrative expenses for periods prior to July 1, 2017 were included according to management's estimate of the share attributable to the Tamar project out of the Partnership's total general and administrative expenses.
 - 3) Equity of the transferred operations was classified in the statement of changes in equity under share premium. Distributions made to the owners before the date of transfer of the Leases were recognized in the statement of changes in equity under share premium and retained earnings.
 - 4) As stated in Note 13B below, on the closing date of the acquisition transaction the Company issued 49,990,000 shares. Said issue was accounted for by way of retroactive adjustment of the number of shares in the calculation of the earnings per share for all the periods presented in these financial statements, as if the shares had been issued on January 1, 2015.
- B.** The figures presented in these financial statements for periods prior to July 1, 2017 do not reflect finance expences incurred by the Company due to the issue of Series A bonds for the purpose of acquiring the Leases (the Company began recording finance costs in connection with said bonds as of the date of their issuance in July 2017), and do not include income taxes (the activity of the Leases in those periods was carried out within the Partnership, which does not include income taxes in its financial statements, since the tax liability for the Partnership's profits is imposed on the holders of the Partnership). The pro forma statements of comprehensive income, in which finance costs for the bonds and income tax expenses were recorded also for periods prior to July 1, 2017, are included in Note 22 below.
- C.** The financial figures in these financial statements are based on books of account, documents and accounting figures that were provided to the Company by Delek Drilling (for the period prior to the start of the Company's operations) and to the Israeli participants in the Joint Venture by Noble.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 2 – Basis for Preparation of the Financial Statements: (cont.)

D. Judgment and critical assumptions based on significant estimates:

Preparation of the Company's financial statements in accordance with IFRS requires that management use estimates and make assumptions that affect the amounts presented in the financial statements. These estimates occasionally require the exercise of judgment in an environment of uncertainty and have a material effect on the presentation of the data in the financial statements.

Following is a description of the key assumptions based on significant accounting estimates used in the preparation of the Company's financial statements, whose formulation required management to make assumptions regarding circumstances and events involving significant uncertainty. In exercising judgment when making the estimates, management relies on various facts, exogenous factors and reasonable assumptions according to the circumstances relevant to each estimate. Actual results may differ from management's estimates.

Estimate of gas reserves – The estimate of gas reserves is used in determining the rate of amortization of the producing assets serving operations during the reported period. Investments related to the discovery and production of proved gas reserves are amortized by the depletion method as stated in Note 3H1d below.

The estimated quantity of gas in the proved reservoirs in the reported period is determined annually based on opinions of external experts for the evaluation of reserves in oil and gas reservoirs.

The assessment of proved gas reserves is a subjective process, and the assessments of different experts may occasionally differ substantially. In light of the materiality of the amortization expenses, changes in the estimation of gas reserves may have a material effect on the Company's results of operations and financial condition.

Claims – In assessing the prospects of legal actions relating to the activity that was transferred to the Company, the Company relied on opinions of its legal advisers. The assessments of the legal advisers are based on their best professional judgment, taking into account the current stage of the proceedings. Since the results of the actions will be determined in the courts, those results could differ from said assessments. See in this regard also Notes 4 and 11K.

Income taxes – The Company recognizes deferred tax assets and deferred tax liabilities based on the differences between the carrying amount of the assets and liabilities and their amount taken into account for tax purposes. The Company regularly tests for recoverability of the deferred tax assets included in its accounts, based on forecast taxable income, the timing of the expected reversal of temporary differences and the application of tax planning strategies. Should the Company fail to earn taxable revenues in a sufficient amount in the future, it may be required to cancel deferred tax assets or to increase the deferred tax liabilities, which could increase its effective tax rate and adversely affect its results of operations.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 2 – Basis for Preparation of the Financial Statements: (cont.)

D. Judgment and critical assumptions based on significant estimates: (cont.)

Asset retirement obligation – The Company recognizes an asset concurrently with a liability in respect of its obligation to retire oil and gas assets at the end of the period of use thereof. The timing and amount of the economic resources required to discharge the obligation are based on an estimation by management, which relies, inter alia, on a professional consultant's evaluation, and are examined periodically to ensure the fairness of such estimations.

Return-on-investment (ROI) date for payment of overriding royalties (see Note 11H2) – In determining the ROI date the Company relied on a decision of an external expert from 2002, appointed by mutual consent of Delek Drilling, on the one hand, and Delek Group Ltd. and Delek Energy Systems Ltd., on the other (the "**Royalty Holders**"), who stated his opinion on the method of calculation of the ROI date and on the different components that should be taken into account. Any change in the determination of the ROI date may affect the Company's results of operations and financial condition.

Note 3 – Significant Accounting Policies:

A. The financial statements comply with International Financial Reporting Standards (IFRS). Furthermore, the financial statements include the additional disclosure required by the Securities Regulations (Annual Financial Statements) 2010.

The accounting policies presented in these notes have been applied consistently in the financial statements for all the reported periods. The financial statements are prepared on cost basis. The Company has elected to present the profit or loss items by functional expense category.

B. Functional currency and presentation currency:

- 1) The Company presents its financial statements in the U.S. dollar ("**dollar**"), which is also its functional currency. The functional currency is the currency which best reflects the economic effects of transactions, events and circumstances related to the Company's operations. Any transaction in a currency other than the Company's functional currency is a transaction in foreign currency.
- 2) **Transactions in foreign currency** – Transactions denominated in foreign currency are recorded upon initial recognition in the functional currency, using the immediate exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:

- Monetary items denominated in foreign currency are translated using the exchange rate at the end of the reporting period;
- Non-monetary items carried at historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 3 – Significant Accounting Policies: (cont.)**B. Functional currency and presentation currency:** (cont.)

2) (cont.)

- Exchange differences arising when monetary items are settled or when monetary items are translated at rates different from those at which they were translated when initially recognized during the period or at which they were translated in previous financial statements, are recognized in profit or loss in the period in which they were created.

C. Operating cycle:

The Company's operating cycle is one year.

D. Business combinations:

Business combinations are accounted for by applying the acquisition method. The consideration transferred in exchange for the acquiree is calculated as the sum of the fair values of the assets transferred by the Company, the liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are carried to the statement of profit and loss as incurred.

E. Joint ventures:

1. A joint venture constitutes a contractual arrangement whereby two or more parties undertake an economic activity of oil and gas exploration in a jointly owned asset. Certain joint ventures often involve joint ownership of one or more assets.

It appears that ventures in which there is no formal requirement for unanimous consent of the venturers do not meet the definition of joint control according to IFRS 11. Nevertheless, examination of such ventures indicates that the ventures themselves have no rights in the assets and do not commit to engagements on behalf of the venturers. Engagements are made directly between the venturers and a third party. Any venturer may pledge its rights in the assets and each venturer is entitled to the economic benefits from the venture. Consequently, the venturers have a proportionate share of the assets and liabilities attributed to the joint venture.

In respect of the Company's rights in activity in jointly owned assets, the Company recognized in its financial statements:

- a) Its share of the jointly owned assets.
- b) Any liabilities it has incurred.
- c) Its share of any liabilities incurred jointly in relation to activity in the jointly owned assets.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

E. Joint ventures: (cont.)

- d) Any income from the sale or use of its share of the output of the jointly owned assets, together with its share of any expenses it has incurred for activity in the jointly owned assets.
 - e) Any expenses it has incurred in respect of its interest in the jointly owned assets.
2. The Company presents its share in payments transferred to the operator of the Joint Venture and not yet used in other accounts receivable, since such amounts do not meet the definition of cash and cash equivalents.

F. Provisions:

A provision in accordance with IAS 37 is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects part or all of the expense to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Legal claims:

A provision for claims is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Company to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Asset retirement obligation

The Company records in its books a provision for an asset retirement obligation – see H2 below regarding asset retirement obligation costs.

G. Levies:

Levies imposed on the Company by government entities through legislation are accounted for in accordance with IFRIC 21, which clarifies that the liability for a levy is recognized only when the activity that triggers payment occurs ("**obligating event**").

Under the Taxation of Profits from Natural Resources Law 2011, the Company is subject to payment of an oil profit levy on its profits from the Tamar and Dalit leases. The levy rate is progressive and increases as profitability rises (between 0% and 46.8%). For further details see Note 12 below.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

G. Levies: (cont.)

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 – "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 special characteristics of such levy, are the provisions of IFRIC 21 or those of IAS 12, the reporting entities 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 decided not to intervene in their decision. Therefore, in practice, the Company will recognize an expense in respect of the levy according to the "obligating event" approach, i.e., only on the date on which the obligation to pay the levy is triggered (that is, only as of the date of commencement of actual payment of the levy). The accounting treatment of such levy has no effect on these financial statements, as the obligation to pay the levy has not been triggered.

H. Expenses of oil and gas exploration and development of proved reservoirs:

- 1) The Company uses the "successful efforts" method of accounting for investments in oil and gas exploration, whereby:
 - a) Participation expenses in respect of geological and seismic surveys and tests performed in the preliminary stages of exploration are carried to profit or loss as incurred, until the date on which, following the performance of these surveys and tests, a specific drilling plan is formulated.
 - b) Investments in reservoirs which have not been determined to be non-commercial are classified as "exploration and evaluation assets" and presented at cost.
 - c) Investments in reservoirs that have proved to be dry and been abandoned or that have been determined to be non-commercial are fully amortized from the "exploration and evaluation assets" item to expenses in profit or loss.
 - d) Investments in reservoirs regarding which gas or oil production has been determined as technically feasible and commercially viable (which are reviewed in relation to various events and circumstances) are reclassified, subject to the performance of a test for impairment, from the "exploration and evaluation assets" item to the "oil and gas assets" item, and are presented in the statement of financial position at cost. Such oil and gas assets, which include, inter alia, reservoir development planning costs, development wells, purchase and construction of production facilities, gas transmission pipelines, construction of a terminal and asset retirement costs (see also (2) below), are amortized to profit or loss based on the depletion method (i.e. based on the quantity produced), as follows:

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 3 – Significant Accounting Policies: (cont.)**H. Expenses of oil and gas exploration and development of proved reservoirs:** (cont.)

1) (cont.)

d) (cont.)

Drilling costs are amortized according to the quantity of the proved and developed reserves, and the cost of the additional components (such as platform, pipeline and terminals) is amortized according to the quantity of the proved reserves (developed and to be developed).

e) Exploration and evaluation assets and oil and gas assets are tested for impairment whenever facts and circumstances indicate that the carrying amount of an exploration and evaluation asset or oil and gas asset may be higher than its recoverable amount in accordance with IAS 36 and IFRS 6.

2) Asset retirement obligation costs:

The Company recognizes a liability in respect of its share in the obligation to retire assets at the end of their useful life. The liability is initially measured at its present value against an oil or gas asset, and expenses resulting from the remeasurement of its present value due to the passage of time are carried to profit or loss. The asset is initially measured at the present value of the liability and is amortized to profit or loss as stated in (1) above. Changes associated with a revision to timing, discount rates and the amount of the financial resources required to settle the obligation are added to or subtracted from the asset in the current period concurrently with a change in liability (the discount rate used for revaluation of the Company's asset retirement obligations is 4.75%). The balance of the liability is recognized in "asset retirement obligation" and the balance of the asset after amortization is recognized in "investments in oil and gas assets" in the statement of financial position.

I. Borrowing costs:

The Company capitalizes borrowing costs attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for their intended use or sale. Capitalization of borrowing costs commences when expenditures are being incurred for the qualifying asset, activities that are necessary to prepare the asset for its intended use or sale are in progress and borrowing costs are being incurred, and ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. The capitalization rate is the weighted average of the borrowing costs applicable to the Company's general borrowings during the reporting period.

J. Cash and cash equivalents:

Cash and cash equivalents are considered highly liquid short-term investments, including, inter alia, short-term, unrestricted bank deposits, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, with a maturity of three months or less from the time of investment.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

K. Financial instruments:

1) Financial assets:

A financial asset is recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss, in respect of which transaction costs are carried to profit or loss. After initial recognition, the accounting treatment of financial assets is based on their classification as follows:

a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Derivative assets, including embedded derivatives that are separated from the host contract, are classified as held for trading, unless they are designated as effective hedging instruments.

Embedded derivatives are separated from the host contract and accounted for separately if:

- 1) The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- 2) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- 3) The hybrid instrument is not recognized at fair value through profit or loss.

The Company assesses the existence of an embedded derivative and whether it is required to be separated from a host contract on the date when, inter alia, all the conditions precedent to its becoming a party to the contract have been fulfilled. The need to separate an embedded derivative is reassessed only when there is a change in the terms of the contract that significantly modifies the cash flows from the contract.

b) Loans and receivables:

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market. Loans and receivables are initially recognized at fair value plus directly attributable transaction costs. After initial recognition, these assets are measured at amortized cost, using the effective interest method less any impairment.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 3 – Significant Accounting Policies: (cont.)**K. Financial instruments:** (cont.)**2) Financial liabilities:**

Financial liabilities are initially recognized at fair value when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized net of transaction costs directly attributable to the acquisition or issuance of the financial liability. After initial recognition, the accounting treatment of financial liabilities is based on their classification. Financial liabilities such as bonds are measured at amortized cost using the effective interest method. A financial liability is derecognized when it is extinguished, that is, the liability is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Company) discharges the liability by paying in cash or in other financial assets or is legally released from the liability.

3) Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to offset the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4) Derecognition of financial instruments:**a) Financial assets:**

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire, or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full, without material delay, to a third party, and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b) Financial liabilities:

A financial liability is derecognized when it is extinguished, that is, when the liability is discharged or cancelled or expires. A financial obligation is extinguished when the debtor (the Company) discharges the liability by paying in cash or in other financial assets, or is legally released from the liability.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

L. Impairment of non-financial assets

The Company tests for impairment of non-financial assets, in accordance with the rules established in IAS 36, whenever events or changes in circumstances indicate that the carrying amount is not recoverable. Whenever the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value net of costs of sale and value in use. In measuring value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to each asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs.

For assessing impairment, each reservoir is considered a separate cash-generating unit, except when two reservoirs or more are grouped into one cash-generating unit, *inter alia* in cases where there is dependence on positive cash flows arising from the reservoirs or there is joint use of infrastructures.

Impairment losses are carried to profit or loss. An impairment loss of an asset is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of such impairment loss is limited to the lower of the previously recognized amount of impairment (net of depreciation or amortization) and the amount of appreciation of the asset.

The following are the specific criteria applied in assessing impairment of oil and gas assets:

Oil and gas assets are tested for impairment when facts and circumstances indicate that their carrying amount exceeds their recoverable amount. The recoverable amount of oil and gas assets is determined based on economic valuations which include use of appraisal techniques and assumptions regarding the estimated future cash flows from the asset and an estimate of the appropriate discount rate for these cash flows.

When measuring the recoverable amount of oil and gas assets, the Company is required to use certain assumptions regarding expected costs and investments, the likelihood of the existence of development plans, quantities of the resources in the reservoir, expected sale prices, implications of the Petroleum Profits Levy Law, determination of the discount rates etc., in order to estimate the future cash flows from the assets. If possible, the fair value is determined with reference to transactions made recently in assets with a similar character and location to the assessed asset.

M. Revenue recognition:

Revenue is recognized in profit or loss when it can be reliably measured, it is probable that the economic benefits deriving from the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be reliably measured. Revenue is measured at fair value of the consideration in the transaction, net of trade and volume discounts and refunds.

The following are the specific criteria that must be met for revenue recognition:

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 3 – Significant Accounting Policies: (cont.)**M. Revenue recognition:** (cont.)

Revenues from the sale of oil and gas – Revenues from the sale of oil and gas are recognized when the oil or gas is transferred to the customer. Revenues include only the economic benefits the Company receives or is entitled to receive on its own behalf.

N. Employee benefits:**1) Short-term employee benefits:**

Short-term employee benefits, which include salaries, recuperation pay, paid sick leave and social security contributions, are recognized as an expense as the services are rendered. A liability in respect of an employee bonus is recognized when the Company has a legal or constructive obligation to make such payment. The Company classifies employee benefits under current liabilities when the benefit is expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services.

2) Post-employment employee benefits:

According to employment laws and labor 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 pays fixed contributions and will have no legal or constructive obligation to pay further contributions, even if the plan does not hold sufficient amounts to pay all employee benefits related to employee service during the current period and prior periods) and is treated as a defined contribution plan. The Company recognizes the amount required to be deposited as an expense when contributed concurrently with the performance of the employee's services.

N. Income taxes:

- 1) Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or in equity. The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years. Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes. Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date. Deferred taxes are reviewed at each reporting date based on their expected utilization. Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxation authority.
- 2) The financial statements do not include income taxes for periods prior to the commencement of the Company's operations (July 1, 2017) – see Note 2B above.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

O. Earnings per share:

Earnings per share were calculated in accordance with IAS 33, which, inter alia, requires the Company to calculate basic earnings per share for profit or loss attributable to its shareholders, as well as basic earnings per share for profit and loss from continuing operations attributable to its shareholders, where such earnings are presented. See also Note 2A4.

P. The effect of new International Financial Reporting Standards which may affect the financial statements in the period of initial application:

1. IFRS 15 "Revenue from Contracts with Customers" (the "Standard"):

The Standard was issued by the IASB in May 2014 and replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," IFRIC 13 "Customer Loyalty Programs," IFRIC 15 "Agreements for the Construction of Real Estate, IFRIC 18 "Transfers of Assets from Customers," and SIC 31 "Revenue – Barter Transactions Involving Advertising Services"

The Standard introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: *Identify the contract with a customer*, including reference to contract combination and accounting for contract modifications.

Step 2: *Identify distinct performance obligations in the contract.*

Step 3: *Determine the transaction price*, including reference to variable consideration, significant financing component, non-cash consideration and any consideration payable to the customer.

Step 4: *Allocate the transaction price to each distinct performance obligation* on a relative stand-alone selling price basis, using observable information, where available, or using estimates and assessments.

Step 5: *Recognize revenue when a performance obligation is satisfied*, either at a point in time or over time.

The Standard is to be applied retrospectively in financial statements for annual periods beginning on or after January 1, 2018.

The Standard allows the option of modified retrospective adoption with certain reliefs, whereby the Standard will be applied to existing contracts from the initial period of adoption forth, with no restatement of comparative data. Under this option, the Company will recognize the cumulative effect of the initial adoption of the Standard as an adjustment to the opening balance of retained earnings (or another component of equity, as applicable) as of the date of initial application. Alternatively, the Standard permits full retrospective adoption with certain reliefs.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

P. The effect of new International Financial Reporting Standards which may affect the financial statements in the period of initial application: (cont.)

1. IFRS 15 "Revenue from Contracts with Customers" (the "Standard"): (cont.)

The Company plans to use the modified retrospective adoption method upon the initial application of the Standard.

The Company generates its revenues from the sale of natural gas and condensate to a variety of customers, usually in the framework of long-term contracts. In the course of 2017 the Company studied the implications of the application of the standard on revenue from contracts with customers on the mandatory adoption date (January 1, 2018). Based on said study, the Company concluded that the Standard does not have a material impact on its financial statements.

2. IFRS 9 "Financial Instruments":

In July 2014 the IASB issued the final and complete version of IFRS 9 "Financial Instruments," which replaces IAS 39 "Financial Instruments – Recognition and Measurement" IFRS 9 (the "New Standard") addresses all three aspects of financial instruments: classification and measurement, impairment and hedge accounting.

Under the New Standard, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if both the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- Under the contractual terms of the financial asset, the Company is entitled, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal.

Subsequent measurement of all other debt instruments and financial assets should be at fair value. The New Standard distinguishes between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income.

Financial assets that are equity instruments should be measured in subsequent periods at fair value, with the differences carried to profit or loss or to other comprehensive income (loss), according to the Company's choice for each instrument. If equity instruments are held for trading, they should be measured at fair value through profit or loss.

The New Standard also introduces a three-step model for measuring impairment of financial debt instruments that are not measured at fair value through profit or loss, which is based on the expected credit loss model. Each step determines the basis of measurement of the expected credit losses, based on the changes in the debt instrument's credit risk. The model also grants a relief for financial assets with short credit terms, such as trade receivables.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

P. The effect of new International Financial Reporting Standards which may affect the financial statements in the period of initial application: (cont.)

2. IFRS 9 "Financial Instruments": (cont.)

The New Standard prescribes that the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been selected.

Changes in the fair value of financial liabilities measured at fair value, which are attributable to the change in the entity's credit risk, should be carried to other comprehensive income. All other changes in fair value should be carried to profit or loss.

The New Standard also prescribes new hedge accounting requirements but allows entities to continue applying the provisions of IAS 39 regarding hedge accounting. The New Standard expands the disclosure requirements for an entity's risk management activities.

The New Standard is to be applied for annual periods beginning on January 1, 2018. The Company estimates that adoption of the New Standard will not have a material impact on its financial statements.

3. IFRS 16 "Leases":

IFRS 16, which was issued in January 2016, replaces IAS 17 "Leases" and its interpretations. IFRS 16 changes the accounting treatment of leases by the lessee, whereas lessor accounting remains substantially unchanged.

IFRS 16 eliminates the classification of leases by the lessee as either finance leases or operating leases and prescribes that a lessee shall recognize in the statement of financial position a right-of-use asset and a corresponding lease liability for all leases, except for leases with a period not exceeding 12 months and leases whose underlying assets have a low value (for which relief is provided in that the lessee may account for those leases similar to the accounting for operating leases).

According to IFRS 16, for a contract to constitute a lease arrangement (or contain a lease component), it must convey to the lessee the right to control the use of an identified asset for a period of time in exchange for a consideration. An entity may elect, by class of underlying asset, not to separate the lease components and the service components in a contract but to account for all the components in the contract as a single arrangement constituting a lease.

A lease liability is measured at initial recognition at the present value of the lease payments not yet made at the lease commencement date, discounted at the interest rate implicit in the lease, unless this rate cannot be readily determined, in which case the lessee's incremental borrowing rate should be used. The right-of-use asset is measured at initial recognition at the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the lease commencement date (less any lease incentives from the lessor), any initial direct costs attributable to the lease, and any estimate of the costs of dismantling and restoration by the lessee.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 3 – Significant Accounting Policies: (cont.)

P. The effect of new International Financial Reporting Standards which may affect the financial statements in the period of initial application: (cont.)

3. IFRS 16 "Leases": (cont.)

Right-of-use assets are presented in the statement of financial position, either separately, or in the item under which the underlying assets would have been recognized had they been owned by the lessee. Lease liabilities are presented in accordance with IFRS 1 "Presentation of Financial Statements," including the separation between current and non-current items. Amortization expenses for the right-of-use asset and interest expenses for the lease liability are recognized in profit or loss. The part of the lease payment that represents cash payments for the principal portion of the lease liability is presented as cash flow resulting from financing activities. The part of the lease payment that represents the interest portion of the lease liability is presented either as an operating cash flow or a cash flow resulting from financing activities, in accordance with the entity's accounting policy regarding the presentation of interest payments.

IFRS 16 defines the modification of a lease and determines when it will be accounted for as a new and separate lease, and also establishes new provisions regarding the accounting treatment of sale and leaseback transactions.

IFRS 16 is to apply to financial statements for annual periods beginning on or after January 1, 2019. Early application is permitted, but only if IFRS "Revenue from Contracts with Customers" is also applied. A lessee may apply IFRS 16 retrospectively, either by: (1) restating previous periods; or (2) recognizing the cumulative effect of the retrospective application as an adjustment to the opening balance of retained earnings (or to another component of equity, as appropriate) at the date of initial application, subject to certain requirements and reliefs established in the standard.

IFRS 16 does not require a lessor to make any adjustments on transition for leases (excluding subleases) in which it is the lessor, and the lessor shall account for those leases applying IFRS 16 from the date of initial application.

The actual effect of the application of IFRS 16 depends on future factors, including the Company's incremental borrowing rate at the time of initial application and management's expectations at that time regarding the realization of options to extend or cancel leases. The Company is also studying the transitional provisions of IFRS 16, including the reliefs that have been granted.

Q. Change in accounting policy:

Amendments to IAS 7 "Cash Flow Statement" regarding additional disclosures of financial liabilities:

The Company applies the amendments published by the IASB in January 2016 (the "**Amendments**"). The Amendments require the presentation of the movement between the opening balance and the closing balance of financial liabilities, including the changes deriving from cash flows from financing activities, from changes in exchange rates, from changes in fair value, etc. (see Note 20A below).

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 4 – The Sale Agreement:

On July 2, 2017, a contingent sale agreement was signed between Delek Drilling as the seller, of the first part, and the Company as the purchaser, of the second part (in this section the "**Sale Agreement**" and the "**Parties**"), the principal provisions of which are described below:

- A.** Delek Drilling undertook, subject to the fulfillment of conditions precedent (regarding the fulfillment of the conditions precedent, see D below), to sell and transfer to the Company a working interest at a rate of 9.25% (out of 100%) in the Leases, subject to existing commitments to pay overriding royalties to related parties and to third parties, as well as a pro rata share (9.25%) of the rights and obligations under the Joint Operating Agreement, the agreements for the sale of natural gas from the Tamar lease, the agreement for use of the Yam Tethys facilities, the shares of Tamar 10-Inch Ltd., the operating permit for the Tamar platform and the permits for exports 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 the amounts that would be raised in the Company's equity and debt offerings, less any amount raised, if raised, in the debt issue over and above an amount in NIS equal to the product of \$650 million and the US dollar representative exchange rate at the end of the foreign currency trading day on the date of the institutional tender, which would be retained by the Company. The Sale Agreement provided that in the event that not all the shares of the Company offered in the equity offering (under a shelf offering) would be sold to the public, then the rest of the consideration for the Object of Sale would be paid by allotting to Delek Drilling the balance of shares not sold in the issue (at a rate not exceeding 40% of the Company's equity). See Notes 9 and 13 below regarding an issue of bonds and shares made by the Company.
- C.** Subject to fulfillment of the conditions precedent and closing of the transaction under the Sale Agreement, the effective date for the purpose of calculating the amount of the consideration and transferring liability for the Object of Sale to the Company was set for July 1, 2017 (the "**Effective Date**").
- D.** On July 20, 2017, all the conditions precedent in the Agreement were met, including receipt of approval from the Petroleum Commissioner (the "**Commissioner**") for the transfer of the rights in the Tamar and Dalit leases and registration thereof in the Petroleum Register, and pursuant thereto the transaction under the Sale Agreement was closed, i.e. a 9.5% (out of 100%) interest in the Leases was transferred to the Company against a cash consideration of \$845 million (NIS 2,985 million) and against an allotment of 19,990,000 ordinary shares of the Company of NIS 0.1 par value each (constituting 39.98% of the issued and paid-up share capital) to Delek Drilling (under a waiver provided by Delek Drilling, as described in Note 13C below, and in accordance with the Company's articles, so long as Delek Drilling holds shares of the Company at a rate of more than 12% of the issued and paid-up share capital, they shall not confer any voting rights). The Company bore all the payments, expenses and fees payable to the State (excluding taxes) for the transfer of the Object of Sale to the Company, as well as all the costs and expenses related to the bond issue. Delek Drilling bore the costs and expenses of consultants and experts in connection with the Prospectus as well as the expenses in connection with the issue of the Company's shares.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 4 – The Sale Agreement: (cont.)

- E. In accordance with the Sale Agreement, the Company retained a sum of \$34 million out of the consideration as a loan bearing 3% annual interest, which was fully repaid as of December 31, 2017.
- F. Upon the closing of the transaction and as of the Effective Date, the Company and Delek Drilling bear the following obligations and commitments:
- 1) The Company bears any and all obligations and commitments relating to the Object of Sale with respect to the Royalty Holders.
 - 2) The Company bears and shall pay, according to its pro rata share, any and all expenses, payments, guarantees, collaterals and liabilities applying 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 preceding the date of signing of the Sale Agreement, and any tax, compensation, fine or other expense incurred in connection with such liability, except for liabilities regarding which it was explicitly provided that they would remain under the responsibility of Delek Drilling, including also after the Effective Date, as specified in 4 below.
 - 3) Delek Drilling shall indemnify the Company for any damage or liability incurred by the Company in connection with any claim, complaint or other legal proceeding of a governmental authority or third party due to breach of Delek Drilling's representations under the Sale Agreement. Delek Drilling shall not be liable for any damage caused to the Company due to the breach of representations until the sum of such damage exceeds \$500 thousand.
 - 4) Delek Drilling shall continue to be responsible for the following matters, also after the Effective Date: the arbitration in respect of the production component tariff; the appeal in respect of royalties for the sale of gas from the Tamar project to customers of Yam Tethys, including with respect to any liability in connection with those proceedings arising subsequent to the Effective Date; the class action certification motion as specified in Note 11K below regarding amounts received by Delek Drilling in the period prior to the Effective Date; any liability with respect to taxes and royalties to the State for the period prior to the Effective Date, or with respect to any profit, income or revenues of Delek Drilling in connection with the Object of Sale (including if such tax assessment was made after the closing date), other than taxes according to reports filed prior to the Effective Date with the tax authorities in connection with the Taxation of Profits from Natural Resources Law 2011; taxes applying to Delek Drilling in connection with transferring the Object of Sale to the Company; and liabilities, if any, in connection with Delek and Avner (Tamar Bond) Ltd.

Note 5 – Other Accounts Receivable:

| | December 31 | |
|---------------------------------------------------------------------------------|-------------|-------|
| | 2017 | 2016 |
| Prepaid expenses and other receivables | 791 | 314 |
| Amounts receivable in connection with the construction of export infrastructure | 533 | 492 |
| Noble – the Joint Venture operator | - | 5,328 |
| | 1,324 | 6,134 |

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 6 – Investments in Oil and Gas Assets:

A. Composition:

| | December 31 | |
|----------------------------------------------------------------------------------------------------------|--------------------|----------------|
| | 2017 | 2016 |
| Cost | | |
| Balance at the beginning of the year | 437,045 | 426,480 |
| Additions during the year: | | |
| Exploration drilling (completion/adjustment) | (46) | 4 |
| Investments in development | 12,360 | 9,926 |
| Impairment | (743) | - |
| Movement in long-term asset retirement cost | 197 | 635 |
| | <u>11,768</u> | <u>10,565</u> |
| Balance at the end of the year | <u>448,813</u> | <u>437,045</u> |
| Accumulated depreciation | | |
| Balance at the beginning of the year | 52,557 | 36,401 |
| Depreciation and impairment* | 16,191 | 16,156 |
| Balance at the end of the year | <u>68,748</u> | <u>52,557</u> |
| Net book value at the end of the year** | <u>380,065</u> | <u>384,488</u> |
| * Average rate of impairment of the producing assets during the period | 4.7% | 4.5% |
| ** Net book value includes: net book value of assets under a finance lease from Yam Tethys (see K below) | <u>14,316</u> | <u>14,970</u> |
| Balance of asset retirement obligation cost | <u>7,404</u> | <u>7,537</u> |

B. The two Leases are located 50-100 km off the shores of Haifa. Noble is the operator of the Leases. Production from the Tamar reservoir began in the first half of 2013.

C. In December 2009 the Commissioner issued to the rights holders two deeds of lease for the exploration and production of oil and natural gas, as follows: I/12 "Tamar" and I/13 "Dalit". The rights are effective until December 1, 2038.

The area of the I/12 "Tamar" lease includes the Tamar gas field. The area of the I/13 "Dalit" lease includes the Dalit gas field. The deeds of lease set out, inter alia, provisions regarding timetables for the development of the Leases and regarding the construction and operation of the facilities in the Leases, the performance of examinations, reports, liability, insurance, etc. The deeds of lease were given subject to the Petroleum Law 1952 (the "**Petroleum Law**"), and they confer on the partners in the Leases an exclusive right to produce oil and natural gas within the area of the Leases for a 30-year period, with a right of extension by an additional 20 years, in accordance with and subject to the provisions of the Petroleum Law.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 6 – Investments in Oil and Gas Assets: (cont.)

D. The development plan of the Tamar project

The development plan of the Tamar project (in this section, the "**Development Plan**") mainly included five wells, each of which is able to produce 250 MMCF per day (at present, the Tamar reservoir includes six wells – for details about the Tamar 8 well see F below). Gas flows through two 16-inch pipes from the Tamar field to a treatment platform constructed off the shores of Ashkelon (the "**Tamar platform**"), approx. 2 km north of the platform of the Yam Tethys project. Natural gas flows in a 30-inch pipe from the Tamar platform to the terminal, and from there to the national transmission system of Israel National Gas Lines Ltd. ("**INGL**").

In order to increase the supply capacity from the Tamar reservoir, in 2016 work on the installation and running-in of three compressors and related auxiliary systems was completed, at a cost of \$257 million (100%, Company's share – \$ 23.8 million). The gas supply capacity from the Tamar project to the INGL transmission system stands at 1.1 BCF per day at maximum production.

On August 29, 2016, the Minister of Energy granted the Tamar partners a license for the operation of the existing 10-inch pipe (which had been designated up to that point for transmission of condensate from the Tamar platform) for the transfer of natural gas, in order to increase the gas supply capacity.

E. Examination of the possibility of expanding the Tamar project's supply capacity:

In light of the signing of the export agreement between Delek Drilling and Noble, and Dolfinus (as described in Note 23C below), the non-binding letter of intent regarding the negotiation of an agreement for the supply of natural gas from the Tamar project to Union Fenosa Gas SA ("**UFG**"), signed in 2014 between the Tamar partners and UFG, is no longer relevant. As of the date of approval of the financial statements, the Tamar partners are considering together with UFG possibilities for a different transaction framework for the supply of natural gas to feed the existing UFG liquefaction facilities in Egypt. In light of the foregoing, the Tamar partners are considering possibilities for expanding the Tamar project's production capacity, should this be necessary. Expansion of the supply capacity could include a number of additional production wells, which would be connected to the production system, and an additional supply pipe from the Tamar field to the Tamar and Mari B platforms. In addition, the need for upgrading the Tamar and Mari B platforms and manner of implementing the required upgrade are being examined.

F. The Tamar 8 well:

In October 2016 drilling, development and production was begun with respect to the Tamar 8 well, with the aim, inter alia, of increasing redundancy in the production system and enabling maximum supply from the Tamar reservoir. The well was completed (including its connection to the production system) in April 2017, and the piping of natural gas from the well commenced. The cost of drilling and development of the Tamar 8 well as of December 31, 2017, including development of the subsea system and connection of the well to the existing Tamar infrastructure, is \$238 million (100%, Company's share – \$22 million).

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 6 – Investments in Oil and Gas Assets: (cont.)

G. The Tamar South West reservoir and development thereof:

According to the development plan for the Tamar South West reservoir ("Tamar SW"), which was submitted to the Commissioner in April 2014, the Tamar SW reservoir is to be developed by connecting it to the subsea facilities of the Tamar project.

On June 4, 2014, the Commissioner rejected the plan for the development of the Tamar SW reservoir in the above format, in view of the fact that some of the reserves in the Tamar SW reservoir overflow into the Eran license.

Further thereto, the Tamar partners filed a petition with the High Court of Justice against the Commissioner's decision to withhold approval for the development of the Tamar SW reservoir (in this section: the "Petition"). On December 1, 2014, the court decided to strike the Petition on the grounds of failure to exhaust proceedings. It was decided in the judgment that an appeal should be submitted to the Minister of Energy (the "Minister") within 30 days, and it was specified that the Minister's decision on the appeal should be given as soon as possible, within three months from the date of submission thereof. In accordance with the foregoing agreement, on December 9, 2014 the Tamar partners submitted to the Minister an appeal against the Commissioner's decision. As of the date of approval of the financial statements, the Minister's decision on this matter had not been received.

- H.** On September 20, 2017, the Operator began to perform upgrade and improvement work on the Tamar platform and on the terminal ("upgrade work"), during two time intervals, in each of which the natural gas was conveyed from the Tamar field to the Tamar production platform through only one pipe of two, at one half of the maximum production capacity. In the course of the upgrade work, a crack was discovered in the vent stack used to release natural gas and pressure from the platform in times of routine and emergency (the "crack" or the "malfunction"). Following the discovery of the crack, and in accordance with the Tamar platform procedures, the supply of natural gas from the 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. The Tamar partners acted to inform their customers as required by the terms of the gas supply agreements that were signed with them, and the partners also were in continuous contact and acted in full coordination with the various government offices. Upon completion of the repair by the Operator, on September 27, 2017 the flow of natural gas from the Tamar reservoir was renewed, and on October 10, 2017 the upgrade work ended as planned.

The cost of repair of the malfunction is a non-material amount.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 6 – Investments in Oil and Gas Assets: (cont.)

I. Evaluation of the natural gas and condensate reserves in the Tamar gas field:

According to a report of February 13, 2018 by Netherland Sewell & Associates Inc. ("NSAI," a certified, expert and independent reserve and resource evaluator), based on SPE-PRMS rules, as of December 31, 2017, the amount of natural gas reserves on production in the Tamar project (which includes the Tamar and Tamar SW reservoirs) is as follows: reserves classified as proved reserves amount to 221.9 BCM and reserves classified as proved + probable reserves amount to 313.2 BCM. According to said report, as of December 31, 2017, the amount of condensate reserves on production in the Tamar and Tamar SW reservoirs is as follows: reserves classified as proved reserves amount to 10.2 million barrels and reserves classified as proved + probable reserves amount to 14.4 million barrels. The aforesaid reserves do not include the reserves that overflow into the Eran license. See M below regarding uncertainty in the appraisal of reserves.

J. The Dalit well:

In 2009 the Dalit offshore well was drilled at a distance of 50 km off the coast of Israel, following which a commercial finding was announced. According to the latest NSAI report from March 2018, based on PRE-PRMS rules, as of December 31, 2017, the amount of contingent resources in the Dalit lease, which are classified as development pending, ranges between 6.1 BCM (low estimate) and 9.5 BCM (high estimate). In the resource report it is indicated that the contingent resources are contingent upon the approval of a project which includes an approved development plan and a reasonable probability of sales of natural gas. See M below regarding uncertainty in the appraisal of reserves.

The Company, together with its partners in the Dalit project, submitted to the Commissioner a development plan which is integrated with the development plan of the Tamar field. In addition, the Company, together with its partners in the project, is preparing an updated mapping of the Dalit reservoir and performing an analysis of the reservoir, based on a seismic survey that was carried out.

K. Agreement for the grant of usage rights in the facilities of the Yam Tethys project:

In July 2012 an agreement (the "**Usage Agreement**") was signed between the partners in the Yam Tethys project and the partners in the Tamar project, whereby the Yam Tethys partners grant the Tamar partners usage rights in the existing facilities of the Yam Tethys project, including the wells, the Mari-B platform, the compression system, the pipeline and the terminal, and the Tamar partners are also granted the right to upgrade and/or construct facilities for the transmission and storage of natural gas from the Tamar project (the "**Yam Tethys facilities**"). The usage rights in the Yam Tethys facilities are granted subject to the reservation of capacity for gas produced from the Yam Tethys project in the pipeline and in the terminal.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 6 – Investments in Oil and Gas Assets: (cont.)**K. Agreement for the grant of usage rights in the facilities of the Yam Tethys project:** (cont.)

The term of the Usage Agreement will end upon the earlier of: (1) the expiration or termination of the Tamar lease, and in the event that the Dalit field is developed such that use is made of the Yam Tethys facilities, the expiration or termination of the Dalit lease; (2) the giving of notice by the Tamar partners of the permanent cessation of commercial gas production from the Tamar project; (3) the abandonment of the Tamar project. In consideration for the use of the Yam Tethys facilities, the Tamar partners paid the Yam Tethys partners, in previous years, a total amount of \$380 million.

The Agreement includes, inter alia, provisions that regulate relations between the Tamar partners and the Yam Tethys partners throughout the term of use of the Yam Tethys facilities, including with respect to the management of the Yam Tethys facilities, the mechanism for the division of operating expenses of the Yam Tethys facilities and the division of capital expenses of the Yam Tethys facilities in connection with the preparation and upgrade of the facilities for the receipt of natural gas from the Tamar Project, based on the gas capacity ratios between the Yam Tethys project and the Tamar project, restrictions on the transfer and/or encumbrance of the rights of the parties to the Usage Agreement, and an arbitration mechanism for the resolution of disputes between the parties.

It is noted that ownership of the upgraded Yam Tethys facilities will remain with the Yam Tethys partners, and the Usage Agreement will establish an account-settling mechanism relating to the value of said facilities at the end of the period of production from the Tamar project.

L. Commercial arrangement for the operation of and production from the Yam Tethys and Tamar projects (the "Commercial Arrangement"):

From May 2013 up to and including September 2017, natural gas was supplied to customers of the Yam Tethys project (in accordance with the sale agreements of the project) from the Tamar reservoir. The consideration for said sales was divided among the Tamar partners such that the partners in the Tamar project who are not partners in the Yam Tethys project received a price equal to the monthly average price of natural gas supplied during the month to customers of the Tamar project, and the remaining monetary balance was divided among the Yam Tethys partners having rights in the Tamar project, according to their share in the Tamar project. This division enabled balancing the gas quantities among the partners in the Tamar project according to their share. It is clarified that the Company, which is not a partner in the Yam Tethys project, received a price equal to the monthly average price of natural gas that was supplied during those months to customers of the Tamar project.

From the beginning of October 2017, with the expiration of some of the agreements for the sale of natural gas from the Yam Tethys reservoir, the Yam Tethys partners supply the full demand of their customers. As of the date of approval of the financial statements, the Yam Tethys partners and the Tamar partners plan to enter into an agreement for the sale of production surpluses (which are non-material) from the Yam Tethys reservoir to the Tamar partners, for selling to customers of the Tamar project.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 6 – Investments in Oil and Gas Assets: (cont.)**M. Appraisals of reserve of natural gas, condensate and contingent resources:**

Appraisals of reserves of natural gas, condensate and resources contingent on the rights of the Company in the leases are based, inter alia, on geological, geophysical, engineering and other information received from the wells and from the operator of the leases. The above appraisals constitute professional assessments and suppositions of NSAI, which are uncertain. The quantities of natural gas and condensate that will actually be produced may differ from said assessments and suppositions, inter alia due to 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 terms and/or the actual performance of the reservoirs. The above assessments and suppositions may be updated insofar as additional information is accumulated and/or based on an array of factors related to oil and natural gas exploration and extraction projects.

Note 7 – Other Long-Term Assets:

| | December 31 | |
|----------------------------------------------------------------------------------------|--------------------|-------------|
| | 2017 | 2016 |
| Amounts receivable in connection with the construction of infrastructure for export | 1,949 | 1,968 |
| Ministry of Energy in respect of royalties (Note 15B) | 373 | - |
| Interested parties | 103 | - |
| Other | 96 | - |
| | 2,521 | 1,968 |

Note 8 – Other Accounts Payable:

| | December 31 | |
|-----------------------------------------------|--------------------|-------------|
| | 2017 | 2016 |
| Interest payable | 14,616 | - |
| Ministry of Energy in respect of royalties | 1,635 | 1,712 |
| Interested parties | 1,028 | 399 |
| Payables in connection with the Joint Venture | 6,025 | 9,835 |
| Other | 688 | 283 |
| | 23,992 | 12,229 |

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 9 – Series A Bonds:

On July 6, 2017 the Company raised \$658 million (\$648 million net of issue costs) through a public offering of NIS 2,315,668,000 par value Series A bonds, according to a supplemental prospectus 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 39.25% of the principal of the bonds is payable in August 2028. The interest is paid every six months, starting from February 2018 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 4.9%.

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 operating approval of the 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 not exceeding 12 months, under which the quantity of gas to be sold 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 the Yam Tethys facilities; 7) the Company's present and future rights in its bank account for the project (the "**Operating Account**"); and 8) the Company's rights in the safety reserve account for payment of the principal and interest. It is noted that the aforesaid encumbrances 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 the aforesaid encumbrances have been registered and are in force. The Company may not subject the encumbered assets to another encumbrance.

In the event of the sale of an encumbered asset, provisions have been established for the prepayment of the bonds by the Company out of the amount received for the sale.

- B. The interest rate on the Series A bonds shall be adjusted for changes in the rating of the bonds, such that if the rating of Series A bonds is revised and the rating determined is lower than the Base Rating by two notches or more (the "**Reduced Rating**"), the annual interest rate on the balance of unpaid principal of the bonds shall increase by 0.5%, and in the event of any additional notch downgrade – the annual interest rate shall increase by 0.25%. Notwithstanding the aforesaid, the increase of the interest rate due to such rating downgrade shall be limited such that the annual interest rate added to the Base Interest does not exceed 1.25%.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 9 – Series A Bonds: (cont.)

- C. In addition, the Company shall pay added interest at a rate of 0.25% insofar as the Company's equity (as defined in the trust deed) falls below \$320 million. In any event, for a rating downgrade according to both B and C above, the Company shall not pay a rate exceeding 1.25% above the Base Interest.
- D. The assumption of additional debt by the Company through the expansion of Series A bonds and/or the assumption of other debt, excluding 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 guarantees 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 assumption of the additional debt shall not cause the rating of the bonds to decrease compared with their rating prior to the assumption of the additional debt.
- E. The Company may carry out a dividend distribution upon the fulfillment of conditions determined in the trust deed, including that the "record date" for the dividend distribution shall be no later than 60 days from the date on which a principal and/or interest payment has been made to the Series A bondholders; 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, with reference to two consecutive examination dates); the full amount as required shall have been deposited in the debt service safety reserve. As of December 31, 2017, the Company has deposited in the safety reserve the full amount required at that date – \$10 million, which are presented in the statements of financial position under non-current assets in the "restricted deposit" item.
- F. The Company undertook to irrevocably instruct all the parties to the gas sale agreements to pay the amounts due from them to the Company into a bank account as defined in the trust deed which was encumbered in favor of the bondholders as aforesaid (the "**Operating Account**"). It was stipulated that all the amounts deposited in the Operating Account shall be used by the Company exclusively for making payments that were explicitly determined in the trust deed as permitted to be paid out of the Operating Account and according to the order of payments determined in the trust deed. The Company shall be entitled to withdraw funds from the Operating Account other than for the purpose of payments as aforesaid, only in the amount contained in the Operating Account one day after the date on which a principal and/or interest payment has been made to the bondholders out of the account (and after the other payments determined as aforesaid have been made). Regarding amounts that are withdrawn from the Operating Account, no limitation shall apply to the Company regarding the use thereof, including the making of "distributions," subject to the other conditions set forth in the trust deed.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 9 – Series A Bonds: (cont.)

- 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: nonpayment of amounts due to the lenders; breach of the Company's undertaking to meet financial covenants including an undertaking to maintain equity (as defined in the trust deed) of no less than \$250 million (for two consecutive quarters), an expected debt service coverage ratio (as defined in the trust deed) of no less than 1:1.05 (during two consecutive quarters) (the expected debt service coverage ratio for the 12-month period beginning on April 1, 2018 is 1.45), and minimum economic equity (as defined in the trust deed) of no less than \$250 million (during two consecutive quarters) (the economic equity as of December 31, 2017 is \$490 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 a real 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 a real concern that the Company will fail to meet its material obligations to the Series A bondholders; the bond rating being lower than Baa3; a "going concern" note is added to the Company's financial statements.

As of the date of the statement of financial position, the Company is complying with said obligations.

An amount of \$650 million of the proceeds of the Series A bond offering was used by the Company to finance the acquisition 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 would 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 NIS 26,368,000 par value of Series A bonds, which was implemented during the third quarter of the year in consideration for \$7.5 million.

Trading in Series A bonds on the TASE commenced on July 10, 2017.

Note 10 – Asset Retirement Obligation:

The Company recognizes a liability and simultaneously an asset in respect of its share in the obligation to retire assets in the Tamar reservoir (see also Note 3H2 below). The following is the movement in the asset retirement obligation in the reporting periods:

| | 2017 | 2016 |
|--------------------------------------|--------------|--------------|
| Balance at the beginning of the year | 9,228 | 8,285 |
| Additions during the year | 197 | 635 |
| Passage-of-time effect | 446 | 308 |
| Balance at the end of the year | <u>9,871</u> | <u>9,228</u> |

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges

A. Commitments for the supply of natural gas: Agreements for the sale of natural gas and condensate by the Tamar partners (the data refer to 100% of the rights in the petroleum asset)¹:

| | Supply Commencement Year | Basic Gas Supply Period ² | Is there an Extension Option? | Total Maximum Amount for Supply (100%) (BCM) ³ | Total Amount Supplied by December 31, 2017 (100%) (BCM) | Primary Gas Price Linkage Basis |
|--------------------------------------------------|--------------------------|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IEC ⁴ | 2013 | 15 years | Option for extension by two additional years. | Approx. 87 | Approx. 21.2 | The U.S. CPI. |
| Oil Refineries Ltd. ("ORL") | 2013 | 7 years | Option for extension by two additional years. | Approx. 5.8 | Approx. 3.6 | The linkage formula is mostly based on linkage to the Brent prices and in small part on linkage to the Electricity Production Tariff, and it includes a "floor price." |
| Dalia Power Energies Ltd. | 2015 | 17 years | Option for extension by two additional years. | Approx. 23.3 | Approx. 2.9 | The linkage formula is mostly based on linkage to the Electricity Production Tariff and includes a "floor price." |
| Other private electricity producers ⁵ | 2013-2020 | 15-18 years except for one agreement for a two-year period | Some of the agreements include an option for extension by one to three additional years. ⁶ | Approx. 59 | Approx. 8.7 | The linkage formula in most of the agreements is based on linkage to the Electricity Production Tariff and in small part on linkage to the U.S. CPI. In several agreements, the linkage formula is mostly based on linkage to the Electricity Production Tariff and in small part on linkage to the Brent prices. In all the agreements the gas price is determined |

¹ For details about an additional export agreement, the agreement for exports to Egypt that was signed by Noble and Delek Drilling, see Note 11F(2) below.

² In most of the agreements, the gas supply period will be according to the table presented above or until the purchaser consumes the maximum contractual quantity set forth in the agreement, whichever is earlier.

³ This quantity is the maximum quantity the Tamar partners have undertaken to supply to the customer for the term of the agreements. The quantity the purchasers have undertaken to purchase is lower than this quantity.

⁴ For details regarding the agreement with the IEC see C below.

⁵ It is clarified that in some of the agreements, not all the conditions precedent were fulfilled.

⁶ Excluding the extension period set in an agreement signed between the Tamar partners and Israel Chemicals Ltd. ("ICL") on February 21, 2018. Under this supply agreement, in case of a delay in the start of commercial production from the Tanin and Karish reservoirs, the term of the agreement will be automatically extended by further periods of six months each, until the start of commercial production from the Tanin and Karish reservoirs or until December 31, 2025, whichever is earlier. It was further provided that ICL may notify the Tamar partners of the cancellation of the supply agreement at the end of each of such extension periods. If the Tanin and Karish agreement is cancelled, the term of the supply agreement will be extended automatically until December 31, 2025.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

| | Supply Commencement Year | Basic Gas Supply Period ² | Is there an Extension Option? | Total Maximum Amount for Supply (100%) (BCM) ³ | Total Amount Supplied by December 31, 2017 (100%) (BCM) | Primary Gas Price Linkage Basis |
|----------------------------------------------|--------------------------|--------------------------------------|--------------------------------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | | | | according to a formula that includes a base price and linkage, and it includes a "floor price." |
| Other industrial customers | 2013-2017 | 5-7 years | The agreements do not include an extension option. | Approx. 1 | Approx. 0.5 | The linkage formula in most of the agreements is based on linkage to the Brent prices and in the remainder on linkage to the prices of liquid fuels, and it includes a "floor price." In one agreement the linkage formula is based on the prices of liquid fuels and includes a "floor price," and in another agreement the price formula is based on the base price determined in the Gas Framework. |
| Natural gas marketing companies ⁷ | 2013-2019 | 5-7 years | Some of the agreements include an option for extension by up to one additional year. | Approx. 1.5 | Approx. 0.2 | The linkage formula is based on linkage to the Brent prices and includes a "floor price." |
| Export agreement – NBL | 2017 | 15 years | Option for extension by an additional two years. | Approx. 2 | Approx. 01 | The linkage formula is based on linkage to the Brent prices and includes a "floor price." |

⁷ It is clarified that in some of the agreements, not all the conditions precedent were fulfilled.

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

B. Further details on all the agreements for the sale of natural gas by the Tamar partners:

- 1) The agreements for the sale of natural gas include, inter alia, an undertaking by some of the purchasers to purchase or pay ("Take or Pay") for a minimum annual amount of natural gas at a scope and according to a mechanism specified in the supply agreement (the "Minimum Quantity"). The supply agreements further provide for a mechanism for the accumulation of a balance in respect of surplus amounts consumed by the purchaser in a specific year, and the utilization thereof for reducing the purchaser's obligation to purchase such Minimum Quantity during several years thereafter. Furthermore, provisions and mechanisms are established which allow each of such purchasers, after paying for gas not consumed due to the application of the Minimum Quantity mechanism, to receive gas with no additional payment up to the amount it paid for gas which it did not consume.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

- 2) Following the decision of the Antitrust Commissioner regarding the grant of a restrictive arrangement exemption in respect of agreements wherein the basic supply period is longer than seven years, except for the agreement with the IEC ("long-term agreements"), in some of the agreements each of the purchasers was granted the option to reduce the Minimum Quantity to 50% of the average annual amount consumed by it in the three years preceding the notice of exercise of the option, subject to adjustments and conditions as specified in the supply agreement (in this section: the "Option"). Upon the reduction of the Minimum Quantity, the other amounts specified in the supply agreement will be reduced accordingly. If the purchaser gives notice of the exercise of the Option as aforesaid, the amount will be reduced at the end of a year from the date of the notice.
- 3) Supply of the full quantities specified in the supply agreements signed prior to October 2012 utilizes, at points of peak consumption, the full capacity of the production, treatment and transmission systems of the Tamar project (jointly in this section, the "Production System"). Therefore, in the natural gas sale agreements signed starting from October 2012, an interim period was determined, which commenced in May 2015 and will end when the capacity of the Production System allows for the supply of the quantities specified in the supply agreements (in this section, the "Interim Period"). Gas supply under these agreements in the Interim Period shall be subject, inter alia, to the gas quantities available at such time, after the supply of gas to customers who signed supply agreements before October 2012, according to the mechanisms determined in each of such supply agreements. In all of the aforesaid agreements the undertaking to purchase the Minimum Quantity as aforesaid will not apply in the Interim Period.

In November 2016, the Tamar partners notified most of the customers with whom natural gas sale agreements were signed starting from October 2012 as aforesaid (according to the order of precedence of the signing of the agreements), including private electricity producers, natural gas marketing companies and industrial customers, that the Interim Period would end on September 30, 2020, and that accordingly, the Tamar partners would be able to supply natural gas to those customers under the agreements on a firm (binding) basis.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

B. Further details on all the agreements for the sale of natural gas by the Tamar partners: (cont.)

- 4) The supply agreements establish further provisions, inter alia, on the following matters: the right to terminate the agreement in the event of breach of a material undertaking, the right of the Tamar partners to supply gas to the aforesaid purchasers from other natural gas sources, compensation mechanisms in the event of delays in the supply of gas from the Tamar project or in the event of failure to supply the amounts specified in the agreement, limitations on the liability of the parties to the agreement, and with respect to the relations among the sellers themselves in connection with the supply of gas to such purchasers.
- 5) **Agreement for natural gas supply to an interested party – Delek, the Israel Fuel Corporation Ltd. ("Delek Israel"):** In December 2013, an agreement for the supply of natural gas was signed with Delek Israel, a company wholly controlled by Delek Group, the controlling shareholder of Delek Drilling. Under the supply agreement, the sellers undertook to supply to the purchaser natural gas in a total quantity of up to 0.46 BCM (the "**Total Contractual Quantity**") according to the terms specified in the supply agreement. The supply agreement commenced in the first half of 2015 and will expire at the end of seven years or when the purchaser shall have consumed the Total Contractual Quantity, whichever is earlier.
- 6) **Agreement for natural gas supply to an interested party – I.P.P. Delek Sorek Ltd. ("Delek Sorek"):** In May 2015 the natural gas supply agreement signed in March 2014 with Delek Sorek, a company indirectly controlled by Delek Group, the controlling shareholder (indirectly) of Delek Drilling, was amended. The sellers undertook to supply to the purchaser natural gas in a total quantity of up to 3.3 BCM (the "**Total Contractual Quantity**") according to the terms specified in the supply agreement. The term of the supply agreement is 15 years, with an option to extend the agreement by two additional years, or when the purchaser shall have consumed the Total Contractual Quantity, whichever is earlier.

C. Further details on the gas supply agreement between the Tamar partners and the IEC:

- 1) A gas supply agreement was signed between the Tamar partners and the IEC in March 2012 and amended in July 2012, May 2015 and September 2016 (in this section: the "**Agreement**"), inter alia, with respect to the exercise of options for increasing the gas quantities to be consumed by the IEC.
- 2) The Agreement granted the IEC an option to increase the total contractual quantity from 78 BCM to 87 BCM (in this section: the "**Option**"). The Option referred to two periods, as follows: (a) until April 15, 2013 the IEC was given the option to notify of an increase in the gas quantities it will consume from January 1, 2017 to December 31, 2018 (the "**First Option**"); (b) until April 15, 2015 the IEC was given the option to notify of an increase in the gas quantities it will consume from January 1, 2019 until the end of the term of the Agreement (the "**Second Option**"), according to the conditions stipulated in the Agreement.
- 3) On April 11, 2013, the IEC notified the Tamar partners of its decision to exercise the Option as aforesaid until the end of 2018, and on April 16, 2015, the IEC notified the Tamar partners of its decision to partially exercise the Second Option.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)**C. Further details on the gas supply agreement between the Tamar partners and the IEC:** (cont.)

- 4) In the framework of the amendment to the gas supply agreement between the holders of rights in the leases and the IEC, it was agreed that the expansion project for the purpose of the Agreement had been completed, and the date of increase of the quantities was set for January 1, 2017, to continue until the end of 2018.
- 5) The annual minimum quantity for charging from the commercial operation date until December 31, 2016 was 3.5 BCM. The minimum quantity for charging from January 1, 2017 until December 31, 2018 is 5 BCM per year (subject to adjustments according to the scope of gas sales by the Tamar partners to private electricity producers and the scope of the IEC's electricity production, but no less than 3.6 BCM per year). From January 1, 2019 until the end of the term of the Agreement, the minimum quantity for charging will be 3 BCM per year. The Agreement contains provisions regarding the calculation and adjustment of the minimum quantity for charging including under circumstances of force majeure or sellers' supply failure.
- 6) The gas price is determined according to a formula which includes a base price and linkage based on the U.S. CPI, plus 1% per year until 2019 and less 1% per year from 2020 onwards. The gas price for one unit of MMBTU in 2011 was calculated according to a base price of \$5.042. In respect of the natural gas quantities to be consumed by the IEC under the option for increasing the quantities specified in the Agreement, as of 2014 the gas price is linked to only 30% of the U.S. CPI increase rate, and the aforesaid addition or reduction of 1% per year does not apply.
- 7) The Agreement specifies two dates on which each party may request a price adjustment (according to the mechanism established in the Agreement), if such party believes that the contractual price is no longer suitable for a long-term contract with an anchor buyer for the consumption of natural gas for use in the Israeli market: at the end of eight years and 11 years from the commercial operation date (as defined in the Agreement) of the Tamar project or at the end of three months from the start of piping from the Tamar project (i.e.: June 30, 2013), whichever is earlier. On the first adjustment date (after eight years) the adjustment made to the price will be within a range of up to 25% (addition or reduction), and on the second adjustment date, the adjustment made to the price will be within a range of up to 10% (addition or reduction).
- 8) The IEC or any of the Tamar partners may terminate the Agreement, in the event that the other party commits an act of insolvency (as defined in the Agreement) which is likely to have a material adverse effect on the performance of its undertakings under the Agreement, by providing advance written notice of at least 120 days. The IEC and the Tamar partners agreed not to exercise any right to terminate the Agreement which they may have according to any law, other than with respect to significant or continuing breaches of material provisions of the Agreement and only after provision of a 120-day period to the breaching party (unless a shorter period is stipulated in the Agreement) to remedy the breach.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

C. Further details on the gas supply agreement between the Tamar partners and the IEC: (cont.)

- 9) According to the Agreement, if the Tamar partners fail to supply the gas amounts ordered by the IEC in accordance with the provisions of the Agreement, and the supply failure is in a quantity exceeding the deviation rates permitted by the Agreement, the Tamar partners will compensate the IEC by supplying gas in the subsequent month at a reduced price according to the quantity not supplied. Furthermore, the Agreement lists specific breaches for which compensation at higher rates will be paid. The Agreement sets limits to the liability of each of the parties for breach of some of the provisions of the Agreement at rates specified in the Agreement.
- 10) The Tamar partners are acting jointly with respect to matters such as the development of the reservoir, the sellers' facilities and the production, transmission and supply of gas according to each of the agreements. However, the Agreement stipulates that none of its provisions shall be construed as creating mutual liability among the Tamar partners, and each partner shall be liable towards the IEC only for its own share in the petroleum rights in connection with liability arising from the Agreement. Although the IEC may order gas quantities by one notice furnished to a coordinator on behalf of the Tamar partners, the quantity deemed as ordered from each partner will be the share of each partner out of the total ordered quantity.
- 11) Gas supply under the Agreement is on an hourly basis with a maximum quantity per hour, according to the mechanisms and procedures set out in the Agreement.
- 12) Gas is delivered at the connection point to the INGL national transmission system, near the terminal, or at any other connection point to be agreed between the parties.
- 13) The natural gas supplied at the delivery point under the Agreement must comply with the specifications stipulated in the agreement. The IEC has the right to refuse to accept non-standard gas until the deficiency is remedied. Any dispute between the parties pertaining to the gas quality will be referred (upon the request of any party) to an expert for decision.

The assignment of the IEC's rights and obligations under the Agreement is contingent on the transferee being technically and financially able to meet its obligations under the Agreement and on the transfer to the transferee of the same pro rata share of the IEC power plants (meaning that if a pro rata share of the rights and obligations is transferred to any transferee, it must also receive a pro rata share of the IEC power plants).

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

D. Estimates regarding gas quantities and supply dates:

The above estimates regarding the natural gas quantities which will be purchased by the aforesaid purchasers, the expansion project's supply capacity and the supply commencement dates according to the supply agreements constitute information the materialization of which, in whole or in part, is uncertain, and which may materialize in a materially different manner, due to various factors including non-fulfillment of the conditions precedent in each of the supply agreements (insofar as not yet fulfilled), changes in the scope, rate and timing of consumption of the natural gas by each of the aforesaid purchasers, implementation and completion of the expansion project (insofar as relevant to the supply agreement), construction and operation of the power plants and/or other facilities of the purchasers (insofar as relevant to the supply agreement), exercise of the options granted in each one of the supply agreements and the date of exercise thereof, etc.

E. Entry into a condensate supply agreement with Paz Ashdod Oil Refineries Ltd. ("Paz Refineries"):

In November 2012, Paz Refineries and the Tamar partners (in this section, the "**Sellers**") signed a condensate supply agreement (in this section: the "**Agreement**"), whereby the Sellers undertook to supply to Paz Refineries condensate for a five-year period from the date of commencement of condensate flow from the Tamar project (March 30, 2013), on a non-material scope (quantities and price). In November 2016 the parties agreed to extend the agreement for five additional years.

The price of the condensate is determined according to the Brent prices, less a margin, as specified in the Agreement. The main sales of condensate by the Tamar partners were made in the framework of said Agreement.

F. Additional details on natural gas export commitments:

- 1) In February 2014 a natural gas supply agreement was signed between the Tamar partners and NBL Eastern Mediterranean Marketing Limited ("**NBL**") for the export of natural gas to consumers in Jordan (the "**NBL Agreement**"), which was amended on February 16, 2016. NBL is a subsidiary wholly owned (indirectly) by Noble Energy Inc., which is the controlling shareholder of Noble, and from March 2018 an interested party in the Company (see Note 23A).

Concurrently with the signing of the NBL Agreement, NBL signed an agreement with two companies from Jordan, Arab Potash Company and Jordan Bromine Company (jointly in this section: the "**Purchasers**"), according to which the Purchasers are to purchase from NBL natural gas to be used at their plants which are located on the eastern bank of the Dead Sea in Jordan (in this section: the "**Supply Agreement**"). It should be noted that under a tax ruling in connection with the Agreement, the Tamar partners are required to offer each new Israeli customer a price alternative for natural gas, to be determined based on the price of a Brent barrel, calculated using the formula most favorable for the customer, existing on the date of the Government Resolution in the agreements of the Tamar partners. For details see Note 11L below. The obligation with respect to such offer pursuant to the tax ruling will apply during a period of three years from the date of the Government Resolution (i.e. until August 16, 2018). Supply under the offer will begin in any period from the start of supply under the export agreement (which began in January 2017) until six years after the date of signing of the export agreement.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

F. Additional details on natural gas export commitments: (cont.)

1) (cont.)

Under the NBL-Tamar Agreement, the Tamar partners undertook to supply natural gas to NBL for selling by NBL to the Purchasers under the Supply Agreement at back-to-back terms (i.e.: the Tamar partners will be responsible for the fulfillment of NBL's undertakings according to the Supply Agreement and will be entitled to all the net revenues due to NBL by virtue thereof).

Under the Supply Agreement, NBL undertook to supply to the Purchasers natural gas in a total quantity of up to 2 BCM. Supply under the Supply Agreement began in January 2017 and is expected to continue for 15 years.

- 2) On March 17, 2015, an agreement was signed between the Tamar partners and Dolfinus Holdings Limited (in this section: the "**Purchaser**") for the supply of gas to the Purchaser (the "**Agreement**"). On February 19, 2018 (after the date of the statement of financial position), an agreement was signed between Delek Drilling and Noble, and the Purchaser, for the export of natural gas from the Tamar project to Egypt (in this section: the "**Export Agreement**"). The Export Agreement is on a significantly larger scope than the agreement signed between the Tamar partners and the Purchaser on March 17, 2015 and is intended to replace it. The sellers approached the Company and the other Tamar partners for the purpose of assigning the Export Agreement to the other Tamar partners or entering into an agreement with them for the purchase of natural gas from the Tamar project, in accordance with the terms of the Export Agreement, for the sale thereof to the Purchaser. For details on the Export Agreement see Note 23C below.

The Tamar partners submitted an application for an export approval in respect of the quantities that would be sold to the Purchaser, within the framework of the quota of natural gas permitted for export to neighboring countries, as determined in the Government Resolution from June 23, 2013. On December 23, 2015, the approval of the Prime Minister, the Minister of Energy and the Petroleum Commissioner was received for the export of natural gas in the quantities specified in the Agreement, all in accordance with the terms of such approval.

The Agreement includes several additional conditions precedent, principally the receipt of additional regulatory approvals from the relevant entities in Israel and Egypt, entry into agreements that enable the use of the transmission infrastructure, including the signing of a transmission agreement between the Tamar partners and INGL (should it be necessary), receipt of a guarantee in favor of the sellers as required in the Export Agreement. As of the date of approval of the financial statements, not all the conditions precedent to the entry of the Agreement into force were fulfilled.

G. Dependence on a customer:

The Company has a principal customer with whom a binding agreement was signed for the supply of gas by the Tamar project – the IEC. The Company's share of sales to the IEC in the year of account totaled \$91.7 million (2016 – \$88.1 million; 2015 – \$80.2 million). The balance of the IEC's debt as of December 31, 2017 is included in trade receivables and amounts to \$6.7 million (December 31, 2016 – \$9.5 million) (see also Note 14B).

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

H. Commitments for payment of royalties:

1. Royalties to the State:

The Petroleum Law 1952 prescribes that a lease holder shall pay royalties to the State at the rate of one eighth of the quantity of petroleum produced from the area of the lease and exploited, excluding the amount of petroleum used by the lease holder for operating the area of the lease, but in any event no less than the minimum royalty provided for by law. The sum of royalties is calculated according to the market value of the royalties at the wellhead. Regarding the discussion with the Commissioner on the manner of calculation of the market value of the royalty at the wellhead, see Note 15B.

2. Royalties to interested and third parties:

- a) According to the Sale Agreement, the rights in the leases that were transferred to the Company are subject to undertakings that applied to Delek Drilling to pay royalties in accordance with the conditions that governed said royalties before the transfer of the rights to the Company. Below are details regarding the royalties applying to the rights of the Company in the leases:

| Holder of right to royalties | Rate of the royalties | Additional information |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Delek Group Ltd. and Delek Energy Systems Ltd. (interested parties) | Collectively: 1.5% before the return-on-investment date and 6.5% thereafter, of the Company's share | Said royalties originate in a rights transfer agreement from 1993, under which certain petroleum rights were transferred to Delek Drilling (the " Delek Royalties "). For details regarding the main terms of the Delek Royalties, as prescribed in said rights transfer agreement, see b) below. |
| Cohen Development and Industrial Buildings Ltd. (interested party), YNU Nominee Company Ltd., Allied LP – Limited Partnership, and JOEL Jerusalem Oil Exploration Ltd. | Collectively: 3% of the Company's share (share of Cohen Development and Industrial Buildings Ltd. – 1.425%) | Said royalties derive from the right of the general partner of Avner Oil Exploration – Limited Partnership (" Avner ") that was determined in Avner's limited partnership agreement (the " Avner Royalties "). In May 2017, Avner merged with and into Delek Drilling. In the framework of the merger, the obligation to pay the Avner Royalties passed to Delek Drilling. For details regarding the main terms of the Avner Royalties, as prescribed in Delek Drilling's limited partnership agreement, see c) below. |

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

H. Commitments for payment of royalties:

2. Royalties to interested and third parties: (cont.)

a) (cont.)

| Holder of right to royalties | Rate of the royalties | Additional information |
|-------------------------------|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Dor Chemicals Ltd. ("Dor") | 0.42% of the Company's share | Said royalties originate in an agreement dated January 21, 2007 signed between Delek Drilling and Dor, whereby the Delek Partnerships purchased from Dor 2.5% (out of 100%) of the rights in the Michal and Matan Licenses, in whose place the Tamar and Dalit leases were later granted (the " Dor Royalties ") and undertook to pay Dor royalties at a rate of 6% for the rights purchased. For details regarding the main terms of the Dor Royalties, as prescribed in said rights purchase agreement, see d) below. |

b) Delek Royalties:

The Delek Royalties at a total rate of 1.5% before the return-on-investment date ("**ROI Date**"), and 6.5% thereafter, shall apply in respect of all of the working interests in the Tamar and Dalit leases that were acquired by the Company under the Sale Agreement.

In this regard, the term "**ROI Date**" means – the date on which the Net Value of Revenues (as defined below) that Delek Drilling/the Company received or is entitled to receive for the petroleum and/or natural gas and/or other valuable substances that were produced and exploited from the petroleum asset, calculated in dollars, reaches a sum equal to the Value of All Expenses of Delek Drilling/the Company (as defined below), calculated in dollars.

It is noted that the sum of all such expenses must be equal to the sum of the investments made by the Delek Drilling prior to the date of closing of the sale of the rights (such that the Company steps into the Partnership's shoes in respect of such investments), plus investments to be made by the Company from the date of closing of the sale of the rights.

The term "**Net Value of Revenues**" means – the value of all of the revenues, as certified by the Company's auditors, for petroleum and/or natural gas and/or other valuable substances that were produced and exploited from the petroleum asset ("**Gross Value of Revenues**"), after deduction of all the expenses for the production thereof and the royalties paid thereon.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

H. Commitments for payment of royalties: (cont.)

2. Royalties to interested and third parties: (cont.)

b) Delek Royalties: (cont.)

The term "**Value of All Expenses of Delek Drilling**" means – all the expenses the Company incurred on the petroleum asset, except for expenses (up to the Net Value of Revenues) that were deducted from the Gross Value of Revenues for determining the sum of the Net Value of Revenues, as certified by the Company's auditors.

In this regard, the Company and the holders of rights in the Delek Royalties (Delek Group Ltd. and Delek Energy Systems Ltd.) intend to reach an agreement whereby on the date of fulfillment of the conditions precedent of the Sale Agreement, the sums representing the "Net Value of Revenues" and the "Value of All Expenses of Delek Drilling," as defined above, shall be calculated on the basis of the expenses incurred by Delek Drilling up to the calculation date, without taking into account the consideration for the Object of Sale that will be paid by the Company to Delek Drilling for the rights, and whereby, commencing on the date of fulfillment of the conditions precedent of the Sale Agreement, the revenues and expenses, as applicable, incurred by the Company in connection with the activity in the petroleum asset, as a party stepping into the shoes of Delek Drilling with respect to such royalties (in respect of the rights transferred thereto), shall be taken into account. For further details see Note 15D.

In addition, the Delek Group Royalties shall be subject to the terms specified in 1) above.

c) Avner Royalties:

The Avner Royalties at a total rate of 3% shall apply in respect of all of the working interests in the Tamar and Dalit leases that were acquired by the Company under the Sale Agreement. In addition, the Avner Royalties shall be subject to the terms specified in 1) above.

d) Dor Royalties:

The Dor Royalties at a total rate of 0.42% shall apply in respect of all of the working interests in the Tamar and Dalit leases that were acquired by the Company under the Sale Agreement.

The Dor Royalties shall be calculated from the share of the Company in the petroleum and/or natural gas and/or other valuable substances that will be produced and exploited from the Tamar and Dalit leases, after deduction of the royalties to the State. In addition, the Dor Royalties shall be subject to the terms specified in 1) above.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

H. Commitments for payment of royalties: (cont.)

2. Royalties to interested and third parties: (cont.)

e) Additional terms:

- 1) The Royalty Holders or any of them shall be entitled to receive all or any of the royalties in kind, i.e. to receive in kind a part of the petroleum and/or natural gas and/or other valuable substances that will be produced and exploited from the petroleum asset. If any of the Royalty Holders elects to receive the royalties in kind, the parties shall stipulate the manner in and dates on which it shall receive the royalties. Should any of the Royalty Holders not elect to receive the royalties in kind, the Company shall pay such royalty holder the market value at the wellhead of the royalties to which the royalty holder is entitled. Such payment shall be made once every month. The measurement of the quantities of petroleum and/or natural gas and/or other valuable substances that will be produced and exploited from the petroleum asset, for the purpose of calculating the royalties, shall be made in accordance with accepted principles in the petroleum industry.
- 2) The right to royalties shall be linked to the Company's share in the petroleum asset. Should the Company transfer its rights in a petroleum asset, the Company shall ensure that the transferee assumes all the undertakings to pay royalties as aforesaid. The foregoing shall not apply in the event of asset forfeiture due to the Company being behind on payments.
- 3) The Company shall keep complete and accurate records regarding its share in the petroleum and/or natural gas and/or other valuable substances that will be produced and exploited from the petroleum asset. Each of the Royalty Holders shall be entitled to appoint an accountant who shall be entitled to inspect, examine and copy, during normal work hours, the Company's books and other documents and records relating to the Royalty Holders' right to the royalties.

I. Dependence on and agreement with the Operator:

The major part of the Company's activity in the joint venture of the Tamar and Dalit leases is carried out by Noble. Under the Joint Operating Agreement of the Joint Venture, it was agreed that Noble shall serve as a managing operator and shall be exclusively responsible for the management of the joint operations.

According to the accounting rules, Noble is entitled to reimbursement of all the expenses incurred by it in connection with the fulfillment of its function as operator. Under an amendment to the Joint Operating Agreement that was signed in 2016, as of January 1, 2016 Noble is entitled to an operator fee at a rate of 1% of total direct expenses, other than with respect to marketing activities. In the course of 2017 the Tamar partners paid Noble an operator fee of \$2.5 million (100%, Company's share – \$0.2 million), and in the course of 2016 the Tamar partners paid Noble a sum of \$22.4 million (100%, Company's share – \$2.1 million), for Noble's indirect expenses in respect of the period from July 2006 until the end of 2015.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

J. Permits and licenses for the projects' facilities:

1. In the framework of the development of the Tamar project, the Tamar partners received approval for the construction of a permanent rig for natural gas and condensate production, as well as approval for the operation of a system for the production of natural gas and condensate from the Tamar project, whereby the Tamar partners are obligated, inter alia, to provide a guarantee for a total of \$25.6 million (100%, Company's share – \$2.4 million; see Note O below).
2. Regarding the license for operation of a 10-inch pipe through an SPC owned by the Tamar partners, see Note 6D below.

K. Legal Proceedings:

On June 18, 2014, a class certification motion was filed with the Tel Aviv District Court by a consumer of the IEC against the then Tamar partners (the "**Certification Motion**"). Said motion concerns the price at which the Tamar partners sell natural gas to the IEC. The Certification Motion claims that the gas price for the IEC is an unfair price which constitutes abuse of the Tamar partners' position as holders of a monopoly in the Israeli natural gas supply sector, in violation of Section 29A of the Restrictive Trade Practices Law.

The remedies sought in the Certification Motion are: compensation for all the electricity consumers in the sum of the difference between the price paid by the IEC for natural gas supplied by the Tamar partners and the fair price thereof, which is estimated at a total of NIS 2.5 billion (in terms of 100%), as well as declaratory orders stating that the Tamar partners may not sell natural gas from the Tamar project for a sum exceeding the sum specified in the Certification Motion and that the sale thereof at a higher price constitutes abuse of their monopolistic power.

On July 7, 2016, a court hearing was held on a motion for summary dismissal, which was filed by the Tamar partners on April 20, 2016 after the Attorney General had submitted his position according to which the Certification Motion should be summarily dismissed. In his position, the Attorney General argued that there was no call for adjudication of the class action, on the grounds that price regulation (which is one component of the Gas Framework) may not be challenged separately from the Gas Framework as a whole, and judicial review of the Gas Framework belongs to the High Court of Justice, rather than in a class action. The Attorney General further argued that adjudication of the class action might hinder the implementation of the Gas Framework.

On November 23, 2016, a decision was rendered, whereby the motion for summary dismissal of the Certification Motion was denied, and on December 15, 2016, the Tamar partners filed a motion for leave to appeal this decision. A hearing on the motion for leave to appeal was held on March 16, 2017 before a panel of three judges. On September 28, 2017, the Supreme Court issued a decision rejecting the appeal motion and remanding the case to the District Court for the purpose of considering the Certification Motion on the merits. On October 18, 2017, a pre-trial hearing was held at the District Court, during which dates were scheduled for the examination of the experts and affiants in the case for January and February 2018. On October 29, 2017, the Tamar partners filed a motion to summon witnesses in the case on behalf of the State and a motion to add evidence.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)**K. Legal Proceedings:** (cont.)

In November 2017 the Company filed a motion for its joinder as a respondent to the Certification Motion. In December 2017 the court ordered the Company's joinder as a respondent, imposing on it certain restrictions in submitting its response. In January 2018 the Company filed a response to the Certification Motion, in which it requested that the Certification Motion against it be rejected, *inter alia* on the grounds set forth in the responses of the other respondents and their attached opinions, and on other grounds set forth in its response.

On December 8, 2017 the court accepted the motion to summon witnesses and ruled that said witnesses should submit the affidavits on which they were to be cross examined in March 2018. In addition, the court rejected the motion filed by the Tamar partners to add evidence. In January 2018 the Attorney's Office submitted the affidavits of witnesses permitted to be summoned by the court. As of the date of approval of the financial statements the applicant had still not submitted his response to said affidavits. At the end of January 2018 and in the course of February 2018 evidentiary hearings were held on the Certification Motion, in which the experts who had submitted to the court opinions on behalf of the parties were examined. As of the date of approval of the financial statements, the examination of the parties' experts was completed. Following the completion of the experts' examinations, the court suggested holding a hearing on the possibility of appointing a court expert in the field of economics.

After hearing the positions of the parties (including the Company) who expressed opposition to holding such a hearing at that stage, the court did not decide on the matter. On February 15, 2018 the applicant submitted his reply to the Company's response. On March 7, 2018 the applicant's attorney gave notice that the applicant had died and that an appropriate motion would be submitted shortly. On March 11, 2018 the applicant's attorneys submitted a consent motion to postpone the times for producing evidence, and said times were postponed to May-June 2018, in view of the applicant's death and the need to replace him with another representative plaintiff. In the Company's estimation, based on the opinion of counsel, the chances of the Certification Motion being accepted are lower than 50%. Nevertheless, should there be significant developments in the future, including if, further to the court's suggestion to hold a hearing on the possibility of appointing a court expert in the field of economics, such an expert is appointed and submits an additional opinion, the Company will consider the implications of the foregoing on its said assessment of the chances of the proceeding.

Regarding Delek Drilling's undertaking in connection with said proceeding with respect to amounts received by it prior to the Effective Date and attributable to rights in the leases the Company acquired from Delek Drilling, see Note 4F(4).

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

L. The Gas Framework:

On August 16, 2015, Government Resolution No. 476 (readopted in a Government Resolution of May 22, 2016) was adopted with respect to a "framework for increasing the quantity of natural gas produced from the Tamar natural gas field and the expeditious development of the Leviathan, Karish and Tanin natural gas fields and other natural gas fields" (in this section: the "**Government Resolution**"). The resolution took effect on December 17, 2015, with the grant of an exemption from certain provisions of the Restrictive Trade Practices Law to Delek Drilling, Ratio and Noble (in this section: the "**Parties**") by the Prime Minister, in his capacity as Minister of Economic Affairs, pursuant to the provisions of Section 52 of the Restrictive Trade Practices Law (in this section: the "**Exemption**" or the "**Exemption under the Restrictive Trade Practices Law**"), the key points of which are presented below.

a) Conditions for the Exemption under the Restrictive Trade Practices Law:

1) Restructuring in the Tamar reservoir

- (a) Delek Drilling shall transfer, within 72 months from the date of the granting of the Exemption under the Restrictive Trade Practices Law (the "**Effective Date for Tamar**") all its rights in the Tamar and Dalit leases to a third party not affiliated with the Parties or any of them or with any entity that holds means of control in the Leviathan reservoir or in the Karish and Tanin reservoirs, subject to the Commissioner's approval. In the event that the unsold rights are not transferred (the "**Transferred Rights in Tamar**") within 72 months from the Effective Date, the right to transfer the Transferred Rights in Tamar will be transferred to a trustee (as defined in the Gas Framework), who will act to find purchasers and receive the greatest number of bids for the sale of the Transferred Rights in Tamar, all in accordance with the provisions of the Gas Framework and the guidelines to be received from the Antitrust Commissioner. The trustee will sell the Transferred Rights in Tamar taking into consideration the market value and the highest price offered to him, and in any event no later than 12 months after the date of the Transfer of Rights in Tamar (even if the price does not represent the real value of the Transferred Rights in Tamar).
- (b) By the Effective Date for Tamar, Noble shall deliver to the Commissioner a binding sale contract, such that after consummation thereof, Noble's rights in the Tamar lease will be no higher than 25%, and the surplus rights will be transferred to a third party which is not affiliated with any of the Parties and does not hold means of control in the Leviathan reservoir or in the Karish and Tanin reservoirs, subject to the Commissioner's approval.
- (c) As of the Effective Date for Tamar or the date of the sale of Noble's rights in the Tamar lease as described above, whichever is earlier, Noble shall not hold any veto right pertaining to the Tamar reservoir.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

L. The Gas Framework: (cont.)

a) Conditions for the Exemption under the Restrictive Trade Practices Law: (cont.)

2) New agreements for the supply of natural gas from the Tamar reservoir:

- (a) Agreements for the supply of natural gas from the Tamar reservoir, signed as of the date of the Government Resolution, must comply with all the following provisions:
 - 1) The consumer shall not be subject to any restriction with respect to the purchase of natural gas from any other natural gas supplier.
 - 2) The consumer shall be able to resell the natural gas purchased by it, in accordance with the conditions and provisions prescribed by the Exemption.
 - 3) The Parties may not impose any restriction on the sale price at which the consumer resells the natural gas.
- (b) With respect to agreements for the sale of natural gas from the Tamar reservoir signed from the date of the Government Resolution until four years after the date on which the Commissioner approved the transfer of the rights in the Karish and Tanin leases (the "**Date of Opening of the Options**"), the holders of the rights in the Tamar reservoir will be required to offer every consumer the option to purchase gas by an agreement for any period up to eight years chosen by him or for a longer period to be agreed between the Parties and the consumer. For an agreement whose term exceeds eight years, the consumer shall have a unilateral right to shorten the term of the agreement during a three-year window commencing on the Date of Opening of the Options.
- (c) On April 2, 2017, in a notice sent by the Tamar partners to the Minister of Energy, the Budget Director at the Ministry of Finance and the Antitrust Commissioner, they clarified as follows:
 - 1) In the event of a 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 end of four years from 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 existing contract until the new supplier is able to supply gas in commercial quantities (but for no longer than eight years from the date of signing the agreement), without changing the terms 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 having to sign a long-term gas supply agreement due to the requirements of the entities financing the facilities, the option to sign an agreement for a term exceeding eight years, according to the supply capacity of the Tamar project.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

L. The Gas Framework: (cont.)

b) Additional provisions from the Government Resolution:

1) Prices:

- a) So long as the holders of the rights in the Tamar lease meet the conditions of the Government Resolution and the Exemption under the Restrictive Trade Practices Law, the provisions of the Control of Prices of Commodities and Services Order (Application of the Law to Natural Gas and Determination of the Control Level) 2013, which imposes control on the gas sector in terms of reporting on profitability and gas prices, shall remain unchanged for the period from the date of the Government Resolution until the date on which the transfer of the rights of the Partnership and Noble in the Karish and Tanin leases or in the Tamar lease, whichever is later, has been completed (the "**Transition Period**").
- b) During the Transition Period, the holders of the rights in the Tamar lease (in this section, the "**Holders of the Rights in the Leases**") shall offer potential consumers the following natural gas price and linkage alternatives, as follows:
 - 1) A base price to be calculated in accordance with a weighted average of the existing prices in the agreements between the Holders of the Rights in the Leases and their consumers, to be updated every calendar quarter (in accordance with the calculation specified in the Government Resolution).
 - 2) The Brent barrel price, as shall be calculated in accordance with the best formula for the consumer existing on the date of the Government Resolution in agreements of the Tamar partners.
 - 3) For a private electricity producer (conventional or cogeneration) who meets the conditions specified in the Government Resolution in addition to the alternatives specified in 1) and 2) above, also an alternative which includes linkage to the Electricity production Tariff.

2) Natural gas exports:

- a) In the Government Resolution of June 23, 2013, which adopted the main recommendations of the Tzemach Committee, clarifications and amendments were made, inter alia, in regard to the manner of calculation of the permitted export quotas and the manner of creation of redundancy in the gas supply system. For further details, see M below regarding the Government Resolution on the natural gas sector in Israel.
- b) It was also determined that the holders of the rights in the Tamar lease will be entitled to use the Mari B rig for the entire term of the Tamar lease for the export or supply to the domestic market of natural gas from the Tamar reservoir, subject to the conditions determined in the Government Resolution.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

L. The Gas Framework: (cont.)

b) Additional provisions from the Government Resolution: (cont.)

3) The Tamar SW reservoir:

The Government Resolution included the Petroleum Commissioner's announcement that he would approve the development plan for the Tamar SW reservoir, subject to the production of natural gas from the Tamar SW reservoir not yielding revenues in excess of \$575 million. This production restriction will be cancelled by the Petroleum Commissioner after an agreement is reached between the State and the holders of the rights in the Tamar lease on all of issues related to the development of the SW reservoir. For further details regarding the Tamar SW reservoir see Note 6G above.

4) Taxation:

The Government Resolution included a notice by the Tax Authority regulating various taxation issues pertaining to activity in the Tamar reservoir. In addition, the government decided to act to promote amendments to the Taxation of Profits from Natural Resources Law, whose aim, *inter alia*, is to close tax loopholes, provide various clarifications and apply assessment and collection processes. It was also determined that the price of a petroleum unit in an export agreement will be taxed according to the actual revenues from the export agreement and not according to the "average domestic price" for such type of petroleum, as defined in the Taxation of Profits from Natural Resources Law, subject to the holder of the export agreement undertaking to offer the price determined in the export agreement as described above to new customers in Israel, in the manner and under the conditions specified in the Gas Framework.

5) Domestic content:

The government took note of the announcement of the Minister of Economic Affairs that the holders of the rights in the Tamar and Leviathan reservoirs made a commitment to invest in domestic content an aggregate sum of \$500 million over eight years from the date of the grant of the Exemption. Domestic content includes expenses in respect of the purchase of commodities or services from bodies registered in Israel (including foreign entities registered in Israel), the purchase of goods, procurement from Israeli contractors, suppliers or producers, investments in research and development in Israel (directly or indirectly), expenses for manpower (up to a cap of 20% of the total commitment as aforesaid), expenses for professional training, donations and activity in the field of social responsibility.

6) Maintaining a stable regulatory environment:

The Israeli government committed to maintaining regulatory stability in the natural gas exploration and production sector on three issues: the maximum share of the public in the government take, exports, and the restructuring included in the Government Resolution, for ten years from the date of adoption of the Government Resolution.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

L. The Gas Framework: (cont.)

b) Additional provisions from the Government Resolution: (cont.)

6) Maintaining a stable regulatory environment: (cont.)

Following the Government Resolution and the grant of the Exemption, several petitions were filed with the High Court of Justice. On March 27, 2016, the High Court of Justice issued a judgment on said petitions, of which the key points are as follows: (a) the force of the Gas Framework as a whole (separately from the stability clause) is not contingent on its establishment in a primary law; (b) the use of Section 52 of the Restrictive Trade Practices Law, which exempts from the provisions of this law based on foreign diplomacy and security considerations, was done *intra vires*; and (c) the stability clause as worded in the Gas Framework cannot stand, and the State was given a year from the date of the judgment in which to act for regulation of the stability issue within the Gas Framework. If the matter has not been regulated by the end of a year, the Gas Framework will be voided. On May 22, 2016, the government readopted its resolution of August 16, 2015 with respect to the Gas Framework, while establishing an alternative arrangement for Chapter J of the Framework concerning a "stable regulatory environment," to ensure a regulatory environment that encourages investments in the natural gas exploration and production segment.

M. Government resolution on the natural gas sector in Israel:

In June 2013 the government decided to adopt the main recommendations of the Committee for Examination of Government Policy on the Israeli Natural Gas Sector and its Future Development (the "**Government Resolution**"). On December 17, 2015 the Gas Framework (see L above) was approved, with several clarifications and amendments made to the Government Resolution as aforesaid. The principles of the Government Resolution, as amended by the Gas Framework, are as follows:

- 1) The volume of natural gas to be secured for the benefit of the domestic market is 540 BCM. This volume will allow the supply of natural gas per the market's needs for a period of 29 years from the date of the Government Resolution.
- 2) A duty to supply the minimum quantity to the domestic market for each reservoir according to its size. It is noted that with respect to reservoirs shared by Israel and other countries, the Petroleum Commissioner will determine specific conditions and arrangements. It was further determined that the export facilities must be located in an area that is subject to Israeli control, and located in its exclusive economic zone, unless otherwise determined in a bilateral agreement between Israel and another country.
- 3) Determining that the export of natural gas will require approval by the Commissioner, subject to assurance of the minimum quantity for the domestic market.
- 4) Imposing a duty on lease holders to connect any natural gas field within the area of the lease to the domestic market, at such timing and scope as shall be determined in the lease deed and according to conditions to be determined.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

M. Government resolution on the issue of the natural gas sector in Israel: (cont.)

- 5) Ensuring that the planning, allocation and construction of onshore and offshore infrastructures for the transmission and processing of natural gas for the domestic market will be executed with government involvement, insofar as required.
- 6) The gas export facility will be in an area controlled by the State of Israel, including the EEZ, unless otherwise provided in a bilateral agreement between countries.
- 7) Requiring all existing and potential holders of leases in reservoirs, according to their size, to allocate at least part of the gas in their possession to the domestic market in the amounts determined (the "**Duty to Supply to the Domestic Market**").
- 8) Determining that a holder of a lease in a developed reservoir will be entitled to substitute its export quota against the Duty to Supply to the Domestic Market in accordance with its size and in the amounts determined, and subject to approval by the Petroleum Commissioner and the Antitrust Commissioner, after they have weighed all the relevant considerations, including the need to encourage the development of small reservoirs.
- 9) Assigning the Director of the Natural Gas Authority, together with the Petroleum Commissioner, to examine the issuance of regulatory directives for separate sales.
- 10) The aforesaid notwithstanding, a reservoir developed before the Government Resolution (i.e. the Yam Tethys and Tamar projects), will be entitled to export 50% of the quantity in respect of which the holders of the lease had not yet committed to the domestic market as of the date of the Government Resolution, and no more, immediately and provided that an export permit has been issued.
- 11) The Minister of Energy will examine, in consultation with the Prime Minister, the Minister of Finance and the Minister of Economic Affairs, the need to establish rules regarding the sale to consumers in the domestic market of natural gas designated for the manufacture of products for export; however, natural gas quantities used by the plant that is to be built following the tender for the construction of an ammonia production plant in Mishor Rotem shall not be deemed as export.
- 12) The Israeli government shall act for the creation of redundancy in the natural gas supply systems to the domestic market, and the Minister of Infrastructures, Energy and Water Resources accordingly instructs to examine the need for the various alternatives for the creation of such redundancy, including the possibility of using and adapting existing infrastructures, including before expansion of the Tamar field, and the possibility of constructing an additional pipeline from the Mari-B rig to the national transmission system in the Ashkelon area , including a processing facility.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)**M. Government resolution on the issue of the natural gas sector in Israel:** (cont.)

- 13) It was further determined that when the total volume of gas permitted for export reaches 500 BCM, or five years shall have passed from the date of approval of the committee's recommendations by the government, the government shall perform an assessment, in light of the supply of natural gas and the projected demand for natural gas over 25 years, from that point in time, as to the need to update the total export quota. An export approval for each field shall be in accordance with the Duty to Supply to the Domestic Market as specified in the Government Resolution regarding the Tzemach committee.

N. Environmental regulation:

In September 2016 the Ministry of Energy, in cooperation with the Ministry of Environmental Protection and other government ministries, published directives that regulate the environmental aspects of offshore oil and natural gas exploration, development and production. Such directives may have an effect on the costs and manner of the Company's operations, the extent of which effect cannot be estimated as of the date of approval of the financial statements.

Furthermore, as of the date of approval of the financial statements, the Company is examining the implications of the laws, regulations and directives proposed with respect to environmental protection, acting to prevent or minimize the environmental hazards that may occur in the course of its operations, preparing for the financial, legal and operating implications deriving from such laws, regulations and directives and allocating budgets for compliance therewith in the framework of the work plans of its various assets.

O. Directives on the provision of collateral in respect of the petroleum rights:

In September 2014, pursuant to Section 57 of the Petroleum Law, the Commissioner published directives on the provision of collateral in connection with petroleum rights, according to which the Commissioner shall determine the amount of the bank guarantee in leases that were granted under the Petroleum Law, taking into account, inter alia, the development plan, the lease characteristics, the development stage of the lease and the size of the gas field. The guarantee may not be less than an amount equal to \$7.5 million in respect of an offshore lease. In existing leases, the guarantee must be deposited within 45 days from when the Commissioner demands the deposit thereof. In the event of noncompliance with the provisions of the directive, the Commissioner will be entitled to forfeit a guarantee that was provided and will be entitled to deem the same as noncompliance with the work plan.

The Commissioner also included in said publication requirements with respect to insurance that must be taken out for existing onshore and offshore licenses as well as for leases. The Commissioner specified that once a year the holder of a right in a license and/or in a lease must provide a summary of insurance policies. However, the Commissioner stated that the contents of the summary and the manner of its submission would be determined in future directives, which have not yet been published.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 11 – Contingent Liabilities, Commitments and Charges: (cont.)

O. Directives on the provision of collateral in respect of the petroleum rights: (cont.)

According to the directives as aforesaid, the Company provided bank guarantees for the Tamar and Dalit leases totaling \$3.3 million and \$0.7 million, respectively. It is noted that the guarantee in connection with the Tamar lease includes also the amount of the guarantee in connection with an approval received by the Tamar partners for the operation of a system for the production of natural gas and condensate from the Tamar project, as described in J above.

P. Antitrust:

During 2012 several decisions were received from the Antitrust Commissioner regarding the grant of a contingent exemption from the approval of restrictive arrangements in connection with five agreements for the supply of natural gas between the Tamar partners, and private gas consumers and the IEC (the "**Previous Decisions**"). The gas consumer shall have the option to choose, in respect of the agreement, between one of the two following alternatives: (1) shortening of the term of the agreement to seven years, as of the date of commencement of the natural gas supply; or (2) reduction of the quantity of the gas in the "Take or Pay" clause to a quantity equivalent to half of the average annual consumption by the gas consumer in the three years prior to the date of the notice. The reduction of the purchased quantity will take effect one year after the date of said notice, and shall continue until the end of the term of the agreement, as applicable ("**Reduction of the Purchase Quantity**"). A notice on the Reduction of the Purchase Quantity will be possible at any time during whichever of the following two periods ends later: (1) the period from January 1, 2018 until December 31, 2020; or (2) the period commencing at the beginning of the fifth year after the date of supply of natural gas and terminating at the end of the seventh year as aforesaid. Following the Previous Decisions, said agreements were amended and all the agreements for the supply of natural gas that were signed by the Tamar partners from that date were amended and/or drawn up in keeping with the Previous Decisions.

On December 27, 2015, another decision was received from the Antitrust Commissioner regarding the granting of a contingent exemption from restrictive arrangements in connection with nine long-term agreements for the supply of natural gas between the Tamar partners and private gas customers, which are, in the main, similar to the conditions determined in the Previous Decisions.

The key difference between the conditions of the Previous Decisions and the conditions of the Commissioner's new decision is the determination whereby the notice on the Reduction of the Purchase Quantity shall be possible at any time during whichever of the following two periods ends later: (1) the period commencing on January 1, 2020 and ending on December 31, 2022; or (2) the period commencing at the beginning of the fifth year after the date of supply of the natural gas and terminating at the end of the seventh year as aforesaid (in this section, the "**Commissioner's New Decision**").

As of the date of approval of the financial statements one agreement has been amended in accordance with the aforesaid, and the Tamar partners are acting to amend the other purchase agreements with the relevant consumers in accordance with the Commissioner's New Decision.

Agreements signed since the beginning of 2016 are in keeping with the terms of the Framework. These agreements have been provided to the Antitrust Authority for the purpose of receiving a permit according to the requirement established in the Commissioner's New Decision as aforesaid.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 12 – Levy under the Taxation of Profits from Natural Resources Law 2011:

The Taxation of Profits and Natural Resources Law 2011 (the "Law"), which applies to the Company's holdings in the Tamar and Dalit leases, prescribes, inter alia, the application of a petroleum and gas profit levy according to a mechanism specified in the Law. The Law includes transition provisions with respect to producing ventures or ones that began production by 2014 (including the Tamar reservoir):

1. The application of a petroleum and gas profit levy at a rate to be determined as stated below. The rate of the levy will be calculated according to a proposed R-factor mechanism, according to the ratio between the net aggregate revenues from the project and the aggregate investments as defined in the Law. A minimum levy of 20% will be collected commencing from the point when the R-factor ratio reaches 2, and as the ratio rises, the levy progressively increases up to a maximum rate of 50%, when the ratio reaches 2.8, which is calculated at 50% less the product of 0.64 multiplied by the difference between the corporate tax rate specified in Section 126 of the Income Tax Ordinance in respect of each tax year and a tax rate of 18%. In light of the reduction of the corporate tax rate from 2018 and onwards to 23%, the maximum levy rate will be 46.8%.
2. Additional provisions were also determined regarding the levy. Among other things, the levy will be recognized as an expense for the purpose of calculating income tax; the levy limits shall not include export plants; the levy shall be calculated and imposed in relation to each reservoir separately (ring fencing); in the case of payment by a holder of a petroleum right which is calculated as a percentage of the petroleum produced, the payment recipient will be charged with a levy payment in accordance with the amount of the payment received by it, which amount will be deducted from the levy amount owed by the holder of the petroleum right.

In addition, the Law prescribes rules for consolidation or separation of petroleum ventures for purposes of the Law.

3. Accelerated depreciation will be given in respect of investments in deductible assets, with an option to choose between a fixed depreciation rate (up to 10%) and depreciation at a variable rate up to the amount of the taxable income in that year.

Note 13 – Capital, Reserves and Retained Earnings:

A. Share capital:

The Company's issued and paid-up share capital as of the date of its establishment and up to the date of closing of the public offering comprised 1,000 shares of NIS 1 par value each. The Company's authorized, issued and paid-up share capital as of December 31, 2017 comprises 50,000,000 shares of NIS 0.1 par value each.

After the date of the statements of financial position, as described in Note 23A, the Company's authorized share capital grew to 200,000,000 shares of NIS 0.1 par value each, and its issued share capital grew to 88,495,576 shares of NIS 0.1 par value each.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 13 – Capital, Reserves and Retained Earnings: (cont.)

B. Prospectus and shelf offering for an initial public offering:

Pursuant to the Prospectus and a shelf offering report dated July 18, 2017, the Company allotted to institutional investors that are incorporated in and outside Israel 30,000,000 ordinary shares of the Company of NIS 0.1 par value each, constituting 60% of the Company's issued and paid-up share capital, at a price of NIS 23.20 per share (and in the total amount of NIS 696 million; \$195 million). Furthermore, in accordance with the Sale Agreement (described in Note 4 above), an additional 19,990,000 ordinary shares of the Company of NIS 0.1 par value each were 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.

C. Voting rights

Under an irrevocable waiver provided by Delek Drilling to the Company immediately prior to the Prospectus, which took effect upon the completion of the share offering, Delek Drilling unilaterally and irrevocably waived all the voting rights attached to all the shares held by it, other than shares in an amount equal to up to 12% of the issued and paid-up share capital of the Company after the completion of the offering (the "**Surplus Shares**"). For the avoidance of doubt it was clarified that all the equity rights attached to the shares held by Delek Drilling would remain in full force and effect, including: the right to receive dividends, bonus shares, rights, and the right to receive surplus assets upon dissolution of the Company. In addition, Delek Drilling undertook to first sell the Surplus Shares (which after the sale thereof will confer on the purchaser all the rights attached thereto including voting and equity rights as aforesaid), and also undertook that for as long as it does not sell the Surplus Shares it shall not purchase additional shares of the Company. It is noted that under the Company's articles, the shares that were allotted to Noble as stated in Note 23A will not be counted in the Company's issued and paid-up capital for the purpose of calculating the 12% referred to in Delek Drilling's waiver.

D. Capital reserves:

The negative capital reserve presented in the statement of financial position arises from the registration of the assets and the liabilities that are being transferred in the transaction with Delek Drilling according to their book value – see also Note 2A.

E. Dividends

In accordance with its articles, the Company is to distribute profits twice a year, based on semi-annual financial statements for the period ended June 30 and on annual financial statements for the period ended December 31 of each year. The sum of the profits to be distributed shall be equal to 100% of the profits available for distribution, as defined in the Companies Law 1999 (the "**Companies Law**"), based on said financial statements, subject to compliance with the distribution tests, as defined in the Companies Law, and net of sums which in the judgment of the board of directors are required by the Company for all the following purposes:

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 13 – Capital, Reserves and Retained Earnings: (cont.)

E. Dividends (cont.)

1. The Company's compliance with the restrictions applicable to it under financing agreements to which it is a party at the time of the declaration.
2. The Company's compliance with its undertakings in respect of the petroleum assets held by it at that time.
3. Financing of the Company's ongoing business including its investment plans in the petroleum assets held by it; and
4. Sums required, in the opinion of the board of directors, for meeting unforeseen expenses, in an amount not exceeding \$5,000,000.

The board of directors may, prior to resolving to distribute any dividend, allocate out of the Company's profits certain sums, as it shall deem fit, as a reserve fund for any purpose or for the equalization of dividends or for special dividends or for the repair, improvement, maintenance or replacement of the Company's assets or for any other purpose according to the board of directors' discretion.

Regarding restrictions on dividend distributions see Notes 9E and 23B5 below.

Regarding the board of directors' approval of March 20, 2018 for the distribution of a dividend to the Company's shareholders see Note 23E below.

Note 14 – Revenues from Gas and Condensate Sales:

- A.** The Company's revenues derive from the sale of natural gas and condensate to its various customers, all in accordance with agreements signed with said customers as set out in Note 11A above.

| | Year ended December 31 | | |
|---------------------|-------------------------------|----------------|----------------|
| | 2017 | 2016 | 2015 |
| Sale of natural gas | 170,338 | 158,272 | 144,437 |
| Sale of condensate | 1,996 | 1,578 | 1,705 |
| | 172,334 | 159,850 | 146,142 |

- B.** The volume of sales in 2017 (as a percentage of the total turnover) to the IEC was 53%, to Dalia Power Energies Ltd. ("Dalia") 11% and to the Oil Refineries Ltd. ("ORL") 6% of total natural gas and condensate sales (2016: IEC 55%, Dalia 10% and ORL 7%; 2015: IEC 55%, Dalia 7% and ORL 11%).
- C.** The total quantity of natural gas (for all the Tamar partners) sold in 2017 amounted to 9.7 BCM (2016: 9.3 BCM; 2015: 8.3 BCM). The total quantity of condensate (for all the Tamar partners) sold in 2017 amounted to 454.7 thousand barrels (2016: 447.6 thousand barrels; 2015: 394.9 thousand barrels).

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 15 – Royalties:**A. Composition:**

| | Year ended December 31 | | |
|-----------------------------------------------------|------------------------|---------------|---------------|
| | 2017 | 2016 | 2015 |
| Royalties to the State (see B below) | 19,262 | 17,820 | 16,452 |
| Royalties to interested parties (see C and D below) | 4,918 | 4,188 | 3,866 |
| Royalties to third parties (see C below) | 3,066 | 2,835 | 2,617 |
| | <u>27,246</u> | <u>24,843</u> | <u>22,935</u> |

- B.** In accordance with the Petroleum Law 1952, the State is entitled to royalties on the quantity of produced gas (see Note 11H1). As of the date of approval of the financial statements, the partners in the Tamar project, including the Company, are in discussions with the Petroleum Commissioner regarding the manner of calculating the market value of the royalties at the wellhead in the Tamar project. Pending the completion of such discussions, the Tamar partners paid the State until the end of 2016, under protest, advance payments on account of royalties at a rate of 12% on the revenues from the Tamar project.

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 in it and the amount of investment in the project compared to the Yam Tethys project.

In the assessment of the project's partners, according to a calculation based on the principles of the "English formula," which constitutes the closest estimate to the agreement signed with the State in the Yam Tethys project, the actual rate of the royalties to the State, which the Company applied in its financial statements, in the Tamar project in 2015, 2016 and 2017 is 11.26%, 11.15% and 11.22%, respectively.

The differences between the royalties actually paid to the State and the effective royalty rate which the Company applied in its financial statements, for the period from the effective date for the transfer of the rights to the Company (see Note 4), amounted to \$373 thousand, which are presented in the statement of financial position in the "other long-term assets" item (see Note 7).

- C.** The manner of calculation of the royalties determined in B above is also used to calculate the market value at the wellhead of the overriding royalties paid by the Company to interested parties and to third parties, as specified in Note 11H2 above. The effective overriding royalty rate from the sale of natural gas and condensate in 2015-2017 ranges between 4.4% and 4.6% (out of which the royalty rate paid to interested parties in those years ranges between 2.6% and 2.9%) of gross sales for each of the years.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 15 – Royalties: (cont.)

C. (cont.)

The differences between the royalties actually paid to interested parties and to third parties and the effective royalty rate which the Company applied in its financial statements, for the period from the effective date for the transfer of the rights to the Company, amounted to \$103 thousand and \$58 thousand, respectively, which are presented in the statement of financial position in the "other long-term assets" item (see Note 7).

- D.** Further to that stated in Note 11H2b above regarding the Company's commitment to pay royalties to Delek Energy Systems Ltd. and to Delek Group Ltd. at a rate of 6.5% (instead of 1.5%), according to the Company's assessment, the ROI date occurs during December 2017. As of the date of approval of the financial statements, the Royalty Holders and the Partnership's supervisor are examining the calculation with respect to the ROI date. A change in the determination of the ROI date could affect the Company's results of operations and financial condition.

Note 16 – Cost of Production of Natural Gas and Condensate*:

| | Year ended December 31 | | |
|---------------------------------------|-------------------------------|---------------|---------------|
| | 2017 | 2016 | 2015 |
| Salaries and related payments | 2,520 | 1,587 | 2,124 |
| Guarding and security | 831 | 757 | 723 |
| Insurance | 1,838 | 1,780 | 2,094 |
| Transportation and shipping costs | 1,978 | 2,338 | 2,759 |
| Operator and operation management fee | 1,924 | 2,381 | 1,867 |
| Maintenance and others | 3,143 | 2,795 | 2,682 |
| Total | 12,234 | 11,638 | 12,249 |

*Mostly through the operator of the Joint Venture, Noble.

Note 17 – General and Administrative Expenses:

General and administrative expenses of \$1,200 thousand for each of the years 2015 and 2016 were included according to management's estimate of the share attributable to the Tamar project out of the total of general and administrative expenses of the Partnership (see Note 2A).

Composition of general and administrative expenses for 2017 (\$1,698 thousand):

For the six-month period ended June 30 2017: the share attributable to the Tamar project out of the total of general and administrative expenses of the Partnership – \$600 thousand; for the six-month period ended December 31, 2017: salaries and related expenses – \$486 thousand, professional and other services - \$612 thousand.

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)****Note 18 – Finance Expenses and Income:**

| | Year ended December 31 | | |
|---------------------------------------------------------------------|-------------------------------|--------------|--------------|
| | 2017 | 2016 | 2015 |
| Expenses: | | | |
| For Series A bonds | (15,234) | - | - |
| Interest on short-term loan from Delek Drilling | (106) | - | - |
| For asset retirement obligations due to the passage of time | (446) | (308) | (181) |
| For changes in finance lease liability of the Yam Tethys facilities | - | - | (367) |
| Other | (73) | (34) | (32) |
| Total expenses | (15,859) | (342) | (580) |
| Income: | | | |
| Exchange rate differences for monetary items, net | 263 | 111 | - |
| Interest income | 69 | 20 | 10 |
| Total income | 332 | 131 | 10 |
| Total finance expenses, net | (15,527) | (211) | (570) |

Note 19 – Income Taxes:**A. Corporate tax:**

The Company's revenues in Israel are liable to corporate tax at the regular rate, as follows: in 2017 –24%, in 2018 and forward – 23%.

Since the tax liability for the profits of Delek Drilling is imposed on the holders of Delek Drilling (see also Note 2), tax expenses in respect of profits for periods before July 1, 2017, the date of transfer of the rights to the Company, are not reflected in these financial statements. For pro forma information including the attribution of taxes also for said periods, see Note 22 below.

Income taxes included in the statement of comprehensive income for 2017 amount to \$10,469 thousand, as follows: current taxes – \$7,074 thousand; Deferred taxes (see B below) – \$3,395 thousand.

B. Deferred income taxes:

The Company recognized a deferred tax asset from the date of commencement of the Company's activity and the transfer of the assets to it (July 1, 2017). This tax asset relates mainly to the difference between the amount of acquisition of oil and gas assets and the book value of the assets as transferred in the books. Deferred taxes carried to the statement of comprehensive income in 2017 amount to \$3,395 thousand and are calculated at a tax rate of 23%.

Following is the movement in deferred taxes for the year ended December 31, 2017:

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 19 – Income Taxes: (cont.)

B. Deferred income taxes: (cont.)

| | |
|----------------------------------------------|----------------|
| Balance as of January 1, 2017 | - |
| Carried to capital reserve | 138,093 |
| Carried to statement of comprehensive income | <u>(3,395)</u> |
| Balance as of December 31, 2017 | <u>134,698</u> |

C. ITA tax ruling by agreement:

On June 29, 2017, a tax ruling by agreement was received from the Israel Tax Authority regarding the manner of amortization of the acquisition cost of the rights. The tax ruling determined that with respect to the consideration for the acquired rights attributable to deductible assets, amortization at an annual rate of 10% will be permitted, and the balance of the consideration will be attributed to the reservoirs and amortized according to the reservoirs' depletion rate.

The amount of deferred taxes expected to be recovered within 12 months from the date of the statement of financial position is \$10.6 million.

D. Theoretical tax reconciliation:

Below is a reconciliation between the amount of the "theoretical" tax that would have applied had all the income been liable to tax at the regular rates applicable to companies in Israel (see A above) and the amount of tax recognized in the statement of profit and loss:

| | Year ended December 31 | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------|-----------------|
| | 2017 | 2016 | 2015 |
| Income before income taxes | 98,695 | 105,802 | 94,998 |
| Less – earnings prior to the transfer of the Tamar and Dalit operations to the Company (relating to activity within Delek Drilling and attributed to the Delek Drilling partners, see also Note 2) | <u>(56,203)</u> | <u>(105,802)</u> | <u>(94,998)</u> |
| Income before income taxes, as attributed to the Company | 42,492 | - | - |
| Theoretical tax on this income (24%) | 10,198 | | |
| Difference between the income measurement basis as reported for tax purposes (NIS) and the income measurement basis as reported in the financial statements (dollar) | 180 | - | - |
| Effect of the change in the tax rate on the deferred tax balances (see B above) | 148 | | |
| Nondeductible expenses | <u>(110)</u> | - | - |
| Other | <u>53</u> | - | - |
| Income taxes | <u>10,469</u> | - | - |

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 19 – Income Taxes: (cont.)**E. Tax assessments:**

The Company has not been issued any final tax assessments. Regarding Delek Drilling's commitment to bear tax differences relating to periods prior to the transfer of the rights to the Company – see Note 4F.

Note 20 – Financial Instruments:**A. Groups of financial instruments:**

The Company's financial instruments include receivables and loans as well as financial liabilities stated at amortized cost, as follows:

| | December 31 | |
|------------------------------------|--------------------|---------------|
| | 2017 | 2016 |
| Financial assets: | | |
| Cash and cash equivalents (1) | 28,439 | - |
| Trade receivables | 18,296 | 15,692 |
| Other accounts receivable | 533 | 5,820 |
| Long-term restricted deposit (2) | 9,969 | - |
| Other long-term assets | 2,109 | 1,968 |
| Total financial assets | 59,346 | 23,480 |
| Financial liabilities: | | |
| Other accounts payable | 22,357 | 12,229 |
| Bonds (3) (Note 9) | 641,042 | - |
| Total financial liabilities | 663,399 | 12,229 |

- (1) Mainly bank deposits with a maturity of less than three months as of December 31, 2017, at a weighted annual interest rate of 1.38%.
- (2) A bank deposit encumbered as security for the payment of principal and interest to the Series A bondholders (see Note 9E), bearing as of December 31, 2017 annual interest at a rate of 1.40%.
- (3) Following are the changes in the bonds arising from financing activities in 2017:

| | December 31 |
|-------------------------------------|--------------------|
| | 2017 |
| Balance as of January 1, 2017 | - |
| Proceeds from a bond issue, net | 647,955 |
| Repurchase of bonds | (7,523) |
| Amortization of issue expenses | 610 |
| Balance as of December 31, 2017 | 641,042 |

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 20 – Financial Instruments: (cont.)

B. Fair value of financial instruments:

The fair value of the financial instruments presented in the financial statements matches or approximates their book value, except for Series A bonds, which bear fixed interest and are traded on the Tel Aviv Stock Exchange, whose fair value as of December 31, 2017, based on a quoted price on the TASE (Level 1), is \$663 million, and whose book value, including accrued interest payable as of that date, is \$656 million.

C. Risk management policy:

The Company's operations expose it to various financial risks, such as market risk (including currency risk, fair value risk due to interest rate, linkage to the U.S. CPI and price risk), credit risk and liquidity risk. The general risk management plan of the Company focuses on acts to minimize possible negative effects on the Company's financial performance. Since the start of its operations, the Company has not used derivative financial instruments to hedge certain exposures to risks.

D. Market risks:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: currency risk, price risks and fair value risk due to interest rate as follows:

1. Exchange rate risk:

Exchange rate risk, as it relates to the Company, is the risk that changes in foreign currency exchange rates will affect the fair value of future cash flows of financial instruments denominated in currencies other than the U.S. dollar. However, the fact that the Company is assessed for tax purposes in shekels exposes it to exchange rate risks that impact on the determination of the results for tax purposes. As of the date of the statement of financial position, the Company has non-material balances in currencies other than the dollar. However, the excess of liabilities over financial assets stated in U.S. dollars, generally existing at the Company, exposes it to fluctuations in income taxes, given that changes in the exchange rate of the shekel against the dollar may affect its results for tax purposes. Thus, a decrease in the exchange rate of the shekel against the dollar would result in the recording of income tax in respect of exchange rate differences, while an increase in said exchange rate would result in the recording of tax expenses in respect of exchange rate differences.

2. Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company's existing financial instruments bear interest at fixed rates, exposing the Company to fair value risk due to changes in market interest rates (see also B above).

Tamar Petroleum Ltd.**Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)**

Note 20 – Financial Instruments: (cont.)**D. Market risks:** (cont.)**3. Price risk:**

As described in Note 11A, the gas prices stated in the agreements for the sale of natural gas from the Tamar project are based on different price formulas which include, inter alia, linkage to the U.S. CPI, to the Electricity Production Tariff and to the Brent price. A change in one of the above linkage components and/or in the prices of the alternative fuels would affect the price at which the Company sells the natural gas to its customers. Notwithstanding the aforesaid, the Company's exposure to fluctuations in the Electricity Production Tariff and in the Brent prices is hedged by a bottom limit, since all the agreements for the sale of natural gas that are linked to such components include a "floor price."

E. Credit risks:

Credit risk is the risk of financial loss to a party to a financial instrument if the counterparty fails to meet its contractual obligations. The Company's credit risk derives mainly from cash and cash equivalents and deposits in banks and from trade receivables.

1. The Company's principal customer is the IEC (see also Note 11G). The Company estimates that the credit risk presented by the IEC is low.
2. The balance of trade receivables at December 31, 2017 is \$18,296 thousand. The balance does not include amounts in arrears.
3. The Company has cash and cash equivalents that are held with a large bank in Israel. Accordingly, the Company expects no losses due to credit risks for said balances.
4. The balance of financial assets in the statement of financial position as presented in A above reflects the maximum exposure to credit risk as of the date of the statement of financial position.

F. Liquidity risk:

Liquidity risks result from the management of the Company's working capital, from financing expenses and from principal repayments of the Company's bonds. Liquidity risk is the risk that the Company will have difficulties in fulfilling obligations related to financial liabilities, including compliance with financial covenants (see Note 9G).

The Company's policy is to ensure that the cash and the held deposits will always be sufficient to cover liabilities at their maturity. The foregoing does not take into account the effect of extreme scenarios that cannot be foreseen.

Below are the contractual maturities of the financial liabilities subsequent to the date of the statement of financial position (according to stated payment values that differ from their value in the books), based, where relevant, on the exchange rates at the date of the statement of financial position (the table does not include maturities of the Series B bonds which were issued after the date of the statement of financial position).

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 20 – Financial Instruments: (cont.)

F. Liquidity risk: (cont.)

| 2017 | Up to 1 year | 2-3 years | 4-5 years | More than 5 years | Total |
|-------------------------|-----------------|----------------|----------------|----------------------|----------------|
| | | | | | |
| Other accounts payable* | 7,741 | - | - | - | 7,741 |
| Bonds | 47,386 | 160,310 | 126,280 | 555,405 | 889,381 |
| Total | 55,127 | 160,310 | 126,280 | 555,405 | 897,122 |

* The payment of interest payable on the bonds that is recorded in the statement of financial position in the "other accounts payable" item is included in this table in the bonds item.

Note 21 – Interested and Related Parties

Regarding Delek Drilling's holdings in the Company after the completion of the public offering and its waiver of voting rights in most of the shares held by it, see also Notes 13B and 13C above.

The chairman of the board of the Company also serves as the CEO of the general partner in Delek Drilling.

Regarding the issue of shares to Noble after the date of the statements of financial position, following which Noble became an interested party in the Company, see Note 23A. To the best of the Company's knowledge, as of the date of approval of the statements of financial position, there is no entity or group of holders of shares of the Company that meets the definition of a controlling party.

A. Transactions and balances with interested and related parties:

| Transactions: | Year ended December 31 | | |
|-------------------------------------------------------------------------------------|------------------------|-------|-------|
| | 2017 | 2016 | 2015 |
| Remuneration and salary of an interested party employed by the Company, see B below | 202 | - | - |
| Remuneration of seven directors not employed by the Company | 174 | - | - |
| Revenues from the sale of natural gas (1) | 3,907 | 2,454 | 2,252 |
| Royalties to interested parties (see Notes 11H2 and 15) | 4,918 | 4,188 | 3,866 |
| Gas supply expenses from the Yam Tethys project (see Note 6K) | 108 | - | - |
| Interest expenses to an interested party (2) | 106 | - | - |

(1) The Company has gas sale agreements with I.P.P. Delek Sorek Ltd. and Delek Israel Ltd. – see Note 11B.

(2) Regarding a short-term loan received from Delek Drilling – see Note 4.

Regarding a transaction for the acquisition of rights in the Tamar and Dalit leases from Delek Drilling – see Note 4.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 21 – Interested and Related Parties (cont.)

A. Transactions and balances with interested and related parties: (cont.)

Regarding an agreement for the grant of usage rights in the Yam Tethys project facilities between the Yam Tethys partners, of the one part, including inter alia Delek Drilling and Delek Group, and the Tamar partners, of the other part, including inter alia the Company and Delek Drilling, see Note 6J.

Balances with interested and related parties:

| | December 31 | |
|------------------------------------|--------------------|-------------|
| | 2017 | 2016 |
| Trade receivables | 334 | 240 |
| Other long-term assets | 103 | - |
| Other accounts payable | 1,028 | 399 |
| Highest receivable during the year | 535 | 513 |

B. Terms 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 NIS 80 thousand, gross (100%) (the monthly salary will be updated every three months according to the CPI). Mr. Vaisman is entitled to the standard fringe 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 adjustment bonus and a retirement bonus, according to the Company's compensation policy. Regarding 112,770 options exercisable into shares of the Company which were granted to the Company's CEO after the date of the statement of financial position, see Note 23D.

Note 22 – Pro Forma Financial Information

Further to that stated in Note 2 above, the Company's financial statements, which were prepared using the pooling method, reflect the finance costs relating to the acquisition of the holdings in Tamar and Dalit from the date of issue of the Series A bonds and to the tax expenses applicable to the Company only from July 1, 2017. The pro forma information presented below was prepared for comparative purposes, to reflect retrospectively the price adjustments in respect of sales to customers of the Yam Tethys project, the finance costs that would have been applicable to the Company and income tax for the years presented, assuming that the sale to the Yam Tethys customers was made in accordance with the commercial arrangement between the Tamar partners and the Yam Tethys partners (see Note 6L), the Series A bond issue was held on January 1, 2015 and the Company was liable to tax for the activity from that date. The interest on the bonds was calculated based on the annual interest rate set in the issue – 4.69%. Income tax was calculated based on the dollar-denominated accounting profit using the statutory tax rate in each of the presented periods (2017 – 24%; 2016 – 25%; 2015 – 26.5%).

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 22 – Pro Forma Financial Information (cont.)

Following are pro forma financial statements of comprehensive income taking into account the above assumptions:

| | Year ended December 31 | | |
|-----------------------------------------------------|-------------------------------|-------------------|-------------------|
| | 2017 | 2016 | 2015 |
| Revenues from gas and condensate sales | 173,712 | 165,679 | 152,143 |
| Less royalties | 27,460 | 25,749 | 23,877 |
| Net revenues | 146,252 | 139,930 | 128,266 |
| Costs and expenses | | | |
| Cost of production of natural gas and condensate | 12,234 | 11,638 | 12,249 |
| Depreciation, depletion and amortization expenses | 16,934 | 16,156 | 14,190 |
| General and administrative expenses | 1,698 | 1,200 | 1,200 |
| Total costs and expenses | 30,866 | 28,994 | 27,639 |
| Income from ordinary operations | 115,386 | 110,936 | 100,627 |
| Finance expenses | (31,769) | (30,827) | (31,065) |
| Finance income | 332 | 131 | 10 |
| Finance expenses, net | (31,437) | (30,696) | (31,055) |
| Income before income taxes | 83,949 | 80,240 | 69,572 |
| Income taxes | (20,412) | (20,060) | (18,436) |
| Comprehensive income | 63,537 | 60,180 | 51,136 |
| Basic and diluted earnings per share (in \$) | 1.27 | 1.20 | 1.02 |
| Weighted number of shares for the above calculation | <u>50,000,000</u> | <u>50,000,000</u> | <u>50,000,000</u> |

Note 23 – Events after the Date of the Statement of Financial Position:

A. Agreement for the acquisition of a 7.5% interest in the Tamar and Dalit leases:

On January 29, 2018, a contingent sale agreement (the "Sale Agreement" or the "Agreement") for the acquisition of a working interest at a rate of 7.5% (out of 100%) (the "Rights") in the Leases was signed between Noble as seller, of the first part, and the Company as purchaser, of the second part, whose highlights are as follows:

1. Subject to fulfillment of the conditions precedent to the closing of the transaction, as specified in the Agreement, Noble shall sell and transfer to the Company the rights in the Leases as well as a pro rata share (7.5%) in the operating approval for the system for production of natural gas from the Tamar lease, in the shares of Tamar 10-Inch Pipeline Ltd. – holder of the transmission license under Section 10 of the Natural Gas Sector Law 2002, in the rights and obligations under the Joint Operating Agreement signed in connection with the Leases, in the agreement for use of the Yam Tethys facilities, in the agreements for the sale of natural gas and condensate from the Tamar lease, in the agreements for the export of natural gas (including the agreements relating to export agreements and approvals for export to Jordan and Egypt), and in the MOUE regarding the supply of gas from the Tamar reservoir to the Yam Tethys partners (all the above are hereinafter referred to jointly as the "Object of Sale"), all effective from January 1, 2018 (the "Effective Date").

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 23 – Events after the Date of the Statement of Financial Position: (cont.)

A. Agreement for the acquisition of a 7.5% interest in the Tamar and Dalit leases: (cont.)

2. The acquired rights are not subject to royalties to third parties.
3. The Agreement specifies that the Object of Sale does not include the rights and obligations in reference to the following excluded matters: the arbitration and the dispute regarding the production component tariff; the appeal regarding the royalties in relation to the sale of gas from the Tamar project to customers of the Yam Tethys project; the class action certification motion filed by an IEC consumer against the Tamar partners in relation to amounts received by Noble for natural gas supplied in the period before the Effective Date; taxes and royalties to the State in relation to the period before the Effective Date, or taxes and royalties in connection with any profit, income or revenue of Noble in connection with the Object of Sale in relation to the period before the Effective Date (including if such tax assessment was made after the Effective Date), other than taxes according to the Taxation of Profits from Natural Resources Law 2011; taxes applicable to Noble in connection with the sale of the Object of Sale to the Company; claims made by or against Noble customers in respect of the Object of Sale relating to amounts that were or should have been paid before the Effective Date or in connection with a breach of a gas sale agreement having occurred before the Effective Date, whether or not filed from the Effective Date forward (the "**Excluded Matters**").
4. In consideration for the purchase of the Object of Sale, the Company shall pay Noble as follows:
 - (a) **Cash consideration:** The proceeds from the issue of the Company's Series B bonds on the Tel-Aviv Stock Exchange Ltd. (the "**TASE**"), subject to the terms specified below (net of issue expenses not yet paid by Noble until such time) and subject to additional adjustments as follows (the "**Cash Consideration**"):(a) the Cash Consideration shall be reduced by the sum of amounts received by Noble (as holder of rights and not as operator) in respect of the Object of Sale in the period between the Effective Date and the closing date (the "**Interim Period**"), other than amounts received for gas sold before the Interim Period, amounts received for VAT and excise tax and amounts received in respect of any matter included in the definition of the Excluded Matters;(b) the Cash Consideration shall be reduced by the amount of cash and cash equivalents and deposits in bank accounts of the Company as well as net trade receivables (excluding royalties) less accrued interest on the series A bonds as of the Effective Date, and all multiplied by the rate of Noble's holdings in the Company (after the share allotment as specified in (2) below);(c) the Cash Consideration shall be increased by the amount of dividends, if any, to be distributed by the Company until the closing date, multiplied by the rate of Noble's holdings of the Company's shares as specified in (2) below, provided that the record date for the dividend distribution preceded the closing date;(d) the Cash Consideration shall be increased by the amount of payments for royalties for which Noble is liable for gas produced during the Interim Period and for cash calls under the JOA made on Noble (as holder of rights) during the Interim Period in respect of the Object of Sale.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 23 – Events after the Date of the Statement of Financial Position: (cont.)

A. Agreement for the acquisition of a 7.5% interest in the Tamar and Dalit leases: (cont.)

4. (cont.)

(a) (cont.)

The Agreement specifies that the Series B bonds shall have substantially the same terms as those of the Company's series A bonds or other terms deemed acceptable by Noble, provided the following conditions are fulfilled: (1) the issue of Series B bonds may not result in the downgrading of the series A bonds below their rating immediately before the issue of Series B bonds; (2) the issue must be at a par value in shekels equivalent to \$560,000,000 according to the dollar representative rate known on the date of the institutional tender and at the same annual interest rate as the series A bonds (4.69%); (3) the issue proceeds must be in an amount which, in Noble's judgment, is not substantially lower than the par value of the Series B bonds before the deduction of underwriting or distribution and early commitment fees.

(b) **Consideration in shares:** Shares of the Company constituting 43.5% of the Company's shares after the allotment shall be allotted to Noble in a private placement (the "**Shares**"). Before the date of the allotment, Noble shall provide the Company with an irrevocable waiver signed by it, whereby it waives any and all voting rights attached to the Shares. For the avoidance of doubt, it is clarified that any and all equity rights attached to the Shares shall remain in full force and effect, including the right to receive dividends, bonus shares, rights, and the right to receive surplus assets upon dissolution of the Company. Upon the sale or transfer of the Shares, in whole or in part, from Noble to a third party, they shall be entitled to any and all rights attached to ordinary shares of the Company (Noble's said consent to the waiver of voting rights has been established in the Company's articles). Noble shall undertake that so long as it does not sell the Shares, it shall not acquire additional shares of the Company. It is clarified, for this matter, that shares allotted to Noble in the framework of a bonus share issue and/or rights issue shall not be deemed as an acquisition for purposes of this undertaking.

5. Noble shall bear any and all payments and expenses due to third parties in connection with the execution and closing of the transaction under the Sale Agreement, subject to a cap to be determined with the parties' consent, as well as issue costs related to fees and payments to the ISA and to the TASE, early commitment fee and 50% of the fees of the underwriters/distributors (regardless of the fulfillment of the conditions precedent to the closing of the transaction).
6. The Company shall provide the guarantees required to replace the guarantees provided by Noble in connection with the Object of Sale (approximately \$3.2 million). Until the provision of such guarantees, Noble's guarantees shall remain in full force and effect and the Company shall not be permitted to distribute dividends, other than the distribution of a first dividend which may be made by the Company during April 2018. If such guarantees are not replaced within 90 days from the closing date, the amounts of the guarantees shall bear 3% annual nominal interest commencing on that date.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 23 – Events after the Date of the Statement of Financial Position: (cont.)

A. Agreement for the acquisition of a 7.5% interest in the Tamar and Dalit leases: (cont.)

The closing of the transaction under the Sale Agreement was contingent on the fulfillment of conditions precedent, which were fully met on March 14, 2018, including the issue of Series B bonds (see B below) and receipt of the Petroleum Commissioner's approval for the transfer of the rights in the Tamar and Dalit leases and registration thereof in the Petroleum Register as well as the Commissioner's approval for the pledge of such rights in favor of the trustee for the bondholders, and pursuant thereto the transaction under the Sale Agreement was closed, i.e.: a 7.5% (out of 100%) interest in the Leases was transferred to the Company against a cash consideration of \$478 million (subject to adjustments) and against an allotment of 38,495,576 ordinary shares of the Company of NIS 0.1 par value each (constituting 43.5% of the issued and paid-up share capital of the Company) to Noble.

B. Public offering of Series B bonds:

On March 12, 2018, the Company raised \$519.4 million through a public offering of NIS 1,940,113,000 par value Series B bonds, according to a shelf offering report dated March 12, 2018 issued pursuant to a shelf prospectus of the Company dated July 4, 2017.

Series B bonds bear annual interest at the rate of 4.69% (the "**Base Interest**"), and are linked (principal and interest) to the dollar. Approx. 53.62% 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 46.38% of the principal of the bonds is payable in August 2028. The interest is paid every six months, starting from August 2018 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**").

In relation to the Series B bonds, the Company assumed the following main undertakings:

1. To secure Series B bonds, the Company undertook to encumber in favor of the trustee for Series B bonds, by a single first-ranking fixed charge (the encumbrances in 1-6 below relate only to the rights that were acquired from Noble): 1) its rights in the Tamar reservoir; 2) its rights in the operating approval of the 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 not exceeding 12 months, under which the quantity of gas to be sold 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 the Yam Tethys facilities; 7) the Company's present and future rights in the Company's bank account for the project (the "**Operating Account**"); and 8) the Company's rights in the safety reserve account for payment of the principal and interest.

It is noted that the aforesaid encumbrances are subject to the State's royalty rights. The realization of the encumbrances is also subject to the approval of the Petroleum Commissioner in accordance with Section 76 of the Petroleum Law and any other law. As of the date of approval of the financial statements, all the aforesaid encumbrances have been registered and are in force.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 23 – Events after the Date of the Statement of Financial Position: (cont.)

B. Public offering of Series B bonds: (cont.)

1. (cont.)

The Company may not subject the encumbered assets to another encumbrance. In the event of the sale of an encumbered asset, provisions have been established for the prepayment of the bonds by the Company out of the amount received for the sale.

2. The interest rate on Series B bonds shall be adjusted for changes in the rating of the bonds, such that if the rating of Series B bonds is revised and the rating determined is lower than the Base Rating by two notches or more (the "**Reduced Rating**"), the annual interest rate on the balance of unpaid principal of the bonds shall increase by 0.5%, and in the event of any additional notch downgrade – the annual interest rate shall increase by 0.25%. Notwithstanding the aforesaid, the increase of the interest rate due to such rating downgrade shall be limited such that the annual interest rate added to the Base Interest does not exceed 1.25%.
3. In addition, the Company shall pay added interest at a rate of 0.25% insofar as the Company's equity (as defined in the trust deed) falls below \$450 million. In any event, for a rating downgrade according to both 1 and 2 above, the Company shall not pay a rate exceeding 1.25% above the Base Interest.
4. The assumption of additional debt by the Company through the expansion of Series B bonds and/or the assumption of other debt, excluding 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 guarantees 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 assumption of the additional debt shall not cause the rating of the bonds to decrease compared with their rating prior to the assumption of the additional debt.
5. The Company may carry out a dividend distribution upon the fulfillment of conditions determined in the trust deed, including that the "record date" for the dividend distribution shall be no later than 60 days from the date on which a principal and/or interest payment has been made to the Series B bondholders; 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, with reference to two consecutive examination dates); the full amount as required shall have been deposited in the debt service safety reserve (this condition shall apply to dividends paid after May 30, 2018).

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 23 – Events after the Date of the Statement of Financial Position: (cont.)

B. Public offering of Series B bonds: (cont.)

6. The Company undertook to irrevocably instruct all the parties to the gas sale agreements to pay the amounts due from them to the Company into a bank account as defined in the trust deed which was encumbered in favor of the bondholders as aforesaid (the "**Operating Account**"). It was stipulated that all the amounts deposited in the Operating Account shall be used by the Company exclusively for making payments that were explicitly determined in the trust deed as permitted to be paid out of the Operating Account and according to the order of payments determined in the trust deed. The Company shall be entitled to withdraw funds from the Operating Account other than for the purpose of payments as aforesaid, only in the amount contained in the Operating Account one day after the date on which a principal and/or interest payment has been made to the bondholders out of the account (and after the other payments determined as aforesaid have been made). Regarding amounts that are withdrawn from the Operating Account, no limitation shall apply to the Company regarding the use thereof, including the making of "distributions," subject to the other conditions set forth in the trust deed.

7. The trust deed defines events of default, the occurrence of which shall establish for the Series B bondholders grounds for acceleration of Series B bonds, which include, inter alia, the following main events: nonpayment of amounts due to the lenders; breach of the Company's undertaking to meet financial covenants including an undertaking to maintain equity (as defined in the trust deed) of no less than \$350 million (for two consecutive quarters), an expected debt service coverage ratio (as defined in the trust deed) of no less than 1:1.05 (during two consecutive quarters) (the expected debt service ratio for the 12-month period beginning on April 1, 2018 is 1.45), and minimum economic equity (as defined in the trust deed) of no less than \$350 million (during two consecutive quarters); 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 a real 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 a real concern that the Company will fail to meet its material obligations to the Series B bondholders; the bond rating being lower than Baa3; a "going concern" note is added to the Company's financial statements.

The Company undertook that the proceeds of the offering of Series B bonds over and above an amount of \$560 million raised on the par value of Series B bonds, multiplied by the dollar representative exchange rate at the end of the foreign currency trading day on the date of the institutional tender, shall be used for the repurchase or prepayment of Series B bonds. Accordingly, on March 11, 2018, the Company's board of directors approved a repurchase plan as aforesaid for Series B bonds. As of the date of the statements of financial position, the Company has completed the repurchase of the aforesaid bonds in consideration for \$0.8 million.

Trading in Series B bonds on the TASE commenced on March 14, 2018.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 23 – Events after the Date of the Statement of Financial Position: (cont.)

C. Agreement between Delek Drilling and Noble for the export of natural gas to Egypt:

In February 2018 Delek Drilling and Noble Energy (jointly the "Sellers") entered into an agreement for the export of natural gas from the Tamar project to Dolfinus Holdings Limited in Egypt (the "Purchaser" and the "Export Agreement," respectively), and approached the other partners in the Tamar project, including the Company, for the purpose of assigning the Export Agreement to the other Tamar partners or entering into an agreement with them for the purchase of natural gas from the Tamar project, in accordance with the terms of the Export Agreement, for the sale thereof to the Purchaser.

Under the terms of the Export Agreement, gas is first to be supplied to the Purchaser on an interruptible basis, with the Sellers given the option to notify the Purchaser that the supply of gas (wholly or partly) shall be on a firm basis (the "Option"). The Option may be exercised by the Sellers, wholly or partly, during the period beginning in July 2020 and terminating at the end of December 2021, or during another period as may be agreed upon between the Sellers and the Purchaser. From the date of exercise of the Option the Sellers shall be obligated to supply to the Purchaser an annual quantity of up to 3.5 BCM (depending on the quantities in respect of which the Option is exercised), and the Purchaser shall be obligated to purchase or to pay for a minimum annual quantity of natural gas according to the mechanism established in the Export Agreement.

The total contractual quantity of gas specified in the Export Agreement is 32 BCM. The price of the gas which is to be supplied to the Purchaser under the Export Agreement shall be determined according to a formula based on the price of a barrel of Brent oil. Delek Drilling estimates the cumulative revenues for all the Tamar partners from the sale of natural gas to the Purchaser under the Export Agreement at \$7.5 billion. Said estimate is based on the assumption that the Purchaser will consume the total contractual quantity specified in the Export Agreement as well as on an estimate of the price of natural gas during the period of the agreement. Actual revenues will depend on an array of factors, including the actual quantities of gas that will be purchased by the Purchaser and the Brent oil prices at the time of the sale.

The Sellers and the Purchaser are considering various possibilities for the transmission of the gas to Egypt, including the use of the pan-Arab pipeline through Jordan and/or the entry of the Sellers into negotiations with East Mediterranean Gas Limited ("EMG") and its shareholders for the transmission of the gas through EMG's existing pipeline to Egypt. Another possibility being considered is an additional overland connection between the Israeli transmission system and Egypt.

Supply under the Export Agreement is expected to begin after formal arrangements have been made for the use of the required infrastructure for the transmission of natural gas to Egypt and is to continue up to the supply of the total contractual quantity specified in the Export Agreement or December 2030, whichever is earlier.

The Export Agreement includes several conditions precedent, mainly receipt of regulatory approvals in Israel and in Egypt (including export and import approvals), entry into agreements that will enable the use of the transmission infrastructure, including a transmission agreement between the Sellers and INGL (if necessary), receipt of a guarantee in favor of the Sellers as stipulated in the Export Agreement, and receipt of approvals from the tax authorities in Israel.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 23 – Events after the Date of the Statement of Financial Position: (cont.)

C. Agreement between Delek Drilling and Noble for the export of natural gas to Egypt:

There is no certainty that the sale of the gas to the Purchaser under the Export Agreement will materialize, in the event of non-fulfillment of the conditions precedent in the Export Agreement, wholly or partly, or non-fulfillment of the terms of the agreement for the purchase of natural gas from the Tamar project (insofar as it is signed), etc.

The Export Agreement, which is on a significantly larger scope than the agreement signed between the Tamar partners (including the Company) and the Purchaser in 2015, as set out in Note 11F(2), was signed with the aim of replacing that agreement.

The transaction described above is subject to the signing of a binding agreement between the Tamar partners (including the Company) and to fulfillment of all the conditions precedent in the Export Agreement, and there is no certainty that such an agreement will be signed and that the conditions precedent will be fulfilled.

D. Share-based payment:

On January 28, 2018, the Company's compensation committee, and thereafter its board of directors, approved an allotment of 112,770 share options and 95,855 share options to the Company CEO and to two officers, respectively (the "**Offerees**"). Each option is exercisable into one share of the Company. Following are the principal terms applying to the options:

The options will vest in three equal tranches, as follows: first tranche – one third of the number of options vesting at the end of two years from the date of allotment of the options to the trustee (the "**Grant Date**"); second tranche – one third of the number of options vesting at the end of three years from the Grant Date; third tranche – one third of the number of options vesting at the end of three years from the Grant Date.

Exercise price for each of the options: first tranche – NIS 23.06; second tranche – NIS 24.21; third tranche – NIS 25.42.

Option period: The options are exercisable, subject to the vesting times, until the end of four years from the Grant Date. After the end of said period, an option that was not exercised shall expire and become null and void.

The options will be exercised against payment in cash of the exercise price as specified above or according to a net exercise mechanism (based on the difference between the exercise price of the options and the price of the shares on the TASE), according to the Offeree's choice.

The average theoretical economic value of the options, calculated using the Black and Scholes formula, amounts to NIS 4.47 per option, based on the following assumptions: dividend yield – since the exercise price of the options is fully adjusted for the distribution of dividends, the dividend yield was not taken into account; expected standard deviation – 33%; risk-free interest rate – 0.5%; expected life to expiration of the options – 4 years.

Tamar Petroleum Ltd.

Notes to the Financial Statements as of December 31, 2017 (U.S. dollars in thousands)

Note 23 – Events after the Date of the Statement of Financial Position: (cont.)

D. Share-based payment: (cont.)

The grant of the options was subject to the approval of the Company's general meeting of shareholders, which gave its approval on March, 8, 2018.

E. Dividend

On March 20, 2018, the board of directors approved a dividend distribution to the Company's shareholders in an amount of \$32,023 thousand (\$0.36 per share), which will be distributed on April 11, 2018.

TAMAR PETROLEUM LTD.

PRO FORMA FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

ON THE TRANSACTION FOR ACQUISITION OF A

7.5% INTEREST IN THE TAMAR AND DALIT LEASES

IN U.S. DOLLARS IN THOUSANDS

This report is a translation of Tamar Petroleum Ltd.'s Hebrew-language pro forma 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.
PRO FORMA FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017
ON THE TRANSACTION FOR ACQUISITION OF A
7.5% INTEREST IN THE TAMAR AND DALIT LEASES
IN U.S. DOLLARS IN THOUSANDS

Table of Contents

| | <u>Page</u> |
|----------------------------------------------|--------------------|
| Independent Auditors' Report | 1 |
| Pro Forma Statement of Financial Position | 2 |
| Pro Forma Statements of Comprehensive Income | 3-5 |
| Notes to the Pro Forma Financial Statements | 6-9 |

Independent Auditors' Report to the Shareholders of Tamar Petroleum Ltd.

We have audited the accompanying pro forma statement of financial position of Tamar Petroleum Ltd. (the "**Company**") as of December 31, 2017 and the pro forma statements of comprehensive income for each of the years in the three-year period ended December 31, 2017. These pro forma financial statements are the responsibility of the board of directors and management of the Company. Our responsibility is to express an opinion on these pro forma financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance) 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance that the pro forma financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the pro forma financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall pro forma financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned pro forma financial statements present fairly, in all material respects, the pro forma financial position of the Company as of December 31, 2017 and the pro forma results of operations for each of the years in the three-year period ended December 31, 2017, based on the assumptions set out in Note 3 and in accordance with the provisions of Regulation 9A of the Securities Regulations (Periodic and Immediate Reports) 1970.

Kost Forer Gabbay & Kasierer
CPA (Isr.)

Ziv Haft
CPA (Isr.)

Tel Aviv, March 20, 2018

Pro Forma Statement of Financial Position as of December 31, 2017
(Dollars in Thousands)

| | <u>Actual data</u> | <u>Pro forma adjustments</u> | <u>Pro forma data</u> |
|------------------------------------------|--------------------|----------------------------------|---------------------------|
| Assets: | | | |
| Current assets: | | | |
| Cash and cash equivalents | 28,439 | 22,514 | 50,953 |
| Trade receivables | 18,296 | - | 18,296 |
| Other accounts receivable | 1,324 | 11,589 | 12,913 |
| | <u>48,059</u> | <u>34,103</u> | <u>82,162</u> |
| Non-current assets: | | | |
| Investments in oil and gas assets | 380,065 | 718,049 | 1,098,114 |
| Deferred taxes | 134,698 | - | 134,698 |
| Restricted deposit | 9,969 | - | 9,969 |
| Other long-term assets | 2,521 | 1,581 | 4,102 |
| | <u>527,253</u> | <u>719,630</u> | <u>1,246,883</u> |
| | <u>575,312</u> | <u>753,733</u> | <u>1,329,045</u> |
| Liabilities and equity (deficit): | | | |
| Current liabilities: | | | |
| Current maturities of bonds | 11,351 | 16,677 | 28,028 |
| Accounts payable | 23,992 | 7,532 | 31,524 |
| Income taxes payable | 3,543 | - | 3,543 |
| | <u>38,886</u> | <u>24,209</u> | <u>63,095</u> |
| Non-current liabilities: | | | |
| Bonds less current maturities | 629,691 | 495,505 | 1,125,196 |
| Asset retirement obligation | 9,871 | 8,004 | 17,875 |
| | <u>639,562</u> | <u>503,509</u> | <u>1,143,071</u> |
| | <u>678,448</u> | <u>527,718</u> | <u>1,206,166</u> |
| Equity (deficit): | | | |
| Ordinary share capital | 1,399 | 1,118 | 2,517 |
| Share premium | 570,648 | 224,897 | 795,545 |
| Retained earnings | 32,023 | - | 32,023 |
| | <u>604,070</u> | <u>226,015</u> | <u>830,085</u> |
| Capital reserve | (707,206) | - | (707,206) |
| | <u>(103,136)</u> | <u>226,015</u> | <u>122,879</u> |
| | <u>575,312</u> | <u>753,733</u> | <u>1,329,045</u> |

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

March 20, 2018

| | | | |
|----------------------------------------------|------------------------------------|----------------------|---------------------|
| Date of approval of the financial statements | Yossi Abu Chairman of the Board | Liami Vaisman CEO | Yuval Raikin CFO |
|----------------------------------------------|------------------------------------|----------------------|---------------------|

Pro Forma Statements of Comprehensive Income
(Dollars in Thousands)

| | Year ended December 31, 2017 | | |
|----------------------------------------------------------------------|---------------------------------------------------|----------------------------------|---------------------------|
| | Data before pro forma adjustments* | Pro forma adjustments | Pro forma data |
| Revenues: | | | |
| Sale of natural gas and condensate | 173,712 | 140,848 | 314,560 |
| Less royalties | 27,460 | 15,743 | 43,203 |
| Net revenues | 146,252 | 125,105 | 271,357 |
| Costs and expenses: | | | |
| Cost of production of natural gas and condensate | 12,234 | 9,919 | 22,153 |
| Depreciation, depletion and amortization expenses | 16,934 | 27,578 | 44,512 |
| General and administrative expenses | 1,698 | 65 | 1,763 |
| Total costs and expenses | 30,866 | 37,562 | 68,428 |
| Income from ordinary activities | 115,386 | 87,543 | 202,929 |
| Finance expenses | (31,769) | (32,999) | (64,768) |
| Finance income | 332 | 269 | 601 |
| Finance expenses, net | (31,437) | (32,730) | (64,167) |
| Income before income taxes | 83,949 | 54,813 | 138,762 |
| Income taxes | (20,412) | (13,155) | (33,567) |
| Total comprehensive income | 63,537 | 41,658 | 105,195 |
| Basic and diluted earnings per share (in dollars) | 1.27 | | 1.19 |
| Weighted number of shares used for the calculation (in thousands) | 50,000 | 38,496 | 88,496 |

* See also Note 1B.

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

Pro Forma Statements of Comprehensive Income (cont.)
(Dollars in Thousands)

| | Year ended December 31, 2016 | | |
|----------------------------------------------------------------------|---------------------------------------------------|----------------------------------|---------------------------|
| | Data before pro forma adjustments* | Pro forma adjustments | Pro forma data |
| Revenues: | | | |
| Sale of natural gas and condensate | 165,679 | 134,334 | 300,013 |
| Less royalties | 25,749 | 14,975 | 40,724 |
| Net revenues | 139,930 | 119,359 | 259,289 |
| Costs and expenses: | | | |
| Cost of production of natural gas and condensate | 11,638 | 9,436 | 21,074 |
| Depreciation, depletion and amortization expenses | 16,156 | 27,649 | 43,805 |
| General and administrative expenses | 1,200 | 65 | 1,265 |
| Total costs and expenses | 28,994 | 37,150 | 66,144 |
| Income from ordinary activities | 110,936 | 82,209 | 193,145 |
| Finance expenses | (30,827) | (32,770) | (63,597) |
| Finance income | 131 | 106 | 237 |
| Finance expenses, net | (30,696) | (32,664) | (63,360) |
| Income before income taxes | 80,240 | 49,545 | 129,785 |
| Income taxes | (20,060) | (12,386) | (32,446) |
| Total comprehensive income | 60,180 | 37,159 | 97,339 |
| Basic and diluted earnings per share (in dollars) | 1.20 | | 1.10 |
| Weighted number of shares used for the calculation (in thousands) | 50,000 | 38,496 | 88,496 |

* See also Note 1B.

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

Pro Forma Statements of Comprehensive Income (cont.)
(Dollars in Thousands)

| | Year ended December 31, 2015 | | |
|----------------------------------------------------------------------|---------------------------------------------------|----------------------------------|---------------------------|
| | Data before pro forma adjustments* | Pro forma adjustments | Pro forma data |
| Revenues: | | | |
| Sale of natural gas and condensate | 152,143 | 123,359 | 275,502 |
| Less royalties | 23,877 | 13,887 | 37,764 |
| Net revenues | 128,266 | 109,472 | 237,738 |
| Costs and expenses: | | | |
| Cost of production of natural gas and condensate | 12,249 | 9,932 | 22,181 |
| Depreciation, depletion and amortization expenses | 14,190 | 26,936 | 41,126 |
| General and administrative expenses | 1,200 | 65 | 1,265 |
| Total costs and expenses | 27,639 | 36,933 | 64,572 |
| Income from ordinary activities | 100,627 | 72,539 | 173,166 |
| Finance expenses | (31,065) | (32,963) | (64,028) |
| Finance income | 10 | 8 | 18 |
| Finance expenses, net | (31,055) | (32,955) | (64,010) |
| Income before income taxes | 69,572 | 39,584 | 109,156 |
| Income taxes | (18,436) | (10,490) | (28,926) |
| Total comprehensive income | 51,136 | 29,094 | 80,230 |
| Basic and diluted earnings per share (in dollars) | 1.02 | | 0.91 |
| Weighted number of shares used for the calculation (in thousands) | 50,000 | 38,496 | 88,496 |

* See also Note 1B.

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

Tamar Petroleum Ltd.

Notes to the Pro Forma Financial Statements as of December 31, 2017 **(Dollars in Thousands)**

NOTE 1 – GENERAL:

A. These pro forma financial statements (the "**Pro Forma Statements**") have been prepared in accordance with Regulation 9A of the Israeli Securities Regulations (Periodic and Immediate Reports) 1970 and relate to the acquisition of a working interest at a rate of 7.5% (out of 100%) in the I/12 "Tamar" and I/13 "Dalit" leases (the "**Leases**") from Noble Energy Mediterranean Ltd. ("**Noble**"), pursuant to a sale agreement which was approved by the Company's board of directors on January 28, 2018, as described in Note 2 below (the "**Pro Forma Event**").

B. The Pro Forma Statements are intended to retroactively reflect the Pro Forma Event, as follows:

In the pro forma statement of financial position – assuming that it was completed on December 31, 2017;

In the pro forma statements of comprehensive income – assuming that it was completed on January 1, 2015, under the assumptions described in Note 3 below.

"Data before pro forma adjustments" as presented in the pro forma statements of comprehensive income are based on the Company's financial statements as of December 31, 2017, which were approved on March 20, 2018, after making pro forma adjustments as described in Note 22 to those financial statements.

C. The significant accounting policies applied in the Pro Forma Statements, subject to the principal assumptions and the adjustments included therein, as described in Note 3 below, are consistent with those used in the preparation of the financial statements on which the Pro Forma Statements are based as above. Accordingly, the Pro Forma Statements should be read in conjunction with the Company's financial statements for the relevant periods as above.

Pro forma statements are inherently based on assumptions, estimates and assessments, and therefore the pro forma data are not necessarily an indication of the representative and/or future results of the Company's operations after the acquisition of the rights.

NOTE 2 – THE PRO FORMA EVENT:

On January 29, 2018, a contingent sale agreement (the "**Sale Agreement**" or the "**Agreement**") for the acquisition of a working interest at a rate of 7.5% (out of 100%) in the Leases, was signed between Noble as seller, of the first part, and the Company as buyer, of the second part, whose highlights are as follows:

A. Subject to fulfillment of the conditions precedent to the closing of the transaction, as specified in the Agreement, Noble shall sell and transfer to the Company the rights in the Leases as well as a pro rata share (7.5%) in the operating approval for the system for production of natural gas from the Tamar lease, in the shares of Tamar 10 Inch Pipeline Ltd. – holder of the transmission license under Section 10 of the Natural Gas Sector Law 2002, in the rights and obligations under the joint operating agreement signed in connection with the Leases, in the agreement for use of the Yam Tethys facilities, in the agreements for the sale of natural gas and condensate from the Tamar lease, in the agreements for the export of natural gas (including the agreements relating to export agreements and approvals for export to Jordan and Egypt), and in the MOU regarding the supply of gas from the Tamar reservoir to the Yam Tethys partners (all the above are hereinafter referred to jointly as the "**Object of Sale**"), all effective from January 1, 2018 (the "**Effective Date**").

Tamar Petroleum Ltd.

Notes to the Pro Forma Financial Statements as of December 31, 2017
(Dollars in Thousands)

NOTE 2 – THE PRO FORMA EVENT (cont.):

- B.** The acquired rights are not subject to royalties to third parties.
- C.** The Agreement specifies that the Object of Sale does not include the rights and obligations in reference to the following excluded matters: the arbitration and the dispute regarding the production component tariff; the appeal regarding the royalties in relation to the sale of gas from the Tamar project to customers of the Yam Tethys project; the class action certification motion filed by an IEC consumer against the Tamar partners, in relation to amounts received by Noble for natural gas supplied in the period before the Effective Date; taxes and royalties to the State in relation to the period before the Effective Date, or taxes and royalties in connection with any profit, income or revenue of Noble in connection with the Object of Sale in relation to the period before the Effective Date (including if such tax assessment was made after the Effective Date), other than taxes according to the Taxation of Profits from Natural Resources Law 2011; taxes applicable to Noble in connection with the sale of the Object of Sale to the Company; claims made by or against Noble customers in respect of the Object of Sale relating to amounts that were or should have been paid before the Effective Date or in connection with a breach of a gas sale agreement having occurred before the Effective Date, whether or not filed from the Effective Date forward (the "**Excluded Matters**").
- D.** In consideration for the purchase of the Object of Sale, the Company shall pay Noble as follows:
 - (1) Cash consideration:** The proceeds from the issue of the Company's series B bonds on the Tel-Aviv Stock Exchange Ltd. (the "**TASE**"), subject to the terms specified below (net of issue expenses not yet paid by Noble until such time) and subject to additional adjustments as follows (the "**Cash Consideration**"):
 - (a) the Cash Consideration shall be reduced by the sum of amounts received by Noble (as holder of rights and not as operator) in respect of the Object of Sale in the period between the Effective Date and the closing date (the "**Interim Period**"), other than amounts received for gas sold before the Interim Period, amounts received for VAT and excise tax and amounts received in respect of any matter included in the definition of the Excluded Matters;
 - (b) the Cash Consideration shall be reduced by the amount of cash and cash equivalents and deposits in bank accounts of the Company as well as net trade receivables (excluding royalties) less accrued interest on the series A bonds as of the Effective Date, and all multiplied by the rate of Noble's holdings in the Company (after the share allotment as specified in (2) below);
 - (c) the Cash Consideration shall be increased by the amount of dividends, if any, to be distributed by the Company until the closing date, multiplied by the rate of Noble's holdings of the Company's shares as specified in (2) below, provided that the record date for the dividend distribution preceded the closing date;
 - (d) the Cash Consideration shall be increased by the amount of payments for royalties for which Noble is liable for gas produced during the Interim Period and for cash calls under the JOA made on Noble (as holder of rights) during the Interim Period in respect of the Object of Sale.

The Agreement specifies that the series B bonds shall have substantially the same terms as those of the Company's series A bonds or other terms deemed acceptable by Noble, provided the following conditions are fulfilled: (1) the issue of series B bonds may not result in the downgrading of the series A bonds below their rating immediately before the issue of series B bonds; (2) the issue must be at a par value in shekels equivalent to \$560,000,000 according to the dollar representative rate known on the date of the institutional tender and at the same annual interest rate as the series A bonds (4.69%); (3) the issue proceeds must be in an amount which, in Noble's judgment, is not substantially lower than the par value of the series B bonds before the deduction of underwriting or distribution and early commitment fees.

Tamar Petroleum Ltd.

Notes to the Pro Forma Financial Statements as of December 31, 2017 (Dollars in Thousands)

NOTE 2 – THE PRO FORMA EVENT (cont.):

(2) Consideration in shares: Shares of the Company constituting 43.5% of the Company's shares after the allotment shall be allotted to Noble in a private placement (the "Shares"). Before the date of the allotment, Noble shall provide the Company with an irrevocable waiver signed by it, whereby it waives any and all voting rights attached to the Shares. For the avoidance of doubt, it is clarified that any and all equity rights attached to the Shares shall remain in full force and effect, including the right to receive dividends, bonus shares, rights, and the right to receive surplus assets upon dissolution of the Company. Upon the sale or transfer of the Shares, in whole or in part, from Noble to a third party, they shall be entitled to any and all rights attached to ordinary shares of the Company (Noble's said consent to the waiver of voting rights has been established in the Company's articles). Noble shall undertake that so long as it does not sell the Shares, it shall not acquire additional shares of the Company. It is clarified, for this matter, that shares allotted to Noble in the context of a bonus share issue and/or rights issue shall not be deemed as an acquisition for purposes of this undertaking.

- E.** Noble shall bear any and all payments and expenses due to third parties in connection with the execution and closing of the transaction under the Sale Agreement, subject to a cap to be determined with the parties' consent, as well as issue costs related to fees and payments to the ISA and to the TASE, early commitment fee and 50% of the fees of the underwriters/distributors (regardless of the fulfillment of the conditions precedent to the closing of the transaction).
- F.** The Company shall provide the guarantees required to replace the guarantees provided by Noble in connection with the Object of Sale (approximately \$3.2 million). Until the provision of such guarantees, Noble's guarantees shall remain in full force and effect and the Company shall not be permitted to distribute dividends, other than the distribution of a first dividend which may be made by the Company during April 2018. If such guarantees are not replaced within 90 days from the closing date, the amounts of the guarantees shall bear 3% annual nominal interest commencing on that date.

The closing of the transaction under the Sale Agreement was contingent on the fulfillment of conditions precedent, which were fully met on March 14, 2018, including the issue of series B bonds and receipt of the Petroleum Commissioner's approval for the transfer of the rights in the Tamar and Dalit leases and registration thereof in the Petroleum Register as well as the Commissioner's approval for the pledge of such rights in favor of the trustee for the bondholders, and pursuant thereto the transaction under the Agreement was closed, i.e.: a 7.5% (out of 100%) interest in the Leases was transferred to the Company against a cash consideration of \$478 million (subject to adjustments) and against an allotment of 38,495,576 ordinary shares of the Company of NIS 0.1 par value each (constituting 43.5% of the issued and paid-up share capital of the Company) to Noble.

NOTE 3 – PRINCIPAL ASSUMPTIONS USED IN PREPARING THE PRO FORMA FINANCIAL STATEMENTS:

The pro forma statements have been prepared to reflect:

- A.** The financial position of the Company as of December 31, 2017, under the assumption that the Pro Forma Event (transfer of activity relating to the Object of Sale) was completed on that date.

Tamar Petroleum Ltd.

Notes to the Pro Forma Financial Statements as of December 31, 2017
(Dollars in Thousands)

NOTE 3 – PRINCIPAL ASSUMPTIONS USED IN PREPARING THE PRO FORMA FINANCIAL STATEMENTS: (cont.)

- B.** The results of operations for each of the years in the three-year period ended December 31, 2017, under the assumption that the Pro Forma Event (transfer of activity relating to the Object of Sale) was completed on January 1, 2015.

The acquisition and transfer of activity were accounted for in accordance with the provisions of IFRS 3 "Business Combinations." The consideration for the transfer of the acquired rights and the activity in the amount of \$705 million (subject to adjustments) was calculated on the basis of the transfer of the proceeds from the issue of series B bonds in an amount of \$519 million, net of issue costs and subject to the required adjustments as stated in Note 2D(1) above, and the value of the shares allotted by the Company (43.5%) determined according to the share price on the TASE and the dollar exchange rate as of March 13, 2018 prior to the transaction closing date.

The acquisition cost was attributed to an excess of liabilities over financial assets, net, in an amount of \$5 million, to an asset retirement obligation in an amount of \$8 million, and the balance of \$718 million was provisionally attributed to oil and gas assets and rights thereto, as follows: producing oil and gas assets – \$641 million, non-producing oil and gas assets (including Tamar SW and the Dalit lease) – \$73 million and \$4 million, respectively.

Accordingly, the pro forma adjustments to the results of operations include the following matters:

- (1)** The Company's additional share (7.5%) in revenues from the sale of natural gas and condensate, royalties to the State and the cost of producing natural gas and condensate of the Company for the reported periods.
- (2)** The amount of the consideration attributed to the producing oil and gas assets was amortized for the purpose of the Pro Forma Statements using the depletion method, and accordingly additional amortization expenses of \$27.6 million, \$27.7 million and \$26.9 million were recorded in these statements for each of the years 2017, 2016 and 2015, respectively.
- (3)** In determining the finance costs for the reported periods, the Company took into account an annual interest rate of 6.3% on the bonds issued for financing the acquisition as described in Note 2 above, as well as changes in the time value of asset retirement obligations.
- (4)** The related taxes were calculated according to the statutory tax rates for those years (24% in 2017, 25% in 2016 and 26.5% in 2015). It was assumed that the full acquisition cost would be recognized for income tax purposes and that it would not be necessary to allocate deferred taxes in respect thereof.
- (5)** The shares allotted to Noble in the framework of the transaction, constituting 43.5% of the Company's shares after the allotment, were taken into account retroactively for the purpose of calculating earnings per share for all the reported periods.
- (6)** Given that Noble is supposed to bear most of the expenses relating to the transaction, it was assumed that the acquisition costs attributable to the Company are immaterial.



March 20, 2018

Board of Directors of Tamar Petroleum Ltd.
(The "Company")
11 Galgalei Haplada St., Herzliya

Dear Sirs/Mesdames,

Re: Consent Letter Given Simultaneously with the Publication of a Periodic Report on a Shelf Prospectus of the Company ("the Offering Document")

This is to notify you that we consent to the inclusion (including by reference) in the above-referenced Offering Document of our reports listed below:

1. Independent auditor's report dated March 20, 2018 on the Company's financial statements as of December 31, 2017 and 2016 and for each of the years in the three-year period ended December 31, 2017.
2. Independent auditor's special report dated March 20, 2018 on the information contained in the Company's Note 22 which includes pro forma statements of comprehensive income for each of the years in the three-year period ended December 31, 2017.
3. Independent auditor's special report dated March 20, 2018 on pro forma financial information of the Company as of December 31, 2017 and for each of the years in the three-year period ended December 31, 2017, pursuant to Regulation 9A of the Securities Regulations (Periodic and Immediate Reports) 1970.

(-)

Kost Forer Gabbay & Kasierer
CPA (Isr.)

(-)

Ziv Haft
CPA (Isr.)



Tamar Petroleum Ltd.

Chapter D

**Additional Details regarding the
Company**

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

Name of Corporation: **Tamar Petroleum Ltd.**

Corporation no. at the Companies Register: **515334662**

Address: **11 Galgalei Haplada St., Herzliya Pituach 4672211**

Telephone: **074-7044779**

Fax: **074-7044762**

Balance sheet date: **December 31, 2017**

Date of report: **March 20, 2018**

Regulation 9D

Schedule of Liabilities by Maturity Dates

Simultaneously with the issue of this Periodic Report, the Company issues an immediate report on the schedule of its liabilities by maturity dates as an integral part of the Periodic Report.

Regulation 10A:

Condensed Quarterly Statements of Comprehensive Income (Loss) of the Company for each quarter in 2017 and for 2017 as a whole (US\$ in thousands)

| | 1-3/17 | 4-6/17 | 7-9/17 | 10-12/17 | 2017 |
|---------------------------------------------------|---------------|---------------|---------------|-----------------|----------------|
| Revenues from sale of natural gas and condensate | 42,329 | 42,674 | 46,091 | 41,240 | 172,334 |
| Less - royalties | (6,559) | (6,631) | (7,283) | (6,773) | (27,246) |
| Net revenues | 35,770 | 36,043 | 38,808 | 34,467 | 145,088 |
| Cost of production of natural gas and condensate | (3,100) | (2,787) | (2,926) | (3,421) | (12,234) |
| Depreciation, depletion and amortization expenses | (4,323) | (4,739) | (4,038) | (3,834) | (16,934) |
| General and administrative expenses | (300) | (300) | (432) | (666) | (1,698) |
| Operating income | 28,047 | 28,217 | 31,412 | 26,546 | 114,222 |
| Finance expenses | (70) | (79) | (7,447) | (8,263) | (15,859) |
| Finance income | 5 | 83 | 48 | 196 | 332 |
| Finance expenses, net | (65) | 4 | (7,399) | (8,067) | (15,527) |
| Income before income taxes | 27,982 | 28,221 | 24,013 | 18,479 | 98,695 |
| Income taxes | - | - | (5,619) | (4,850) | (10,469) |
| Total comprehensive income | 27,982 | 28,221 | 18,394 | 13,629 | 88,226 |

Regulation 10C:**Use of Proceeds from Securities with reference to Proceeds Targets based on Prospectus**

According to the Company's supplementary prospectus and shelf prospectus of July 4, 2017 (TASE reference: 2017-01-056551) ("the **Prospectus**") and a supplementary notice of July 6, 2017, the Company issued NIS 2,315,668,000 par value of bonds (Series A). The issue proceeds were used by the Company to meet the targets established in paragraph 5.2 to the Prospectus.

Regulation 20:**Trade on the Tel-Aviv Securities Exchange ("the TASE")**

- a. On July 10, 2017, NIS 2,315,668,000 par value of bonds (Series A) issued according to the Prospectus and the supplementary notice of July 6, 2017 (TASE reference: 2017-01-057724) were listed for trade on the TASE.
- b. On July 24, 2017, 50,000,000 Ordinary shares of NIS 0.1 par value each issued according to the shelf offering report of July 18, 2017 (TASE reference: 2017-01-061960) were listed for trade on the TASE.

Regulation 21: Compensation to Interested Parties and Senior Officers¹

- (a) The following table provides details of the compensation paid in the reporting year, as recognized in the financial statements for 2017, to the senior officers in the Company in connection with their service in the Company and of the compensation paid in 2017 to interested parties in the Company in connection with their services as officers in the Company (US\$ in thousands):

| Senior officers in the Company | | | | | | | | | | | | | | |
|------------------------------------|------------------|-------------------|----------------------------------|---------------------------|-------|---------------------|-----------------|-----------------|------------|-------|--------------------|-------------|-------|-------|
| Details of compensation recipients | | | | Compensation for services | | | | | | | Other compensation | | | |
| Name | Position | Scope of position | Equity rights in the Corporation | Salary | Bonus | Share-based payment | Management fees | Consulting fees | Commission | Other | Interest | Rental fees | Other | Total |
| Liami Vaisman | CEO | 100% | - | 188 | 14 | - | - | - | - | - | - | - | 202 | |
| Yuval Raikin | CFO | 100% | - | 129 | 46 | - | - | - | - | - | - | - | 175 | |
| Efrat Hozeh-Azrad | General Counsel | 75% | - | 53 | 18 | - | - | - | - | - | - | - | 71 | |
| Alon Amit | Internal Auditor | - | - | 18 | - | - | - | - | - | - | - | - | 18 | |

| Interested parties in the Company | | | | | | | | | | | | | | |
|------------------------------------|----------|-------------------|----------------------------------|---------------------------|-------|---------------------|-----------------|-----------------|------------|-------|--------------------|-------------|-------|-------|
| Details of compensation recipients | | | | Compensation for services | | | | | | | Other compensation | | | |
| Name | Position | Scope of position | Equity rights in the Corporation | Salary | Bonus | Share-based payment | Management fees | Consulting fees | Commission | Other | Interest | Rental fees | Other | Total |
| Directors ² | - | - | | 174 | - | - | - | - | - | - | - | - | 174 | |

¹ See more details of the tenure and service terms of senior officers and interested parties in the Company in paragraph (b) below.

² As for the tenure of directors in the Company, see information in Regulation 26 below.

(b) Following are details of the tenure and service terms of senior officers in the Company:

(1) **Compensation policy**

As for the Company's compensation policy for senior officers as adopted by the Company prior to the issue of the Prospectus, see paragraph 8.2 to the Prospectus, hereby included by way of reference.

As for the amendment of the compensation policy, see paragraph 3.2 to an amended immediate report of March 6, 2018 on an extraordinary private placement and notice of a special general meeting (TASE reference: 2018-01-018000), hereby included by way of reference. The amendment was approved by the Company's general meeting on March 8, 2018.

(2) **Liami Vaisman**

Following is a description of the employment agreement of the Company's CEO, Mr. Liami Vaisman:

Effective from June 25, 2017, Mr. Vaisman has been serving as the Company's CEO based on an employment agreement signed on June 22, 2017 (in this paragraph: "**the employment agreement**"). According to the employment agreement, Mr. Vaisman is entitled to a gross monthly salary of NIS 80 thousand on a full time basis (100%) (in this paragraph: "**the salary**"), which will be updated every three months based on a positive change in the Israeli CPI (the base index is the known index on July 1, 2017).

According to the employment agreement, Mr. Vaisman is entitled to sick leave, annual vacation, convalescence pay, contributions to advanced study fund and contributions to a pension plan in lieu of severance pay, as detailed in the employment agreement. Mr. Vaisman is also entitled to related benefits such as: a company car at a level commensurate with his position in the Company whereby all expenses in connection with the car will be paid by the Company (excluding any deductibles, fines and/or traffic tickets); a cellular phone and reimbursement of reasonable phone expenses; coverage by the Company's directors' and officers' liability insurance policy, as it will be from time to time; a letter of indemnity and quittance from liability, subject to the approval of the Company's authorized organs and the guidelines of the compensation policy; and additional related benefits associated with his functions, as customary in the Company. Mr. Vaisman is also entitled to full reimbursement of reasonable business expenses incurred in performing his duties (subsistence), including foreign business travel and stay. In addition to the aforesaid, the Company may decide to grant Mr. Vaisman throughout his service term an annual bonus in each calendar year, a special one-time bonus and/or a signing/retention bonus and an equity-based bonus, all subject to the guidelines of the Company's compensation policy. Moreover, in the event of termination of employment, the Company may grant the CEO an adjustment and/or retirement bonus in the amount of three gross monthly salaries in keeping with the Company's compensation policy. The employment agreement also sets forth certain non-disclosure and non-compete provisions for a period of 90 days from date of termination of employment.

The employment agreement was approved on July 2, 2017 by the Company's Board, based on the Company's compensation policy as mentioned in subparagraph (1) above. In 2017, the cost of the CEO's employment totaled approximately US\$ 202 thousand.

On March 15, 2018 and March 30, 2018, the Company's Compensation Committee and the Board respectively approved the grant of an additional bonus to the CEO for 2017 in the amount of approximately NIS 192 thousand, subject to the approval of the Company's general meeting.

(3) Yuval Raikin

Following is a description of the employment agreement of the Company's CFO, Mr. Yuval Raikin:

Effective from July 1, 2017, Mr. Raikin has been serving as the Company's CFO based on an employment agreement signed on June 18, 2017 (in this paragraph: "**the employment agreement**"). According to the employment agreement, Mr. Raikin is entitled to a gross monthly salary of NIS 52.5 thousand on a full time basis (100%) (in this paragraph: "**the salary**"), which will be updated every three months based on a positive change in the Israeli CPI (the base index is the known index on July 1, 2017).

According to the employment agreement, Mr. Raikin is entitled to sick leave, annual vacation, convalescence pay, contributions to advanced study fund and contributions to a pension plan in lieu of severance pay, as detailed in the employment agreement. Mr. Raikin is also entitled to related benefits such as: a company car at a level commensurate with his position in the Company whereby all expenses in connection with the car will be paid by the Company (excluding any deductibles, fines and/or traffic tickets); a cellular phone and reimbursement of reasonable phone expenses; coverage by the Company's directors' and officers' liability insurance policy, as it will be from time to time; a letter of indemnity and quittance from liability, subject to the approval of the Company's authorized organs and the guidelines of the compensation policy; and additional related benefits associated with his functions, as customary in the Company. Mr. Raikin is also entitled to full reimbursement of reasonable business expenses incurred in performing his duties (subsistence), including foreign business travel and stay. In addition to the aforesaid, the Company may decide to grant Mr. Raikin throughout his service term an annual bonus in each calendar year, a special one-time bonus and/or a signing/retention bonus and an equity-based bonus, all subject to the guidelines of the Company's compensation policy. Moreover, in the event of termination of employment, the Company may grant the CFO an adjustment and/or retirement bonus in keeping with the Company's compensation policy. The employment agreement also sets forth certain non-disclosure and non-compete provisions for a period of 90 days from date of termination of employment.

The employment agreement was approved on July 2, 2017 by the Company's Board, based on the Company's compensation policy as mentioned in subparagraph (1) above. In 2017, the cost of the CFO's employment totaled approximately US\$ 175 thousand.

(4) Efrat Hozeh-Azrad

Following is a description of the employment agreement of the Company's Legal Counsel, Ms. Efrat Hozeh-Azrad:

Effective from September 1, 2017, Ms. Hozeh-Azrad has been serving as the Company's Legal Counsel based on an employment agreement signed on September 1, 2017 (in this paragraph: "**the employment agreement**"). According to the employment agreement, in 2017, Ms. Hozeh-Azrad's gross monthly salary amounted to NIS 32 thousand based on a 75% position (in this paragraph: "**the salary**"), which will be updated every three months based on a positive change in the Israeli CPI (the base index is the known index on July 1, 2017).

According to the employment agreement, Ms. Hozeh-Azrad is entitled to sick leave, annual vacation, convalescence pay, contributions to advanced study fund and contributions to a pension plan in lieu of severance pay, as detailed in the employment agreement. Ms. Hozeh-Azrad is also entitled to related benefits such as: a company car at a level commensurate with her position in the Company whereby all expenses in connection with the car will be paid by the Company (excluding any deductibles, fines and/or traffic tickets); a cellular phone and reimbursement of reasonable phone expenses; coverage by the Company's directors' and officers' liability insurance policy, as it will be from time to time; a letter of indemnity and quittance from liability, subject to the approval of the Company's authorized organs and the guidelines of the compensation policy; and additional related benefits associated with her functions, as customary in the Company. Ms. Hozeh-Azrad is also entitled to full reimbursement of reasonable business expenses incurred in performing her duties (subsistence), including foreign business travel and stay. In addition to the aforesaid, the Company may decide to grant Ms. Hozeh-Azrad throughout her service term an annual bonus in each calendar year, a special one-time bonus and/or a signing/retention bonus and an equity-based bonus, all subject to the guidelines of the Company's compensation policy. Moreover, in the event of termination of employment, the Company may grant the Legal Counsel an adjustment and/or retirement bonus in keeping with the Company's compensation policy. The employment agreement also sets forth certain non-disclosure and non-compete provisions for a period of 90 days from date of termination of employment.

On August 15, 2017 and August 17, 2017, the Company's Compensation Committee and the Board respectively approved the employment agreement in keeping with the Company's compensation policy as mentioned in subparagraph (1) above. On January 28, 2018, the Company's Compensation Committee and the Board reaffirmed the Legal Counsel's employment terms and decided to increase her position to 100% effective from January 1, 2018 under the same terms but in proportion to the increase in position. In 2017, the cost of the Legal Counsel's employment totaled approximately US\$ 71 thousand.

(5) Alon Amit

On October 1, 2017, after having accepted the recommendation of the Company's Audit Committee, the Company's Board appointed Mr. Alon Amit (of Raveh Ravid Internal Audit Services Ltd.) as the Company's internal auditor. Mr. Amit is entitled to a fee of NIS 250 per hour plus VAT as required by law. The number of hours to be provided by the internal auditor to the Company in connection with his services will be based on actual audit needs and as dictated by the Company's Audit Committee, Board and Management. The current number of audit hours per annum dictated by the Company's Audit Committee and Board is between 200 and 300 hours. In the reporting year, the internal auditor granted the Company internal audit services in connection with the integration of the Company's work methodologies.

(6) Directors

The directors are entitled to receive fees based on the amounts stipulated in Rank E to the Second and Third Addendums to the Israeli Companies Regulations (Rules of Compensation and Expenses of External Directors), 2000.

Regulation 21A:**The Controlling Shareholder in the Company**

As of the date of the Periodic Report, the Company does not have a controlling shareholder. It should be noted that Delek Drilling - Limited Partnership ("Delek Drilling") was the controlling shareholder in the Company before the date of the Company's IPO according to the Prospectus on July 20, 2017.

Regulation 22:**The Company's Transactions with the Controlling Shareholders therein or Transactions in which the Controlling Shareholders has Personal Interest**

As of the date of the Periodic Report, the Company does not have a controlling shareholder. For prudence sake, following are details of the entire transactions entered into with Delek Drilling (the former controlling shareholder in the Company) and/or its associated corporations and/or transactions in which Delek Drilling or an associated corporation thereof had personal interest, as entered into by the Company in the reporting year through July 20, 2017 (the date on which Delek Drilling ceased being the controlling shareholder in the Company, as stated in Regulation 21 above), excluding immaterial transactions, as defined in Section 6 to Part Three to Chapter B of this Report (the Board of Directors' Report):

- (a) On July 2, 2017, the Company and Delek Drilling entered into a contingent agreement for the acquisition of 9.25% of 100% of the working interests in the leases and in related agreements, subject to existing liabilities to pay overriding royalties to related parties (Delek Group Ltd. and Delek Energy Systems Ltd., the controlling shareholders in Delek Drilling ("the interested parties"). On July 20, 2017, the transaction was consummated and the Company purchased the above working interests, in effect from July 1, 2017, in return for a cash payment of approximately US\$ 845 million (approximately NIS 2,985 million) and the allocation of 19,990,000 Ordinary shares of the Company of NIS 1.0 par value each. See details of the contingent agreement in paragraph 7.17.1 to Chapter A to this Report and see details of the royalty liabilities in paragraph 7.19 to Chapter A to this Report. In 2017, expenses in respect of royalties to the interested parties amounted to approximately US\$ 4,918 thousand (including royalties of Delek Drilling prior to the date of consummation of the transaction). It should be noted that according to the above sale agreement, the Company received a loan from Delek Drilling, as specified in paragraph 7.13.2 to Chapter A to this Report.
- (b) As for the joint operating agreement for the Tamar and Dalit Leases signed with Tamar's entire partners, including Delek Drilling, see paragraph 7.2.13 to Chapter A to this Report.
- (c) The Company (as one of the partners in Tamar) entered into agreements for the supply of natural gas with customers that also include companies controlled by the Delek Group (Delek the Israel Fuel Corporation Ltd., IPP Delek Sorek Ltd.). See a description of said agreements in Note 11b(5) and (6) to the financial statements. In addition, the partners in Tamar supplied natural gas to Yam Tethys customers in 2017 based on the engagement specified in paragraph 7.2.9 to Chapter A to this Report. In 2017, the Company's share of the revenues of said entities approximated US\$ 3,907 thousand.

- (d) As for the agreement signed between the partners in Tamar and the partners in Yam Tethys on July 23, 2012 according to which the partners in Yam Tethys will grant the partners in Tamar rights to use the Yam Tethys existing facilities and the right to upgrade and/or set up facilities for transmitting and storing natural gas from the Tamar project, see paragraph 7.17.9 to Chapter A to this Report, hereby included by way of reference.

Regulation 24:

Holdings of Interested Parties and Senior Officers

See details of the holdings of interested parties and senior officers in the Company as of December 31, 2017 in an immediate report issued by the Partnership on January 8, 2017 (TASE reference: 2018-01-002160), hereby included by way of reference.

On March 14, 2018, Noble Energy Mediterranean Ltd. ("Noble") became an interested party in the Company. See details in an immediate report issued by the Company on March 14, 2018 (TASE reference: 2018-01-020238), hereby included by way of reference.

Regulation 24A:

Authorized Share Capital, Issued Share Capital and Convertible Securities

| Class of shares | No. of authorized shares | No. of issued and paid-up shares at par value | |
|----------------------------------|--------------------------|-----------------------------------------------|--------------------------------------------------|
| | | Shares conferring voting rights | Shares not conferring voting rights ³ |
| Shares of NIS 0.1 par value each | 200,000,000 | 36,000,000 | 52,495,576 |

It should be noted that on January 28, 2018, the Company's Compensation Committee and Board approved the grant of 208,626 share options which are exercisable into Company shares to the Company's CEO and two other senior officers in the Company who are subordinate to the CEO (the grant was subject to the approval of the Company's general meeting). On March 8, 2018, the general meeting approved the grant of the share options to the Company's CEO. As of the date of this Report, the share options have not yet been allocated.

Regulation 24B:

Registrar of the Company's Shareholders

| Name of holder | Number of shares held |
|------------------------------------------------|-----------------------|
| Israel Discount Bank Registration Company Ltd. | 88,495,576 |
| Total | 88,495,576 |

Regulation 25A:

Registered Domicile

Address: 11 Galgalei Haplada St., Herzliya Pituach 4672211

Tel.: 074-7044779

Fax: 074-7044762

Email: office@tamarpetroleum.co.il

³ The above shares do not confer voting rights as long as they are held by Delek Drilling and Noble. Once they are sold by either of the parties, they will confer the entire voting rights attached thereto.

Regulation 26: The Company's Directors

| Name: | Yossi Abu | Sigalia Hefetz | Nehama Ronen |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Position in the Company: | Chairman of the Board ⁴ | Director | Director |
| I.D. no.: | 033840372 | 057248528 | 057238479 |
| Date of birth: | December 7, 1977 | August 15, 1961 | September 15, 1961 |
| Domicile for service of judicial documents: | 19 Abba Eban Blvd., Herzliya Pituach | 12 Hatzedef St., Tel-Aviv 6803434 | 37 Harishonim St., Beit Herut 40291 |
| Residency: | Israeli | Israeli | Israeli |
| Membership on the Board's Committees: | No | Balance Sheet Committee | Audit Committee |
| Independent director: | No | Yes | No |
| External director: | No | No | No |
| 1) The director possesses accounting and financial expertise or is professionally competent: | - | - | - |
| 2) If so, is the director an expert external director?⁵ | - | - | - |
| 3) If so, does the director qualify as independent director?⁶ | - | - | - |
| Is the director employed by the Company, a subsidiary, a related company or an interested party? | Yes | No | No |
| Date of beginning tenure: | November 4, 2015 | June 25, 2017 | June 25, 2017 |
| Education: | LL.B. from the Hebrew University of Jerusalem | BA in economics and BA in accounting from Tel Aviv University | BA in education and history from Tel Aviv University and Beit Berl, an MA in public policy and public administration from the University of Haifa, as well as being a graduate of the London Business School executive program |
| Occupations in the last five years: | CEO of Delek Drilling Management (1993) Ltd. | Director in Hadera Paper Mills and Beit Shemesh Engines. She | Chairman of: Maman Cargo Terminals & Handling Ltd., |

⁴ As long as Mr. Yossi Abu serves as Chairman of the Company's Board he may not serve a member of any of the various Board Committees such as the Audit Committee, the Compensation Committee or the Financial Statement Review Committee. Furthermore, Mr. Yossi Abu may not represent the Company in partners' meeting held in accordance with the JOA regarding the Tamar and Dalit Leases.

⁵ As this term is defined in Regulation 1 to the Companies Regulations (Rules of Compensation and Expenses of External Directors), 2000.

⁶ As this term is defined in Section 1 to the Companies Law, 1999.

| | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| | | was a member of the board of "Muses" – a school of the arts in Jaffa, and a member of the board of the Friends of Habima Theater; business consulting and development | ELA, Israel's Recycling Corporation. Director in Bank Hapoalim and SHL Telemedicine Ltd. |
| Corporations in which he/she serves as director (other than the Company): | Delek Drilling (Leviathan Financing) Ltd., Delek and Avner (Tamar Bond) Ltd., Yam Tethys Ltd. and Ithaca Energy Inc. | Clal Industries Ltd., Clal Biotechnology Industries Ltd., Golf & Co. Group, Maman Cargo Terminals & Handling Ltd., Vesta Investments & Management Ltd., Z. Properties Ltd. (inactive) | ADO Group Ltd., chairman of Maman Cargo Terminals & Handling Ltd. and chairman of ELA, Israel's Recycling Corporation |
| Is the director a family relation of another interested party in the Company: | No | No | No |
| Is the director viewed by the Company as possessing accounting and financial expertise for compliance with the minimum number decided by the Board according to Section 92(a)(12) to the Companies Law? | No | Yes | No |

| Name: | Ran Efrati | Giora Inbar | Avi Eini | Alon Cohen |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| Position in the Company: | Director | External Director | Director | External director |
| I.D. no.: | 028056919 | 53442505 | 70879457 | 004055364 |
| Date of birth: | September 26, 1970 | December 19, 1955 | September 27, 1947 | June 11, 1946 |
| Domicile for service of judicial documents: | 45 Snir St., Nehalim 4995000 | 16 Ha'ela St., Timrat 3657600 | 17 Hamaapilim St., Jerusalem | 9 Mazeh St., Tel-Aviv |
| Residency: | Israeli | Israeli | Israeli | Israeli |
| Membership on the Board's Committees: | Balance Sheet Committee | Balance Sheet Committee, Compensation Committee, Audit Committee | Compensation Committee | Balance Sheet Committee, Compensation Committee, Audit Committee |
| Independent director: | No | No | No | No |
| External director: | No | Yes | No | Yes |
| 1) The director possesses accounting and financial expertise or is professionally competent: | - | Yes | - | Yes |
| 2) If so, is the director an expert external director? | - | No | - | No |
| 3) If so, does the director qualify as independent director? | - | Yes | - | Yes |
| Is the director employed by the Company, a subsidiary, a related company or an interested party? | No | No | No | No |
| Date of beginning tenure: | June 25, 2017 | June 25, 2017 | June 25, 2017 | September 10, 2017 |
| Education: | LL.B from the Hebrew University of Jerusalem, and an LL.M from the joint program of the Hebrew University of Jerusalem and Georgetown University; attorney | BA in geography and land of Israel studies, an MBA from the University of Haifa, and an MA in political science and criminology from the University of Haifa, USA War College graduate | BA in law (LL.B) from the Academic Center of Law and Business; attorney; graduate of senior business administration course | BA in economics and political science from the Hebrew University of Jerusalem |
| Occupations in the last five years: | General Counsel and head of investor relations at the store chain Rami Levy Hashikma Marketing 2006 Ltd. and CEO of Rami Levy Hashikma Marketing Communications Ltd., | External director in IDB Development Corporation Ltd., Schnapp Industries Ltd. and Golf. CEO and owner of Ofakei Danish Ltd., Chairman of the Friends of the Emek | Management and financial consulting services to Polipa Beit Shemesh Ltd. independent director in Tadiran Group Ltd. | CEO and chairman of Alon Cohen Economic Consulting Ltd., chairman of Gan Shmuel Foods Ltd., chairman of Ganir (1992) Ltd., chairman of Oxygen & Argon |

| | | | | |
|----------------------------------------------------------------------------------|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | Hospital; Chairman of the National Initiative Association | | Industries Group Ltd., chairman of Gas technologies Ltd., chairman of Oxygen Center Ltd., chairman of Gases & Liquids Ltd., chairman of Oxygen Warehouses (Trade) Ltd., chairman of S.L.G. Ltd., chairman of Jerusalem Oxygen Center Ltd., director and member of balance sheet committee of Jerusalem Economic Corp. Ltd., receiver and liquidator of Kika (in Liquidation and Receivership) Ltd., director and chairman of the audit committee and balance sheet committee and member of the finance committee of Fox Wizel Ltd., advisor to elading companies such as Shapir Engineering Ltd. |
| Corporations in which he/she serves as director (other than the Company): | | External director of: Dolomite Holdings Ltd., Aran Research & Development (1982) Ltd., Trendline Information and Communication Services Ltd., Golf & Co. Group Ltd., IDB Development Corporation Ltd. and Schnapp Industries Ltd. | Tadiran Group Ltd. | Director and chairman of the audit, balance sheet and finance committees of Fox Wizel Ltd., director and member of the balance sheet committee of Jerusalem Economic Corp. Ltd., receiver and liquidator and effectively director of Kika (in Liquidation and |

| | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----|-----|-------------------------------------------------------|
| | | | | Receivership) Ltd., chairman of Alon Cohen Ltd. |
| Is the director a family relation of another interested party in the Company: | No | No | No | No |
| Is the director viewed by the Company as possessing accounting and financial expertise for compliance with the minimum number decided by the Board according to Section 92(a)(12) to the Companies Law? | Yes | Yes | Yes | Yes |

Regulation 26A: The Company's Senior Officers

| | Name | Liami Vaismann | Yuval Raikin | Efrat Hozeh-Azrad | Alon Amit |
|-----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 1. Position in the Company: | CEO | CFO | Legal Counsel | Internal auditor | |
| 2. ID no.: | 038620613 | 023928266 | 027234855 | 025670647 | |
| 3. Date of birth: | March 10, 1976 | September 13, 1968 | July 28, 1974 | August 5, 1973 | |
| 4. Date of beginning tenure: | June 25, 2017 | July 1, 2017 | September 1, 2017 | October 1, 2017 | |
| 5. Holds any positions in a subsidiary, a related company or an interested party? | No | No | No | No | |
| 6. Is an interested party in the Company? | Yes, as CEO | No | No | No | |
| 7. Is a family relation of another senior officer or interested party in the Company? | No | No | No | No | |
| 8. Education: | CPA, BA and MBA in business administration from the College of Management, Rishon LeZion | CPA, BA in economics and accounting from Bar-Ilan University | LL.B. (business division), and an MBA (majoring in finance), from Bar-Ilan University; attorney | MA in internal and public audit from Bar-Ilan University, BA in political sciences and communications from Bar-Ilan University; CISA, CIA | |
| 9. Experience in the last five years: | CFO of Israel Natural Gas Lines Ltd., partner and head of project finance at Giza Singer Even, Ltd | CFO of Alon Natural Gas Exploration Ltd. and corporations under its control, Deputy CFO at Alon Israel Oil Company Ltd., director at Israel Canada Highway Management Ltd. and its subsidiaries and as a director of Tamar 10 Inch Ltd. | Partner at Agmon & Co. Rosenberg Hacohen & Co. law firm | Head of Internal Audit, IT Audit and Risk Management at Raveh - Ravid & Co. | |

Regulation 26B:**Independent Signatories**

The Company has no independent signatories.

Regulation 27:**The Corporation's Auditors**

Joint auditors: BDO Ziv Haft, CPAs of 48 Menachem Begin Road, Tel-Aviv and Kost Forer Gabbay & Kasierer (EY), CPAs of 144A Menachem Begin Road, Tel-Aviv.

Regulation 28:**Changes in the Company's Articles of Association**

See details of changes in the Company's articles of association in immediate reports of March 10, 2018 and March 14, 2018 (TASE references: 2018-01-018801 and 2018-01-020151), hereby included by way of reference.

Regulation 29:**Directors' Recommendations and Resolutions****Regulation**

29(a)(1):

Distributions, as defined in the Companies Law

See details of the Company's Board's decision of March 20, 2018 to distribute a dividend in paragraph 4.4 to Chapter A to this Report.

Regulation

29(a)(5):

Early redemption of bonds

As for a buyback plan of bonds (Series A) adopted by the Board, see an immediate report of July 17, 2017 (TASE reference: 2017-01-061543), hereby included by way of reference. Through the date of this Report, the Company completed the full execution of the buyback plan, as detailed in immediate reports of July 26, 2017 (TASE reference: 2017-01-064543), July 26, 2017 (TASE reference: 2017-01-064789), July 27, 2017 (TASE reference: 2017-01-065281) and August 21, 2017 (TASE reference: 2017-01-084813), hereby included by way of reference.

As for a buyback plan of bonds (Series B) adopted by the Board, see an immediate report of March 13, 2018 (TASE reference: 2018-01-019917), hereby included by way of reference. Through the date of this Report, the Company completed the full execution of the buyback plan, as detailed in immediate reports of March 18, 2018 (TASE reference: 2018-01-021120, 2018-01-021123 and 2018-01-021126), hereby included by way of reference.

Regulation 29(c):**Decisions of special general meeting**

(1) **On September 10, 2017, the special meeting of the Company's shareholders approved the following decisions:**

- a. Appointing Mr. Giora Inbar as an external director in the Company for a period of three years, effective from the date of the meeting's approval, and determine his tenure and service terms as prescribed in the Company's amended immediate report of September 5, 2017 (TASE reference: 2017-01-078679).
- b. Appointing Mr. Alon Cohen as an external director in the Company for a period of three years, effective from the date of the meeting's approval, and determine his tenure and service terms as prescribed in the Company's amended immediate report of September 5, 2017 (TASE reference: 2017-01-078679).

(2) On March 8, 2018, the special meeting of the Company's shareholders approved the following decisions:

- a. Approving a private placement of 38,495,576 Ordinary shares of NIS 0.1 par value each of the Company to Noble as part of the consideration based on the sale agreement of January 29, 2018 in return for 7.5% of the working interests (out of 100%) of Tamar I/12 and Dalit I/13 Leases and a relative share (7.5%) of the approvals, rights and obligations pursuant to related agreements. The approval of the private placement also constitutes approval of a related decision, as specified in paragraph 3.1.2 to the immediate report on convening the meeting of March 6, 2018 (TASE reference: 2018-01-018000).
- b. Amending the Company's compensation policy, as detailed in paragraph 3.2 to the immediate report on convening the meeting of March 6, 2018 (TASE reference: 2018-01-018000).
- c. Approving the grant of share options to the Company's CEO, as detailed in paragraph 5 to the immediate report for convening the meeting of March 6, 2018 (TASE reference: 2018-01-018000).
- d. Increasing the Company's authorized share capital by NIS 15,000,000 to NIS 20,000,000, divided into 200,000,000 Ordinary shares of NIS 0.1 par value each.

**Regulation
29A(3):**

Transactions that require Special Approval as per Article 270(1) to the Companies Law

As for the Company's engagement with Noble on September 29, 2018 in a contingent agreement for the purchase of 7.5% (out of 100%) of the working interests in Tamar I/12 and Dalit I/13 Leases and a relative share (7.5%) of the approvals, rights and obligations pursuant to related agreements, see an immediate report of January 30, 2018 (TASE reference: 2018-01-008823), a supplementary immediate report of March 1, 2018 (TASE reference: 2018-01-016854) and an amended immediate report of March 1, 2018 on a private placement by the Company and on convening a general meeting of the Company (TASE reference: 2018-01-016890), hereby included by way of reference. The above agreement was approved by the Company for prudence sake as an agreement in which an officer has personal interest in view of Delek Drilling's long lasting business ties with Noble and in view of the service of Mr. Yossi Abu, the CEO of the general partner in Delek Drilling, as the Chairman of the Company's Board.

**Regulation
29(a)(4):**

Quittance, Insurance or Liability for Indemnity Granted to Officers

- (a) See details of the grant of letters of liability for indemnity and quittance from liability to officers and directors in the Company, as they are and as they will be from time to time, in paragraph 8.4.2 to the Prospectus, hereby included by way of reference.
- (b) See details of the Company's directors' and officer's liability insurance policy in paragraph 8.4.1(a) to the Prospectus, hereby included by way of reference. See also details of changes in said policy in an immediate report of January 30, 2018 (TASE reference: 2018-01-008826), hereby included by way of reference.
- (c) See details of a public offering of securities insurance (POSI) in connection with the Company's Prospectus in paragraph 8.4.1(b) to the Prospectus, hereby included by way of reference. See also details of changes in said policy in paragraph 3.2 to an immediate report of January 30, 2018 on a private placement and on convening a meeting of the Company's shareholders (TASE reference: 2018-01-016890), hereby included by way of reference. The above changes were approved by the Company's general meeting on March 8, 2018.

March 20, 2018

Date

Tamar Petroleum Ltd.

Name and position of signatories

Yossi Abu, Chairman of the Board
Liami Vaisman, CEO