



# **Tamar Petroleum Ltd.**

## **Annual Report 2018**

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# **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 Business<sup>1</sup>

- 1.1 Tamar Petroleum Ltd. (the "**Company**") was incorporated on November 4, 2015 as a private company limited by shares under the Companies Law, 5759-1999 (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 from Delek Drilling on July 20, 2017, retroactively effective from July 1, 2017, 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 Project 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 upon completion of the issuance of the shares, Delek Drilling unilaterally waived all the

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

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 (the "**Excess Shares**")<sup>2</sup>. 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 "**Securities Law**"). 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.
- 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 from Noble 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 Project 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 475 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 it<sup>3</sup>. 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. On October 2, 2018 and October 3, 2018, Noble sold all the shares allotted to it under the Sale Agreement with Noble. Following the sale of said shares, the voting rights attached to them came into full

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<sup>2</sup> 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.

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

force again. For further details regarding the Sale Agreement with Noble, see Section 7.17.2 below.

## 2. Operating Segment

- 2.1 In accordance with the Company's articles of association (the "**Articles**"), the Company shall only carry out operations of 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 said provision is subject to approval by a general meeting of the Company's shareholders to be adopted by special resolution.<sup>4,5</sup> Accordingly, the Company's sole operating segment on the date of the report is operations of exploration, development, production and transport to the target markets with respect to the Tamar and Dalit Leases (the "**operating segment**").
- 2.2 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 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 of Israel, as specified in Sections 7.4.2 and 7.4.5 below. Regarding restrictions on gas exports, see Section 7.16.1(c)(2) below.

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<sup>4</sup> 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.

<sup>5</sup> 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.

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.

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

Following are details of investments that were made in the Company's capital in the last two years, and of other significant transactions that were made with the Company's shares, outside the framework of the TASE, by interested parties in the Company, which are known to the Company:

- 3.1 Allotment of shares of the Company to Delek Drilling and share acquisitions by shareholders that have become interested parties under a supplementary prospectus and shelf prospectus of the Company from July 4, 2017 (Ref. No. 2017-01-056551) (the "**Prospectus**") and a shelf offering report from July 18, 2017.
- 3.2 Private placement of the Company's shares to Noble under the Sale Agreement with Noble (for details see Section 7.17.2 below).
- 3.3 On October 2, 2018 and October 3, 2018, Noble sold all the shares that were allotted to it in the private placement referred to in Section 3.2 above to institutional bodies, at a price of NIS 15.5 per share and for a total consideration of NIS 597,000 thousand. As a result of said sale, the following interested parties increased their stake in the Company: Menora Mivtachim Holdings Ltd., Harel Insurance Investments and Financial Services Ltd. and Phoenix Insurance Company Ltd.; and the following bodies became interested parties in the Company: Altshuler Shaham Ltd. and Migdal Insurance and Financial Holdings Ltd.

### 4. **Distribution of Profits**

- 4.1 In the last two years the Company declared profit distributions as detailed below:

<b>Resolution date</b>	<b>Distribution date</b>	<b>Distribution amount (USD in millions)</b>	<b>Distribution amount per share (USD)</b>	<b>Immediate report</b>
20.3.2018	11.4.2018	32.02	0.36186	Ref. No.: 2018-01-022005
30.8.2018	10.10.2018	39.32	0.44436	Ref. No.: 2018-01-081307

- 4.2 The Company's Articles 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, 2018, the Company has distributable profits amounting to USD 59.5 million.

4.4 For details regarding profit distribution restrictions that are prescribed in the Deeds of Trust for the Company's Series A and B Bonds, see Note 9B(4) to the Company's financial statements as of December 31, 2018 (Chapter C of this report) (the "**Financial Statements**").

#### 5. **Financial Information on the Company's Operating Segment**

5.1 For data on revenues, costs, profit derived from ordinary operations in the operating segment, see the statements of comprehensive income that are included in the Financial Statements.

5.2 For details regarding all of the Company's assets and liabilities as of December 31, 2018 and December 31, 2017, see the statements of financial position that are included in the Financial Statements.

5.3 For explanations regarding the aforementioned financial data, see the first part of the Board of Directors' Report (Chapter B of this report) (the "**Board of Directors' Report**").

#### 6. **General Environment and the Effect of External Factors**

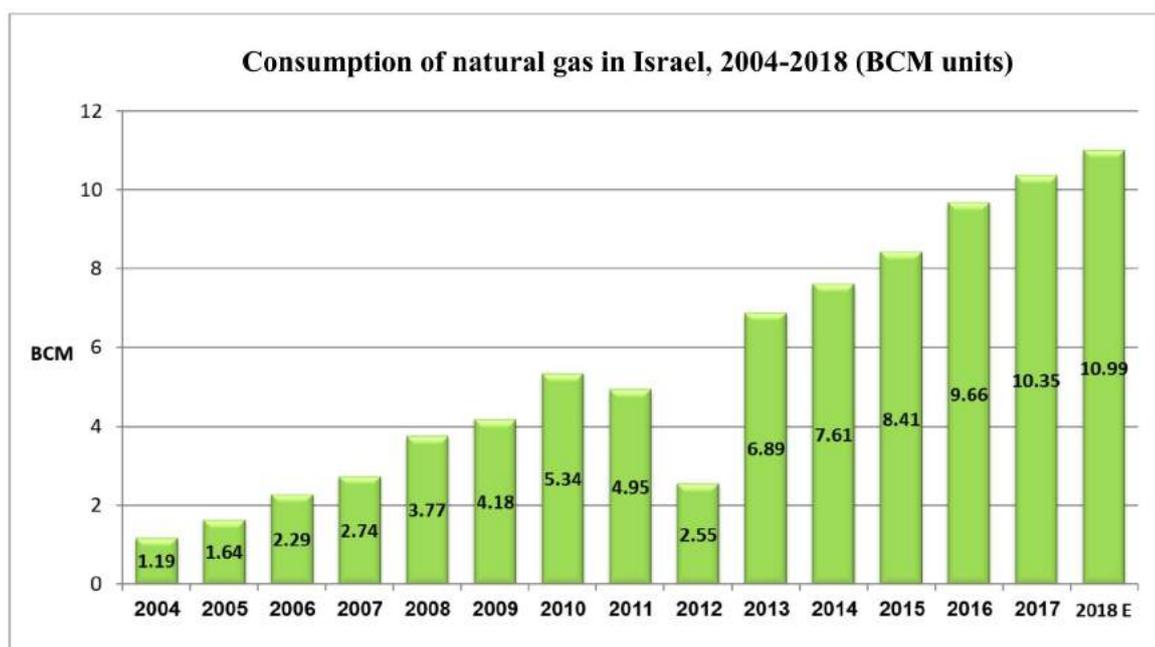
6.1 As described above, the Company's is engaged in the exploration, development, production and transport of natural gas and condensate in the area of the Tamar Lease. The Petroleum Law, 5712-1952 (the "**Petroleum Law**") regulates oil and natural gas exploration, development and production in Israel 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 I/7 Noa Lease and the Mari B reservoir in the I/10 Ashkelon Lease (above and below, jointly: the "**Yam Tethys Project**"). The overall consumption of natural gas in Israel has increased concurrently with the progress in construction of the transmission infrastructure of Israel Gas Lines Ltd. ("**IGL**") and the connection of additional consumers (including power plants of the IEC and private power plants) to the transmission system and of smaller consumers to said distribution system.
- 6.4 In recent years, the natural gas sector in Israel has been undergoing significant changes (including, inter alia, regulatory, economic and environmental changes). Within a few years, natural gas has become the 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,<sup>6</sup> the extent of use of natural gas in Israel increased from 7.6 BCM in 2014 to 10.3 BCM in 2017, while in 2018 it is projected at 11 BCM, as shown in the graph below:<sup>7</sup>

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<sup>6</sup> From the Ministry of Energy, Natural Gas Authority, **Review of the Natural Gas Sector for 2017**, [https://www.gov.il/BlobFolder/guide/natural\\_gas\\_basics/he/ng\\_2017.pdf](https://www.gov.il/BlobFolder/guide/natural_gas_basics/he/ng_2017.pdf).

<sup>7</sup> Source of graph: data of the Natural Gas Authority in the Ministry of Energy and data processing by the Company. 2018: estimate only.



- 6.6 Additionally, in 2017 exports of natural gas from the Tamar reservoir to Jordan began for the first time, on a scale of 0.07 BCM (0.14 BCM in 2018). It is noted that already in 2013 (the year in which the Tamar reservoir began to produce), mainly during peak electricity demand hours in the winter and summer, Israeli market demand for natural gas was higher than the Tamar Project's maximum hourly production capacity, and therefore the partners in the Tamar Project (the "**Tamar Partners**"<sup>8</sup>) were unable to supply the full demand at such times.<sup>9</sup>
- 6.7 Based on a forecast received by the Company from an outside consultant, the consumption of natural gas in Israel is expected to double by the end of the next decade, inter alia, as more gas suppliers connect to the national transmission system and 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; the assimilation of the use of compressed natural gas in some transportation sectors (such as the transition of buses and heavy vehicles to use of natural gas); the making of natural gas accessible to additional industrial enterprises throughout Israel; the introduction of electric cars and electrification of trains; the construction of additional seawater desalination plants; the development and full exploitation of industries based on natural gas as a raw material (such as the development of petrochemical industries that consume natural gas), and the policy actions

<sup>8</sup> The Tamar Partners include Isramco Negev 2 – Limited Partnership (28.75%), Noble (25%), Delek Drilling – Limited Partnership (22%), Everest Infrastructures – Limited Partnership (3.5%), Dor Gas Explorations – Limited Partnership (4%), and the Company (16.75%).

<sup>9</sup> For details regarding the offshore buoy that was set up by IGL (the "**Offshore Buoy for LNG Import**"), see Section 7.1.9(a) below.

that will be taken in the interests of the matter; all this over and above the natural increase in demand for natural gas and electricity in the Israeli economy due to population growth and an increase in the standard of living. Regarding the decision of the Minister of Energy to reduce the use of coal and his plan to eliminate the use of polluting energy in Israel, see Sections 7.16.8(f) and 7.16.8(g) below.

6.8 The principal external factors affecting the Company's operating segment:

6.8.1 Fluctuations in the U.S. CPI, in the Electricity Production Tariff, and in the price of a Brent-type oil barrel

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 as aforesaid 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 report on reserves and discounted cash flows as detailed in Section 7.2.15(a) below.

6.8.2 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, 5771-2011<sup>10</sup> (the "**Taxation of Natural Resource Profits Law**"); the Israeli government's decisions to adopt the recommendations of the Committees for Examination of the Government's Policy on the Issue of Israel's Natural Gas Sector and the Future Development Thereof (jointly: the "**Government Resolution on Export**"); the declaration by the Economic Competition Commissioner<sup>11</sup> (the "**Competition 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 Energy<sup>12</sup> (the "**Petroleum Commissioner**"); the announcement of the Marine Zones Bill, 5778-2017 (the "**Marine Zones Bill**"); the government resolution in the matter of the Gas Framework, 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. Description of the Company's Operating Segment

### 7.1 General information about the operating segment

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

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<sup>10</sup> 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.

<sup>11</sup> On January 1, 2019 an amendment to the Competition Law was approved, which included a change in the name of the law from the Restrictive Trade Practices Law to the Economic Competition Law.

<sup>12</sup> 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 7.16.7 below.

The operation of exploration, development and production of oil and natural gas is complex and dynamic, involving substantial costs and significant uncertainty with respect to costs, timetables, the presence of oil or natural gas and the ability to produce them while protecting the environment and maintaining economic viability. As a result, despite considerable investments, exploration activities, including test drills, and evaluation activities often do not accomplish positive results and do not lead to any revenues or even lead 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 7.2.2 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

- (a) As of the report publication date, the Company supplies natural gas from the Tamar Project to various customers in the local market, the main one being the IEC, and also exports natural gas from the Tamar Project to Jordan. The Company also supplies condensate from the Tamar Project to the Paz Ashdod Refinery.

For a description of the Company's agreements with its major customers, see Sections 7.4 and 7.4.5 below.

In view of the significant volume of resources discovered off the shores of the State of Israel, which include the Tamar, Leviathan, Karish and Tanin natural gas reservoirs, the Tamar Partners are working to seek out markets and customers in the domestic market and in neighboring countries of Israel, subject to gas export restrictions, as set out in Section 7.16.1(c)(2) below, while the Company is promoting 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.

- (b) The scope of natural gas sales is affected, inter alia, by the rate of penetration of alternative energy sources. The Ministry of Energy's policy to encourage and promote the production of electricity by means of

renewable energy sources, inter alia through the use of solar technologies, may affect the market share of natural gas in the mix of electricity production sources in the economy.

#### 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, processing 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"), by means of a land-based or marine facility (floating liquefied natural gas – "FLNG"), into compressed natural gas ("CNG") and into liquid (gas to liquids – "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 three-dimensional seismic surveys and advanced information processing) for the purpose of identifying and preparing drilling prospects, for evaluating drilling results and for formulating a 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 significant financial scale, 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 and in the statutory provisions regarding abandonment of offshore oil and gas drilling sites.

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 substantial financial investments), the natural market for the supply of natural gas is the domestic market as well as the markets in neighboring countries with which there are peaceful relations and to which the natural gas may be transmitted by pipes. Therefore, the Company's gas reservoirs in Israel compete primarily against holders of oil and natural gas assets that operate in Israel and in neighboring countries, as well as LNG importers. It is noted that the more LNG facilities are constructed and export possibilities expanded, the greater will be the motivation to carry out additional drilling. With the commencement of piping of natural gas from the Tamar reservoir and diminishing 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, as of the date of publication of this report, is the only substantial producing reservoir within the territory of the State of Israel.<sup>13</sup> In addition, small quantities of natural gas are supplied to the IEC via the regasification vessel and the offshore buoy set up by IGL (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 and Noble in the Karish and Tanin reservoirs were sold to Energean Israel Ltd. ("**Energean**"); (b) Delek Drilling sold a 9.25% interest in the Tamar and Dalit Leases to the Company, as detailed in Section 1.2 above;<sup>14</sup> (c) Noble sold a 3.5% interest in the Tamar and Dalit Leases to Everest Infrastructures – Limited

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<sup>13</sup> For details regarding the purchase of insignificant quantities from the Yam Tethys reservoir, see Section 7.2.9 below.

<sup>14</sup> According to the provisions of the Gas Framework, Delek Drilling is obligated to sell its remaining holdings in the TamarAnd Dalit Leases, including through the Company, by December 17, 2021. For further details see Section 7.16.1(a) below.

Partnership ("**Everest**"); and (d) On March 14, 2018, a transaction was completed for the sale of a 7.5% interest in the Tamar and Dalit Leases from Noble to the Company, as detailed in Section 1.5 above.

To the best of the Company's knowledge, the development of at least two additional reservoirs will be completed in the coming years, which are expected to serve as additional substantial suppliers of natural gas, together with the producing Tamar reservoir, namely: (1) the Leviathan reservoir, which to the best of the Company's knowledge, and as announced by the holders of rights in the reservoir, contains 21.4 TCF of resources (2P reserves and contingent 2C resources), and which is expected to begin piping gas in the fourth quarter of 2019; and (2) the Karish and/or Tanin reservoirs, which, to the best of the Company's knowledge, according to assessments published by Energean Oil & Gas plc (which, to the best of the Company's knowledge, is the controlling shareholder in Energean), contain 2.4 TCF of best estimate (2C) contingent resources, as well as 2.4 TCF of prospective resources, including 1.2 TCF of natural gas in the Karish North prospect<sup>15</sup>. In March 2019 Energean announced that it had begun a series of drilling operations in the Karish reservoir, in the course of which three production wells will be drilled and an exploration drill will be carried out in Karish North. According to Energean's announcements, piping of gas from the Karish reservoir is expected to begin in 2021. It is further noted that according to the provisions of the Gas Framework, the Karish and Tanin reservoirs have been designated solely for the domestic market.

On November 15, 2016, the Minister of Energy declared the opening of the sea for oil and natural gas exploration by a competitive process (the "**Competitive Process**" or the "**Tender**"), 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 Process, 24 exploration areas were 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

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<sup>15</sup> It should be noted that said reservoirs contain also quantities of condensate.

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 was barred from submitting a bid in the tender.

As a result of the Competitive Process, on January 15, 2018 the Ministry of Energy granted five licenses for oil exploration in Israel's economic waters to Greek Energean, and on April 9, 2018, the Ministry of Energy granted an oil exploration license for one block to a consortium of Indian companies, which includes Oil and Natural Gas Corporation Limited, Bharat Petrol Resources Limited, Indian Oil Corporation Ltd. and Oil India Limited.<sup>16</sup>

On November 4, 2018, the Minister of Energy announced a second competitive process for natural gas and oil explorations in Israel's economic waters (in this section: the "**Second Competitive Process**"), in which 19 exploration licenses will be offered, with a maximum size of 400 square km each, in five groupings with a maximum size of 1,600 square km each. According to the announcement, the Ministry of Energy has limited the number of licenses that will be offered to any party to 8 licenses only. Additionally, it has been determined that a party holding more than 25% of an oil interest containing reserves in excess of 200 BCM will not be allowed to participate in the Second Competitive Process, and that preference will be given to a consortium that does not include a party that is involved in existing leases. In the documents of the Second Competitive Process it is specified that the deadline for submitting bids is the middle of June 2019 and that the winners will be announced in July 2019.

Insofar as future wells drilled in the areas of existing and/or new licenses as described above lead to significant natural gas discoveries, 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 owned by Shell) discovered over 15 years ago off the Gaza coast a

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<sup>16</sup> Following is the link to the publication regarding the grant of the license on the Ministry of Energy's website:  
[https://www.gov.il/he/departments/news/spokesperson\\_india](https://www.gov.il/he/departments/news/spokesperson_india)

natural gas reservoir, called Gaza Marine, in which the volume of reserves is estimated at 1 TCF. To the best of the Company's knowledge, the rights of Shell in said reservoir were transferred to the investment fund of the Palestinian Authority. In the future this reservoir may possibly be developed and natural gas marketed to the domestic market and to the Palestinian Authority.

LNG import to the domestic market started in January 2013, using the offshore buoy for LNG import off the shore of Hadera (the "**Offshore Buoy for LNG Import**"). The Offshore Buoy for LNG Import is designated for the berthing of an LNG tanker, which converts LNG to gas. The Offshore Buoy for LNG Import is designed to receive re-gasified gas, as mentioned above, in an amount of up to 0.5 BCF per day. The Offshore Buoy for LNG Import 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 provide the electricity economy with strategic redundancy in the supply of natural gas. LNG is used chiefly as a backup fuel for the IEC, and for supply in peak hours during which the Tamar reservoir is unable to supply the full demand in the economy. Therefore, as of the report publication date, the use of LNG poses no significant competition to the natural gas supplied by the Company.

Furthermore, the volume of consumption of natural gas by the IEC is derived, inter alia, from environmental, operational regulation as well as from differences in the direct costs of the IEC stemming from the price of natural gas and the price of coal. Therefore, the level of consumption of the IEC may be affected by the global price of coal.<sup>17</sup>

Furthermore, the natural gas supplied by the Company to industrial customers replaces the use of liquid fuels, such as diesel oil and fuel oil. The price of liquid fuels is generally higher than the price of the natural gas supplied by the Tamar Partners, yet despite their being polluting, a downtrend in oil prices around the world could render these fuels competitive relative to the natural gas supplied to these consumers. However, it is noted that the Ministry of Environmental Protection maintains regulation intended to ensure that enterprises with an

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<sup>17</sup> For details regarding the decision of the Minister of Energy to reduce coal use, see Section 7.16.8(g) below.

infrastructure for natural gas connection and use refrain from using polluting liquid fuels. 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 transport and 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 neighboring countries

(1) Egypt

To the best of the Company's knowledge, the volume of reserves and contingent resources of natural gas in Egypt is estimated at 61.5 TCF, with a potential for additional significant discoveries, following extensive marine and land exploration activity taking place in Egypt.<sup>18</sup> The year 2015 saw the discovery of the Zohr natural gas reservoir in Egypt; as of the report publication date, to the best of the Company's knowledge, based on reports published by independent consulting companies, the resources producible from it are estimated to be 21.5 TCF (2P). 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 mainly to the Egyptian domestic market. According to reports of the operator (the Eni company), the production volume of the reservoir as of the fourth quarter of 2018 is estimated at 2 BCM per day, with the production volume possibly increasing up to 3.2 BCM per day, following the completion of the second development phase, which it estimates already in 2019. To the best of the Company's knowledge, on March 14, 2019, Eni announced the discovery of the Nur reservoir, but it has still not reported the quantity of gas in the

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<sup>18</sup> BP Statistical Review of World Energy 2018.

reservoir (in which it holds a 40% stake). For further details regarding the Egyptian market, see Section 7.5.2(c) below.

(2) Cyprus

In December 2011 the first gas field was discovered in the economic waters of Cyprus, said discovery being located in Block 12 and called Aphrodite. The volume of reserves in Aphrodite is estimated at 4.5 TCF. The present holders of rights in the discovery are Noble Energy (35%), Royal Dutch Shell (35%) and Delek Drilling (30%).

In February 2018 it was reported that a consortium of Eni and Total had made a new natural gas discovery in Block 6 in the economic waters of Cyprus, called Calypso. No official estimates of resources in the above discovery have been published yet.

In September 2018 it was reported that a consortium headed by ExxonMobil had commenced two exploration drills in Block 10 in the economic waters of Cyprus.<sup>19</sup>

In February 2019 the consortium reported in the media that it had made a new natural gas discovery with preliminary estimates of 5-8 TCM (gas in place), and that the consortium intended to continue analysis work in order to better estimate the volume of resources.

Said resources may have an impact on the Company's operations in the Egyptian market. Furthermore, the companies owning the reservoir may seek to export the gas to the Egyptian domestic market and/or to direct it to the Egyptian liquefaction facilities for liquefaction and sale in international markets, with said gas liquefaction to account for a part of the liquefaction capacity of Egypt's liquefaction facilities.

7.2 Details regarding the Tamar and Dalit Project

As mentioned 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 as of the report publication date the Company holds a 16.75% working interest in the Tamar and Dalit leases.

7.2.1 General

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<sup>19</sup> Based on public announcements of ExxonMobil.

<b>The Tamar Lease</b>	
<b>General Details Regarding the Petroleum Asset</b>	
<b>Name of the petroleum asset:</b>	Tamar Lease <sup>20</sup>
<b>Location:</b>	An offshore asset approximately 90 km west of the Haifa coast, at a water depth of 1,600-1,700 meters.
<b>Area:</b>	Approximately 250 km <sup>2</sup> .
<b>Type of petroleum asset and description of the activities permitted for such type:</b>	Lease; Permitted activities under the Petroleum Law – exploration and production.
<b>Original conferral date of the petroleum asset:</b>	December 2, 2009
<b>Original expiration date of the petroleum asset:</b>	December 1, 2038
<b>Dates on which extension of the term of the petroleum asset was decided:</b>	-
<b>Current expiration date of the petroleum asset:</b>	December 1, 2038
<b>Is there another opportunity for extension of the term of the petroleum asset? If so, indicate the possible term of extension:</b>	Subject to the Petroleum Law, by 20 additional years.
<b>Name of the operator:</b>	Noble
<b>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:</b>	<ul style="list-style-type: none"> <li>• Isramco Negev 2, Limited Partnership ("<b>Isramco</b>") (28.75%).<sup>21</sup></li> <li>• Noble (25%).<sup>22</sup></li> <li>• Delek Drilling<sup>23,24</sup> (22%).</li> <li>• The Company (16.75%).</li> <li>• Dor Gas Exploration, Limited Partnership<sup>25</sup> ("<b>Dor Exploration</b>") (4%).</li> <li>• Everest<sup>26</sup> (3.5%).</li> </ul>

<b>The Tamar Lease</b>	
<b>General Details Regarding the Company's Share in the Petroleum Asset</b>	
<b>For a holding in a purchased petroleum asset – the purchase date:</b>	A 9.25% interest was acquired on July 20, 2017, effective from July 1, 2017, under the Sale Agreement with Delek Drilling. A 7.50% interest was acquired on March 14, 2018, effective from January 1, 2018, under the Sale Agreement with Noble.
<b>Description of the nature and manner of the Company's holding in the petroleum asset:</b>	The Company directly holds 16.75% of the Lease.

<sup>20</sup> The Tamar and Tamar SW natural gas fields were discovered in the area of the Tamar Lease in 2009 and 2013, respectively.

<sup>21</sup> To the best of the Company's knowledge, the general partner in Isramco, Isramco Oil and Gas Ltd., is a private company indirectly controlled by Mr. Haim Tsuff. As of the report publication date, corporations controlled by Mr. Haim Tsuff hold 22.26% of the participation units issued by Isramco Management (1988) Ltd. (the limited partner in Isramco). Mr. Haim Tsuff also holds directly 0.43% of the participation units issued by the limited partner in Isramco.

<sup>22</sup> Noble is a wholly owned subsidiary of Noble Energy Inc. ("**Noble Inc.**"), a public company whose shares are traded on the NYSE. To the best of the Company's knowledge, Noble Inc. has no controlling party.

<sup>23</sup> The general partner in Delek Drilling, Delek Drilling Management (1993) Ltd., is a private company owned by Delek Energy Systems Ltd. ("**Delek Energy**") (in which the controlling part (indirectly) is Mr. Yitzhak Sharon (Tshuva)).

<sup>24</sup> In accordance with the Gas Framework, Delek Drilling is obligated to sell all its rights in the Tamar and Dalit leases to a unrelated third party until the effective date for Tamar (i.e.: December 17, 2021) (within the meaning of the term in Section 7.16.1(a) below).

<sup>25</sup> 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., a public company in which the controlling party is Alon Israel Oil Company Ltd., which is a private company.

<sup>26</sup> To the best of the Company's knowledge, Everest is a limited partnership in which the partners are Harel Insurance Company Ltd. and other institutional bodies owned by it, as well as a partnership from the Israel Infrastructure Fund Group.

<b>The actual share in the revenues from the petroleum asset attributable to the holders of the equity interests of the Company:</b>	Before return on investment – 14.21%. After return on investment – 13.74%.
<b>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):</b>	As consideration for the 9.25% interest in the Tamar and Dalit leases acquired from Delek Drilling, the Company paid a cash consideration of USD 845 million, and in addition it allotted 19,900,000 ordinary shares of the Company.  As consideration for the 7.5% interest in the Tamar and Dalit leases acquired from Noble, the Company paid a cash consideration of USD 475 million, and in addition it allotted 38,495,576 ordinary shares of the Company.

<b><u>The Dalit Lease</u></b>	
<b><u>General Details Regarding the Petroleum Asset</u></b>	
<b>Name of the petroleum asset:</b>	Dalit Lease <sup>27</sup>
<b>Location:</b>	An offshore asset approximately 50 km west of the Haifa coast at a water depth of 1,300-1,400 meters.
<b>Area:</b>	Approximately 250 km <sup>2</sup> .
<b>Type of petroleum asset and description of the activities permitted for such type:</b>	Lease; Permitted activities under the Petroleum Law – exploration and production.
<b>Original conferral date of the petroleum asset:</b>	December 2, 2009
<b>Original expiration date of the petroleum asset:</b>	December 1, 2038
<b>Dates on which an extension of the term of the petroleum asset was decided:</b>	-
<b>Current expiration date of the petroleum asset:</b>	December 1, 2038
<b>Is there another opportunity for extension of the term of the petroleum asset? If so, indicate the possible term of extension:</b>	Subject to the Petroleum Law, by 20 additional years.
<b>Name of the operator:</b>	Noble
<b>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:</b>	<ul style="list-style-type: none"> <li>▪ Isramco (28.75%).</li> <li>▪ Noble (25%).</li> <li>▪ Delek Drilling (22%).</li> <li>▪ The Company (16.75%).</li> <li>▪ Dor (4%).</li> <li>▪ Everest (3.5%)</li> </ul>

<b><u>The Dalit Lease</u></b>	
<b><u>General Details Regarding the Company's Share in the Petroleum Asset</u></b>	
<b>For a holding in a purchased petroleum asset –the purchase date:</b>	A 9.25% interest was acquired on July 20, 2017, effective from July 1, 2017, under the Sale Agreement with Delek Drilling. A 7.50% interest was acquired on March 14, 2018, effective from January 1, 2018, under the Sale Agreement with Noble.
<b>Description of the nature and manner of the Company's holding in the petroleum asset:</b>	The Company directly holds 16.75% of the Lease.
<b>The actual share in the revenues from the petroleum asset attributable to the holders of the equity interests of the Company:</b>	Before return on investment – 14.21%. After return on investment – 13.74%.
<b>The total share of the holders of the equity interests of the Company in the aggregate investment in the</b>	As consideration for the 9.25% interest from the Tamar and Dalit leases acquired from Delek Drilling, the

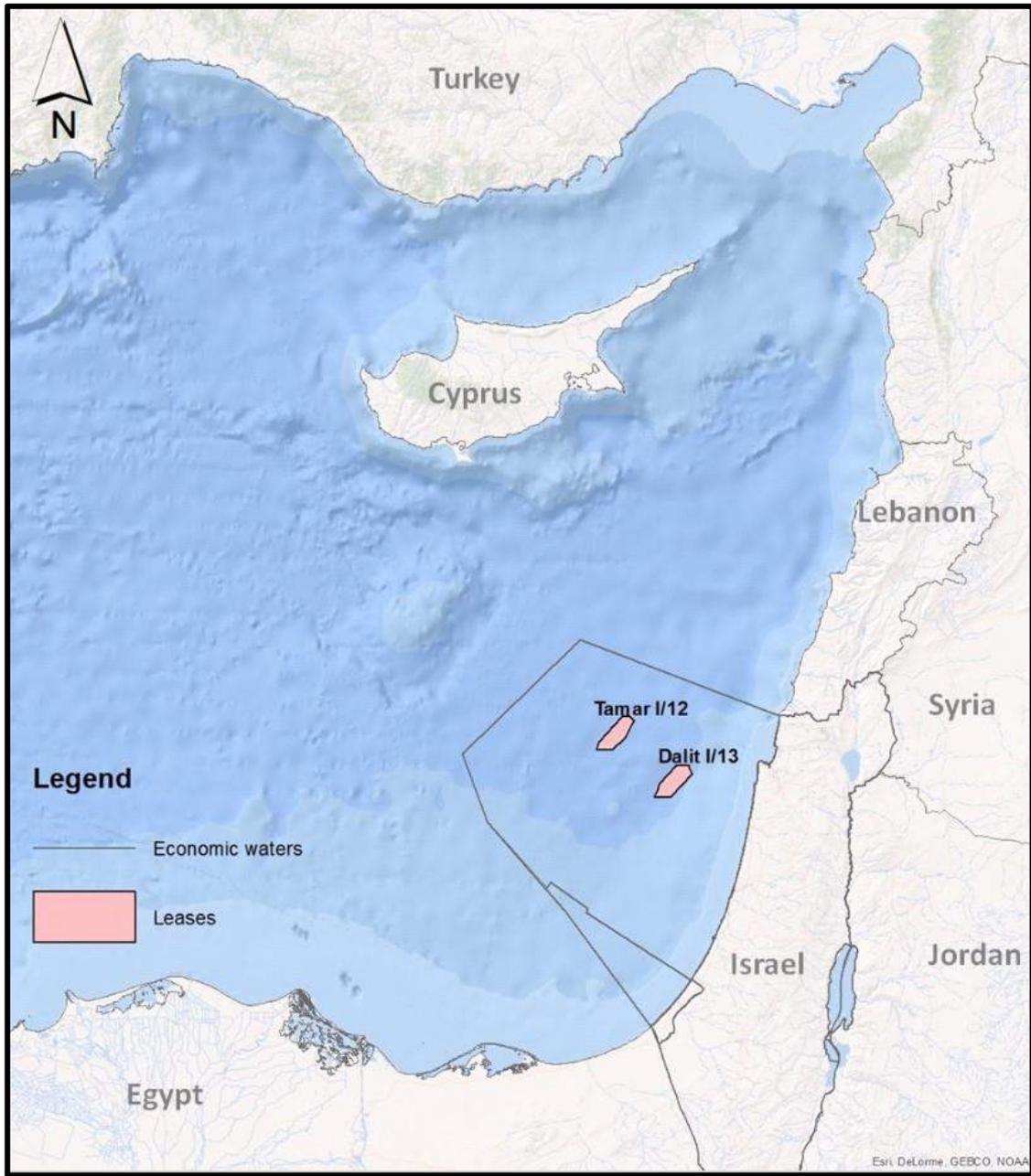
<sup>27</sup> The Dalit gas reservoir was discovered in the area of the Dalit Lease in 2009.

**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):**

Company paid a cash consideration of USD 845 million, and in addition allotted 19,900,000 ordinary shares of the Company.

As consideration for the 7.5% interest from the Tamar and Dalit leases acquired from Noble, the Company paid a cash consideration of USD 475 million, and in addition allotted 38,495,576 ordinary shares of the Company.

7.2.2 Map of the petroleum assets



### 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**" or the "**Lease**") 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 terminal<sup>28</sup>.
- (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.

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<sup>28</sup> 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.

(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 provision 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 guarantees that were provided as aforesaid to secure compliance with the terms and conditions of the Lease deed, as well as the provisions of the Petroleum Law and the directives of the Petroleum Commissioner, see Section 7.16.7 below.

(l) Miscellaneous

In addition, the Lease deed includes additional provisions which address, inter alia, conditions for operation of the facilities, safety, handling of malfunctions, tests, reports and supervision, liability, insurance and indemnification.<sup>29</sup>

7.2.4 Compliance with the conditions of the work plan for the Tamar Project and Dalit Lease<sup>30</sup>

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 Lease<sup>31</sup>

The following is a brief description of the main operations performed in the Tamar project from January 1, 2016 until the report publication date, as well as a summary of planned operations:

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<sup>29</sup> It should be noted that the operating approval for the production system of the Tamar lease established increased obligations of the Lease holder in connection with the operation of the production system due to the importance of the production of gas for Israel.

<sup>30</sup> As of the report publication date, a detailed development plan was submitted only in respect of the Tamar Lease.

<sup>31</sup> The costs specified for the years 2016-2018 in the work plan below do not include ongoing operating and maintenance costs of the Tamar Project, which were included in Section 7.2.13 below. The table also does not include operations involved in the abandonment of the reservoir including expenses in respect thereof.

<b><u>The Tamar Lease</u></b>			
<b><u>Period</u></b>	<b><u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u></b>	<b><u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u></b>	<b><u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)</u></b> <sup>32</sup>
2016	<ul style="list-style-type: none"> <li>Continued production from the Tamar project, ongoing operation and maintenance.</li> <li>Completion of operational trial run of three compressors and auxiliary systems during Q2 2016.</li> <li>Drilling of an additional development and production well, the Tamar-8 well, and construction of associated infrastructures to connect the well to the Tamar project's existing subsea production system.</li> <li>Upgrading and improvement of the production system on the Tamar platform and at the terminal on the Ashdod coast (the "Terminal"), including purchasing equipment and spare parts, improving operating and maintenance systems,<sup>33</sup> and carrying out operations in connection with the expansion of the Tamar project's supply capacity, including planning and preparations for additional well drillings and examination of alternatives for exporting gas from the Tamar project to neighboring countries.</li> <li>Preparing the Tamar 10-Inch pipeline for natural gas transmission and obtaining license for transmission via this pipeline.<sup>34</sup></li> <li>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.</li> <li>Mapping and defining additional prospects including a deep-water prospect in the Lease area.</li> </ul>	<p style="text-align: center;">-</p> <p style="text-align: center;">101,884<sup>35</sup></p> <p style="text-align: center;">38,403<sup>36</sup></p>	<p style="text-align: center;">-</p> <p style="text-align: center;">9,424</p> <p style="text-align: center;">3,552</p>
2017 <sup>37</sup>	<ul style="list-style-type: none"> <li>Continued production from the Tamar Project, ongoing operation and maintenance.</li> <li>Completion of the Tamar-8 well, connection of well to the production system and commencement of piping of natural gas therefrom.</li> <li>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</li> </ul>	<p style="text-align: center;">-</p> <p style="text-align: center;">101,094</p> <p style="text-align: center;">28,012</p>	<p style="text-align: center;">-</p> <p style="text-align: center;">9,351</p> <p style="text-align: center;">2,591</p>

<sup>32</sup> The data for the years 2016-2017 relate to the 9.25% working interest (and are based inter alia, on data from the book of Delek Drilling), while the data for 2018 and onward relate to the 16.75% working interest.

<sup>33</sup> The budget includes a sum of USD 19.1 million (100%) (the Company's share – USD 1.8 million), in accordance with an agreement signed between the Tamar Partners and the Operator in connection with indirect expenses of the Operator in the Tamar and Dalit Leases for previous years. For further details see Section 7.2.13 below.

<sup>34</sup> The transmission license was issued to Tamar 10-Inch Ltd. a company owned by the holders of the rights in the Lease.

<sup>35</sup> The budget does not include costs of equipment purchased in 2015 for the development of Tamar SW, totaling USD 33.4 million (100%) (the Company's share – USD 3.1 million), part of which was used for the Tamar-8 well.

<sup>36</sup> The detailed costs in 2016 do not include a budget update (decrease) of USD 41.4 million (100%) (the Company's share – USD 3.8 million).

<sup>37</sup> The costs detailed in 2017 do not include a budget update of USD 12.4 million (100%) (the Company's share – 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)</u> <sup>32</sup>
	function. <sup>38</sup> <ul style="list-style-type: none"> <li>• Start of reprocessing of seismic surveys.</li> <li>• Start of the project for installation of emission reduction systems on the Tamar Platform.</li> <li>• 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.</li> <li>• Mapping and defining additional prospects, including a deep-water prospect in the Lease area.</li> </ul>	1,083	100
2018	<ul style="list-style-type: none"> <li>• Continued production from the Tamar Project, ongoing operation and maintenance.</li> <li>• Continuation of the project for installation of emission reduction systems on the Tamar Platform.</li> <li>• Continued upgrading and improvement of the production system at the Tamar Platform and at the Terminal, including improving the operating systems and upgrading stainless steel pipes to prevent corrosion.</li> <li>• 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 and supplemental works.</li> <li>• Mapping and definition of additional prospects, including a deep-water prospect in the Lease area.</li> <li>• Continuation of seismic surveys reprocessing project.</li> </ul>	28,894	4,840
		24,845 <sup>39</sup>	4,161
2019 and onward <sup>40</sup>	<ul style="list-style-type: none"> <li>• Continued production from the Tamar Project, ongoing operation and maintenance<sup>41,42</sup>.</li> </ul>		

<sup>38</sup> 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. 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. Piping of natural gas from the Tamar reservoir was resumed on September 27, 2017, after the fault was repaired.

<sup>39</sup> The detailed costs do not include a decrease in investments amounting to USD 33.6 million (100%) (the Company's share – USD 5.6 million), due, inter alia, to the sale of drilling equipment, reduction of pipelines and decrease in the investment in the Tamar SW well.

<sup>40</sup> The amounts specified below are nominal amounts.

<sup>41</sup> 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, published in the Company's immediate report of March 5, 2019 (Ref. No.: 2019-01-018906), the information in which is included herein by reference (the "**Immediate Report Regarding Reserves and Cash Flow**").

<sup>42</sup> In April 2019 (during the Passover holiday) the Operator is expected to carry out upgrading and improvement works, including upgrading of the system of main shut-off valves on the Tamar Platform, during an estimated period of a week, in two intervals, during each of which natural gas will be piped from the Tamar field to the Tamar Platform through only one pipeline out of two, at half of the maximum production capacity. In the Company's estimation, the upgrading works will not have a significant effect on its revenues from natural gas sales in Q2 2019.

<b><u>The Tamar Lease</u></b>			
<b><u>Period</u></b>	<b><u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u></b>	<b><u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u></b>	<b><u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)</u></b> <sup>32</sup>
	<ul style="list-style-type: none"> <li>• Completion of seismic surveys reprocessing project and analysis of the processed surveys.</li> </ul>	248,000 <sup>43</sup>	41,540
	<ul style="list-style-type: none"> <li>• Completion of development of the Tamar SW reservoir and connection thereof to the subsea production system in the Tamar field. For further details see Section 7.2.8 below.</li> </ul>		
	<ul style="list-style-type: none"> <li>• 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 and supplemental works.</li> </ul>	600,000 <sup>44</sup>	100,500
	<ul style="list-style-type: none"> <li>• Additional well drillings and supplemental works, if needed, based on actual production data and market demand.</li> </ul>		
	<ul style="list-style-type: none"> <li>• Mapping and definition of additional prospects, including a deep-water prospect in the Lease area.</li> </ul>	11,000 <sup>45</sup>	1,840
	<ul style="list-style-type: none"> <li>• Completion of trial run and operation of the emission reduction project at the Tamar Platform.</li> </ul>	44,000	7,370
	<ul style="list-style-type: none"> <li>• Continued upgrading and improvement of the production system at the Tamar Platform and Terminal, including the improvement of the operating systems, addition of structures, upgrading of stainless steel pipes to prevent corrosion, painting of equipment and pipes and continued upgrading of the valves system.</li> </ul>	370,000 <sup>46</sup>	61,975
	<ul style="list-style-type: none"> <li>• Laying of a third pipeline from the Tamar field to the platform.</li> </ul>	50,000	8,375
	<ul style="list-style-type: none"> <li>• Payment in connection with the piping of gas through the EMG Pipeline (as hereinafter defined).</li> </ul>		

<sup>43</sup> This budget has not yet been fully approved by the Tamar Partners.

<sup>44</sup> This budget has not yet been approved by the Tamar Partners.

<sup>45</sup> This budget has not yet been approved by the Tamar Partners.

<sup>46</sup> This budget has not yet been fully approved by the Tamar Partners.

<b><u>The Dalit Lease</u></b>			
<b><u>Period</u></b>	<b><u>Concise Description of Activities Actually Performed for the Period or of the Planned Work Plan</u></b>	<b><u>Total Estimated Budget for the Activity at the Petroleum Asset Level (U.S. Dollars in thousands)</u></b>	<b><u>Amount of Actual Participation in the Budget by the Holders of the Equity Interests of the Company (U.S. Dollars in thousands)</u></b>
2016-2018	<ul style="list-style-type: none"> <li>● Examination of development alternatives, taking into consideration the development plans of the adjacent reservoirs and the production data from the Tamar reservoir.</li> <li>● 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.</li> <li>● Mapping and definition of additional prospects in the Lease area, including a deep-water prospect in the Lease area.</li> </ul>	-	-
2019 and onward	<ul style="list-style-type: none"> <li>● Examination of development alternatives, taking into consideration the development plans of the adjacent reservoirs and the production data from the Tamar reservoir.</li> <li>● 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.</li> <li>● Mapping and definition of additional prospects in the Lease area, including a deep-water prospect in the Lease area.</li> <li>● 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.</li> </ul>	-	-

### 7.2.6 Development plan for the Tamar Project<sup>47</sup>

At present, the Tamar Project includes six subsea production wells, each of which is able to produce approximately 250 MMCF per day. Gas flows from the wells in the Tamar field through two 16-inch pipes with a length of 150 km (the "**Double Pipeline**") to a treatment platform constructed offshore Ashkelon (the "**Tamar Platform**"), approximately 2 km north of the platform of the Yam Tethys Project.<sup>48</sup> From the Tamar Platform the natural gas and condensate flow, respectively, in a 30-inch pipe and a 6-inch pipe to the Terminal for completion of treatment, and from there the natural gas flows to the national transmission system of IGL and the condensate is piped to the nearby Paz Ashdod Refinery.

On August 29, 2016, the Minister of Energy granted the Tamar Partners<sup>49</sup> a license to operate a 10-inch pipe (originally designated for the transmission of condensate from the Tamar Platform to the shore) 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, which was completed in 2017, for the purpose, inter alia, of increasing the redundancy of 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 IGL 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, 2017 to December 31, 2018) totaled about 0.97 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, 2018 is approximately USD 4.5 billion (100%) (including exploration costs, and excluding disposal and abandonment costs and exploration costs in the Dalit Lease).

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<sup>47</sup> The development plan for the Tamar Project submitted to the Petroleum Commissioner by the Operator, in the name of the Tamar and Dalit lease partners, included, inter alia, a consideration of the development of the Dalit Lease.

<sup>48</sup> 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.

<sup>49</sup> 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.

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

Overall supply capacity of the Tamar facilities is currently limited to the flow capacity of the Double Pipeline. As of the date of publication of this report, the Tamar Partners are examining possibilities for expanding the supply capacity from the Tamar Project, to the extent required, based on expected demand in the domestic market and for export.

Expansion of the supply capacity will include the development of the Tamar SW reservoir and may also include the drilling and/or completion of additional production wells, which will be connected to the existing subsea production system, as well as the laying of an additional, third supply pipe from the Tamar field to the Tamar Platform.

### 7.2.8 Development of the Tamar SW reservoir

According to the development plan of the Tamar SW reservoir, which was approved by the Petroleum Commissioner in January 2019, taking into consideration the provisions of the Gas Framework set out in Section 7.16.1(c)(3) below, the Tamar SW reservoir is to be developed and connected to the subsea facilities of the Tamar Project. The development cost of the Tamar SW reservoir in this format was partially approved by the Tamar Partners and is expected to amount to USD 340 million.<sup>50</sup> The Tamar Partners estimate that development of the Tamar SW reservoir and its connection to the production system will be done in 2021. It should be noted that the Tamar SW reservoir partly overflows into the area of the 353/Eran license, which expired on June 14, 2013. In the framework of a mediation proceeding of the Eran partners with the Petroleum Commissioner in connection with the expiry of the license,<sup>51</sup> the Eran license partner asked the Tamar Partners for their consent to divide the Tamar SW reservoir according to a ratio of 78% for the Tamar Lease and 22% for the Eran license. In March 2019 the Tamar Partners gave their consent to said division, based on assessments of the Operator, NSAI and the Ministry of Energy's reserves appraiser. For details regarding a legal proceeding in connection with the development of the Tamar SW reservoir, see Section 7.21.4 below.

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

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<sup>50</sup> As of December 31, 2018, a sum of USD 92 million was invested.

<sup>51</sup> As of the report publication date, the mediation settlement between the parties was submitted to the court.

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

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 (i.e. the Company (starting from July 2017), Isramco, Dor Gas and Everest) 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 also in the Tamar Project (i.e. Noble and Delek Drilling), in proportion to their share in the Tamar Project.

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

As of October 2017, the Yam Tethys Partners have been supplying natural gas in accordance with the Early Agreements, from the Yam Tethys reservoir alone. In May 2018 the Yam Tethys Partners entered into a spot agreement with the Tamar Partners (which was updated in September 2018), for the sale of production surpluses from the Yam Tethys reservoir (that are not material) to the Tamar Partners, for the purpose of selling them to the Tamar Project customers, for a period of 24 months starting from October 1, 2017.

**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 expenses and revenues of the Tamar Lease and the Dalit Lease

<u>Participation Rate</u>	<u>Percentage Before Return on Investment</u>	<u>Percentage After Return on Investment<sup>52</sup></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 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 revenues from the petroleum asset attributable to the holders of equity interests of the Company	14.21%	13.74%	84.84%	82.03%	See the calculation in Section 7.2.11 below.
Actual rate in expenses involved in exploration, development or production activities in the petroleum asset attributable to the holders of equity interests of the Company	16.92%	16.92%	101%	101%	See the calculation in Section 7.2.12 below.

<sup>52</sup> As of the date of the report, the Company pays royalties to the Delek Group and to Delek Energy/Delek Royalties (2012) Ltd. according to the increased rate after the return on investment date (6.5%) (instead of 1.5%), on its revenues deriving from the Rights Acquired from Delek Drilling. For details on the issue of the determination of the return on investment date, see Section 7.19 below.

7.2.11 Explanation of the calculation of the actual rate in revenues from the Tamar Project attributable to the holders of equity interests of the Company

<u>Item</u>	<u>Before Return on Investment</u>	<u>After Return on Investment<sup>53</sup></u>	<u>Concise Explanation of How Royalties or Payments Are Calculated</u>
Projected annual revenues of petroleum asset	100%	100%	
<b><u>Specification of the royalties or payment (deriving from revenues post-finding) at the petroleum asset level:</u></b>			
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%	
Share in revenues deriving from the petroleum asset attributable to the holders of equity interests of the Company	16.75%	16.75%	
Total share of the holders of 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%	
<b><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 equity interests of the Company in the petroleum asset):</u></b>			
Rate of the holders of 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.
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<sup>53</sup> See footnote 52 above.

<u>Item</u>	<u>Before Return on Investment</u>	<u>After Return on Investment<sup>53</sup></u>	<u>Concise Explanation of How Royalties or Payments Are Calculated</u>
Actual rate in revenues from the petroleum asset attributable to the holders of 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 equity interests of the Company in exploration, development and production expenses of the Tamar Project

<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%	
<b><u>Specification of the payments (derived from the expenses) at the petroleum asset level:</u></b>		
The Operator	1%	Starting from January 1, 2016, the Operator will be entitled to reimbursement of its indirect expenses at a rate of 1% of all the direct expenses, subject to certain exclusions.
Total actual expense rate at the petroleum asset level	101%	
Rate of the holders of equity interests of the Company in the expenses of the petroleum asset	16.75%	
Total actual rate of the holders of equity interests of the Company in the expenses, at the petroleum asset level (and before other payments at the Company level)	16.92%	
<b><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 equity interests of the Company in the petroleum asset):</u></b>		
Actual rate in the expenses entailed in exploration, development or production activities in the petroleum asset, attributable to the holders of equity interests of the Company	16.92%	

7.2.13 Royalties and payments paid during exploration, development and production operations in the petroleum asset<sup>54</sup> (USD in thousands)

<u>Tamar Lease</u>		
<u>Item</u>	<u>Total rate of holders of equity rights of the Company in investments in this period in the petroleum asset (including costs for which no payments are made to the Operator)</u>	<u>Of which, rate of holders of equity rights of the Company in payments to the Operator (beyond reimbursement of Operator's direct expenses)</u>
Actual budget invested in 2016	21,903	2,172 <sup>55</sup>
Actual budget invested in 2017	21,114	218
Budget invested in 2018	29,303	290

<u>Dalit Lease</u>		
<u>Item</u>	<u>Total rate of holders of equity rights of the Company in investments in this period in the petroleum asset (including costs for which no payments are made to the Operator)</u>	<u>Of which, rate of holders of equity rights of the Company in payments to the Operator (beyond reimbursement of Operator's direct expenses)</u>
Actual budget invested in 2016	-	-
Actual budget invested in 2017	-	-
Budget invested in 2018	-	-

7.2.14 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**").

<sup>54</sup> The costs in 2016-2017 are according to a 9.25% interest of the asset, and in 2018 according to a 16.75% interest in the asset.

<sup>55</sup> Including payment to the Operator due to accounting for the period from July 2006 until the end of 2015.

- (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,<sup>56</sup> and any and all the credits to the joint account,<sup>57</sup> 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 and fees.

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<sup>56</sup> 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.

<sup>57</sup> 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's function may not be assigned without the prior written agreement of the parties to the JOA (other than the Operator) as well as any consent required on the part of the Petroleum Commissioner, except for assignment to a related party of the Operator as defined in the JOA.
- (4) 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.
- (5) 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.
- (6) 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.

- (7) 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.
- (8) 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.
- (9) 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.
- (10) 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 to do so without compromising the interests of the joint operations.
- (11) 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.

- (12) 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 to terminate the Lease or the waiver of any part of the area of the Lease requires a favorable vote by all parties. A positive decision by any one party to

the JOA suffices for the approval of any application for a license or renewal of a license or lease.

(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 Operating Committee may remove the Operator from its position by 90 days' prior written notice thereto, if the Operator, in the reasonable opinion of the other (non-operator) parties to the JOA, 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.

- (4) In the event of the Operator's resignation or dismissal, the Committee will elect, as soon as possible, but in no case later than 30 days from the date of the notice regarding the Operator's resignation or dismissal, as aforesaid, one of the (non-operator) parties to the JOA who will agree to assume the position of Operator, subject to any approval required from the Petroleum Commissioner. In the event of the Operator's dismissal, if the outgoing Operator decides not to vote for one of the (non-operator) parties to the JOA as the new Operator, but to vote for itself or for a related part of the outgoing Operator, such vote will not be taken into account. If the parties do not elect a new Operator, the (non-operator) party to the JOA holding the largest percentage of all the working rights will be appointed as the Operator, provided it agrees to assume the position and subject to any approval required from the Petroleum Commissioner. If two parties hold the largest percentage of all the working rights, the decision between the two will be made by a vote of the Committee.
- (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.
- (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.

(k) Rights and obligations with respect to production

- (1) Each party has the right and obligation to take its share in the hydrocarbons produced from the Leases, in accordance with the provisions of the JOA.
- (2) The JOA does not regulate the joint sale of natural gas or LNG produced from the Leases.

(l) The governing law and settlement of disputes

The JOA is subject to English law. Also, any dispute will be settled by arbitration in accordance with the Arbitration Rules of the International Chamber of Commerce. In an arbitration proceeding a single arbitrator will be appointed who is not a resident or citizen of Israel or England.

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<sup>58</sup> reservoirs), the discounted cash flow deriving from the Tamar Lease and the production data from the Tamar Lease, and regarding a report received from Netherland, Sewell & Associates Inc. ("NSAI") concerning such reserves and cash flow, as of December 31, 2018, see the immediate report on reserves and cash flow. Attached as **Appendix A** to this report is the consent of NSAI to the inclusion of said report herein, including by reference, and a letter from March 19, 2019 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. For details regarding reports the Company received from NSAI concerning

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<sup>58</sup> The reserves in the Tamar SW reservoir do not include the part that overflows into the area of the Eran license.

such resources 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 as **Appendix A** hereto is NSAI's consent to the inclusion of said report in this report, including by reference.

### 7.3 Products

#### 7.3.1 Natural gas

The natural gas discovered in the Tamar reservoir is dry and without corrosive components, 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 LNG) by cooling the gas to a temperature of minus 161°C, which decreases its volume by a factor of 600 and enables its transportation and storage in large quantities; and (c) through the compression thereof (CNG), which decreases its volume by a factor of 100-300, depending on the compression pressure. Both liquefied gas and compressed gas may be 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 is small and 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 report publication date, the Tamar Partners (including the Company) export gas to Jordan under the agreements specified in Section 7.4.5(a) below. The Tamar Partners have also signed an agreement for the export of natural gas with Dolphinus, as detailed in Section 7.4.5(b) below. Additionally, negotiations are underway for the export of natural gas to other consumers, as specified in Section 7.4.5 and 7.5.2 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 is expected to materially affect the Company's future revenues. The Company's revenues from the IEC accounted for 53% and 50% of its total revenues for 2017 and 2018, respectively. The rest of the revenues in 2018 came from private electricity producers, industrial customers and natural gas marketing companies. However, the more the customer base of the Tamar Partners expands in the domestic and 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. For details regarding an amendment to the agreement between the Tamar Partners and the IEC, and the proposal submitted by the Tamar Partners to the IEC in connection with the supply of natural gas, see Section 7.4.4(d)(18) below.

7.4.4 Engagements for the supply of natural gas

(a) The following table presents a summary of the agreements pursuant to which the Tamar Partners supply natural gas to their customers, as of the report publication date. It should be noted that aside from the IEC and Dalia Power Energies Ltd. ("**Dalia Energies**"), the Tamar Partners have no other customer that provided them with revenues in any of the years 2016-2018 which accounted for more than 10% of the Company's revenues. 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 Period <sup>59</sup>	Is there an Extension Option?	Total Maximum Quantity for Supply (100%) (BCM) <sup>60</sup>	Quantity Supplied by December 31, 2017 (100%) (BCM)	Main Linkage Basis of Gas Price
IEC <sup>61</sup>	2013	15 years	Option for a two-year extension.	87	25.8	U.S. Consumer Price Index(U.S. CPI)
Dalia Energies <sup>62</sup>	2015	17 years	Option for a two-year extension.	23.3	4.1	The linkage formula is mainly based on linkage to the Electricity Production Tariff and includes a "floor price".
Other private electricity producers <sup>63</sup>	2013-2020	15-18 years except for one agreement for a shorter period	Some of the agreements include an option for an extension of one to three years <sup>64</sup> .	57.5	12.2	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. In all the agreements the gas price is determined by a formula that includes a base price and linkage, and includes a "floor price".

<sup>59</sup> 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.

<sup>60</sup> This is the maximum quantity for the supply of gas specified in the agreements for the entire period of the agreements. The quantity the customers undertook to purchase is lower than said quantity (for details see Section 7.4.4(c) below).

<sup>61</sup> In the Company's estimation, as of December 31, 2018, the balance of the financial scope of the agreement with the IEC will be USD 6,040 million (100%), based on the minimum gas quantities for which there is a "Take or Pay" obligation, assuming non-utilization of the Carry Forward (as hereinafter defined) (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.

<sup>62</sup> In the Company's estimation, as of December 31, 2018, the balance of the financial scope of the agreement with Dalia Power Energies Ltd. will be USD 1.340 million (100%) based on the minimum gas quantities for which there is a "Take or Pay" obligation, assuming non-utilization of the Carry Forward (as hereinafter defined), and based on the Company's estimate of the gas price during the supply period.

<sup>63</sup> It should be clarified that in some of the agreements, not all of the conditions precedent to the agreement have been fulfilled.

<sup>64</sup> 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 Period <sup>59</sup>	Is there an Extension Option?	Total Maximum Quantity for Supply (100%) (BCM) <sup>60</sup>	Quantity Supplied by December 31, 2017 (100%) (BCM)	Main Linkage Basis of Gas Price
Other industrial customers	2013-2017	5-7 years	In one of the agreements there is an option for extension by another two years.	7.6	5.0	In most of the agreements the linkage formula is based on linkage to the Brent prices and includes a "floor price" (in one agreement, in addition to the foregoing, the linkage formula is also based, to a small degree, on the Electricity Production Tariff). 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	2013-2018	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 agreements as detailed at length in Section 7.4.5(a)	2017	15 years	Option for a two-year extension.	3 <sup>65</sup>	0.2	The linkage formula is mostly based on linkage to the Brent prices and includes a "floor price".
<b>Total</b>				<b>179.9</b>	<b>47.5</b>	

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<sup>65</sup> It should be noted that the last agreement with NBL, signed in October 2018, is on an interruptible basis for the supply of a total quantity of up to 1 BCM. For details see Section 7.4.5(a) below.

(b) The following table presents a breakdown of the Company's revenues for the years 2016-2018 according to the price linkage basis specified therein<sup>66</sup>:

Customer Type	2016		2017		2018		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)	87.9	55	91.7	54	154.3	50	U.S. Consumer Price Index(U.S. CPI)
Private electricity producers							The linkage formula is mainly based on linkage to the Electricity Production Tariff and includes a "floor price".
Dalia Power Energies Ltd.	16	10	19.5	11	31.5	10	
Others	33.6	21	41.9	24	91.5	29	
Industrial customers and marketing companies							The linkage formula is mostly based on linkage to the Brent prices and includes a "floor price".
Others	22.4	14	19.2	11	34	11	

<sup>66</sup> It should be noted that the following data relate to a 9.25% interest, except for 2018, for which the data starting from March 14, 2018 relate to a 16.75% 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 ("**Carry Forward**"). In addition, provisions and mechanisms have been established allowing said purchasers, after consuming the Minimum Quantity for billing for a certain year, to receive in the same year gas for no additional payment up to the remaining quantity of gas not consumed in previous years, in respect of which they paid the sellers pursuant to their obligation for the Minimum Quantity for billing as aforesaid.
  - (2) Following the decisions of the Competition Commissioner noted in Section 7.16.4(c) 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**"), some of the 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 Competition Commissioner's decision mentioned in Section 7.16.4(c) below. For details regarding the Competition Commissioner's aforementioned decisions, see Section 7.16.4 below.

- (3) In this connection it is noted that at the beginning of 2019 the Tamar Partners signed an amendment to the agreement with Dalia Energies, in which Dalia Energies undertook to purchase from the Tamar Project the entire quantities of natural gas it will consume in its facilities during the period from the date when gas begins to flow from the Leviathan reservoir to the date when, and if, Dalia Energies exercises the Option (in this section, the "**Period**"). Furthermore, the parties agreed in the framework of said amendment that for the purpose of calculating the average annual quantity consumed by Dalia Energies under the agreement in the three years prior to the notice of exercise of the Option with respect to the Period, the calculation will be made based on the Minimum Quantity for billing (according to the mechanism established in the amendment to the agreement with it), and not based on the quantity actually taken by Dalia Energies. The amendment to the agreement with Dalia Energies is subject, inter alia, to the approval of the Competition Authority.
- (4) 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).
- (5) 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 allows them to supply 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.

- (6) 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 starting from that date.
  - (7) 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; provisions regarding the parties' right to assign their rights under the agreements; the parties' exemption from liability in the event of force majeure (as defined in the agreements); mechanisms for the settlement of disputes and disagreements between the parties, and with respect to the relations among the sellers themselves, in all matters related to the gas supply to such purchasers.
  - (8) The agreements are subject to Israeli law and are construed in accordance therewith.
- (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) The period of the Agreement will continue up to the supply of the total contract quantity specified in the Agreement or until July 1, 2028, whichever is earlier, unless the Agreement is terminated earlier by one of the parties, or extended, in accordance with the terms thereof.
  - (3) 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.
  - (4) 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.
  - (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 additional natural gas quantities that will be consumed by the IEC in the framework of the options for increasing the quantities specified in the agreement, as of 2014, the gas price (for gas quantities consumed above 24,000 MMBTU per hour) is linked only to 30% of the rate of change 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 (the "**First Adjustment Date**") and July 1, 2024 (the "**Second Adjustment Date**"). On the First Adjustment Date (July 1, 2021) the price will be adjusted within a range of up to 25% (addition or reduction), and on the Second Adjustment Date (July 1, 2024), the price will be adjusted within a range of up to 10% (addition or reduction) of the price on that date.<sup>67</sup> If the Tamar Partners and the IEC do not reach agreement on the price adjustment rate, each party may refer the matter to arbitration.
- (8) If one of the parties to the agreement does not pay on time a payment that is required of it under the agreement, the amount in arrears will accumulate interest at an annual rate equal to LIBOR plus 5%, starting from the payment date according to the agreement until the actual date of payment. If the delay in payment lasts seven days or more, the party entitled to the payment may, by 14 days' prior written notice, suspend the delivery or receipt of gas, as the case may be. If the delay in payment lasts 120 days after the relevant payment date, the party entitled to the payment may terminate the agreement by 14

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<sup>67</sup> 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.

days' prior written notice. Exercise of the right to terminate the agreement shall not constitute waiver of other remedies available to that party.

- (9) The IEC or the Tamar Partners will be entitled to terminate the agreement, if the other party has committed an act of insolvency (as 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. If owing to force majeure the Tamar Partners or the IEC are unable to perform a material obligation required under the agreement, and their inability to perform such obligation lasts for a period of three consecutive years, the other party will be entitled to terminate the agreement by at least 90 days' prior written notice. 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.
- (10) 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, both on an annual basis and throughout the period of the agreement. The IEC is not liable towards the Tamar Partners and the Tamar Partners are not liable towards the IEC for indirect, consequential or punitive damages or losses. The Tamar Partners will be liable, severally, but not jointly, for such breaches of the agreement.

- (11) 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.
- (12) 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.
- (13) The delivery of the gas is done at the connection point to the IGL national transmission system, adjacent to the Terminal or at any other connection point which will be agreed upon by the parties.
- (14) 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.
- (15) 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).
- (16) The IEC or the Tamar Partners, as the case may be, will be released from liability under the Agreement, if their non-compliance with an obligation under the Agreement (including the obligation to make reasonable efforts) results from a force majeure event, but only

insofar as the performance of such obligation was prevented, frustrated or delayed in light of the force majeure event. The term "force majeure" is defined in the Agreement and includes mainly any event or any circumstances beyond the control of the IEC or the Tamar Partners (who have acted and are acting in a reasonable and prudent manner), which caused the IEC or the Tamar Partners not to perform or to be unable to perform one or more of their obligations (including the obligation to make reasonable efforts) under the Agreement.

- (17) The Agreement with the IEC is subject to Israeli law and is construed in accordance therewith. Any disagreement or claim relating to the Agreement will be resolved by a decision of an expert on certain matters specified in the Agreement (mainly of a professional-technical nature), or in an arbitration proceeding according to procedures established in the Agreement.
- (18) On February 14 2019, the Company's board of directors approved an amendment to the Agreement in connection with the gas price which is to apply until the First Adjustment Date and with respect to the daily quantity of gas the IEC will be entitled to order under the Agreement (the "**Amendment to the Agreement**"), as detailed below. The Amendment to the Agreement is expected to be signed following the receipt of the regulatory approvals required by the IEC (insofar as they are received). It should be noted that, to the best of the Company's knowledge, on February 14, 2009, the IEC's board of directors approved the principles of the Amendment to the Agreement and authorized the IEC's management to sign it following the receipt of the relevant regulatory approvals, insofar as they may be required.

The Amendment to the Agreement provides that starting from January 2019 until the First Adjustment Date (the "**Interim Period**"), the linkage clause stipulated in the Agreement (detailed in Subsection (6) above) will not be applied, thus the price payable by the IEC will be the contractual price that was in effect during 2018. On the First Adjustment Date the contractual price will be adjusted as stipulated in the Agreement, taking into account the contractual

price that would have been paid if not for the Amendment to the Agreement, i.e. the contractual price assuming application of the linkage stipulated in the Agreement.

The Company estimates the amount of the savings that will accrue to the IEC from the aforesaid Amendment to the Agreement during the Interim Period at USD 85 million (100%) (the Company's share – USD 14 million) (the "**Savings Amount**").

Insofar as it is determined that a price reduction is required on the First Adjustment Date, the parties will hold discussions on the manner and extent to which the Savings Amount may be taken into account in such reduction.

The Amendment to the Agreement likewise provides that starting from the date on which gas begins to flow from the Leviathan Project to the Israeli market, the maximum daily gas quantity the IEC is entitled to order under the Agreement will be reduced from 655,200 MMBTU to 500,000 MMBTU, without reducing the minimum annual quantity the IEC undertook to take or pay as stipulated in the Agreement.

The Amendment to the Agreement will be subject to the approval of the financing bodies of some of the Tamar Partners as well as the approval of the Competition Authority, insofar as such approval is required by law.

**Caution regarding forward-looking information – The expectations regarding the signing of the Amendment to the Agreement constitute forward-looking information as defined in Section 32A of the Securities Law, 5728-1968 (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 significantly different manner, due to various factors, including failure to receive the regulatory approvals required by the IEC prior to the signature of the Amendment to the Agreement, the approval of the financing bodies of some of the Tamar Partners and the approval of the Competition Authority (insofar as required).**

**The Company's assessment regarding the savings that will accrue to the IEC constitutes forward-looking information as defined in Section 32A of the Securities Law, 5728-1968 (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 significantly different manner, due to various factors, including changes in the quantities that will be consumed by the IEC and changes in the U.S. CPI in the Interim Period.**

On December 2, 2018, the IEC submitted to the Tamar Partners and to the Leviathan Partners a request to receive proposals for the supply of natural gas in an estimated annual quantity of up to 2 BCM, to be supplied starting from the later of October 1, 2019 or the date on which gas production from the Leviathan reservoir begins, until the earlier of June 30, 2021 or the date on which gas production from the Karish reservoir begins (in this section: the "**Supply Period**"). During the Supply Period, the IEC will turn only to the winner to purchase gas, according to its needs, beyond the gas supplied to it under the Agreement with it as described above. On March 7, 2019, the Company together with the Tamar Partners submitted a proposal.

**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 significantly 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 "**First 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.

On October 14, 2018, an additional gas supply agreement was signed between the Tamar Partners and NBL for the export of natural gas to Jordan and the supply thereof to the aforementioned Purchasers (the

"**Second NBL-Tamar Agreement**"). Concurrently with the signature of the Second NBL-Tamar Agreement, NBL signed an additional agreement with the Purchasers according to which the Purchasers will purchase from NBL an additional quantity of natural gas to be used by them as stated in their plants which are located on the eastern bank of the Dead Sea in Jordan (the "**Second Supply Agreement**"), on an interruptible basis, for a total of 1 BCM, with NBL having a right, at the times specified in the agreement, to notify the Purchasers that the supply under the Second NBL-Tamar Agreement will be made on a firm basis. Supply under the Second NBL-Tamar Agreement began in the first quarter of 2019 and is expected to continue until the supply end date under the First Supply Agreement. Regarding the NBL agreements see also Section 7.16.7(c) below.

In the framework of tax rulings issued to the Tamar Partners by the Israel Tax Authority in connection with the NBL-Tamar Agreement and the Second NBL-Tamar Agreement, the Tamar Partners undertook to propose to new potential customers to enter into natural gas sale agreements at a price to be calculated according to the best Brent-price-based formula as detailed in the Gas Framework, with said proposal undertaking to apply for a period of three years from the date of the government's decision (i.e., until August 16, 2018) and from the date of signing of the Second NBL-Tamar Agreement (i.e., until October 14, 2021), respectively. The proposal will be implemented in accordance with the provisions of the Gas Framework, including with respect to the date of supply, which can be any date from the start of supply under the aforementioned export agreements (the first and second, as the case may be) and up to six years from the date of signing thereof. For details see Sections 7.16.1(c)(1) and 7.16.1(c)(5) below.

- (b) On March 17, 2015, the Tamar Partners signed an agreement for the supply of natural gas from the Tamar Project to Dolphinus Holdings Limited<sup>68</sup> ("**Dolphinus**" or the "**Purchaser**").

On February 19, 2018, Delek Drilling and Noble (jointly in this section: the "**Sellers**") signed an agreement with Dolphinus for the export of natural

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<sup>68</sup> To the best of the Company's knowledge, the Purchaser represents a consortium of large non-governmental industrial and commercial gas consumers, gas distributors and entrepreneurs headed by Dr. Alaa Arafa.

gas from the Tamar Project to Egypt (in this section: the "**Tamar-Dolphinus Agreement**"), the financial scope of which is significantly greater than that of the agreement between the Tamar Partners (including the Company) and Dolphinus from March 17, 2015, and which was signed with the intent of replacing the latter agreement.

On September 26, 2018, the Sellers assigned the Tamar-Dolphinus Agreement to the other Tamar Partners. Additionally, on the same date the Tamar Partners signed a nonbinding memorandum of understanding with Delek Drilling and Noble (in this section: the "**MOU**") in connection with capacity allocation and other arrangements for the transmission of natural gas via transmission infrastructures from Israel to Egypt, including the existing transmission pipeline of EMG (the "**EMG Pipeline**") and the pan-Arab pipeline through Aqaba to Egypt (jointly: the "**Transmission Infrastructures**").

As the Company was informed by Delek and Noble, concurrently with the assignment of the Tamar-Dolphinus Agreement, the Sellers assigned to the partners in the Leviathan Project (Delek Drilling, Noble and Ratio Gas Exploration – Limited Partnership) (the "**Leviathan Partners**") the agreement signed between them and Dolphinus for the export of natural gas to Egypt from the Leviathan Project (the "**Leviathan-Dolphinus Agreement**"), and the Leviathan Partners also signed a nonbinding memorandum of understanding for capacity regulation and other arrangements in connection with the Transmission Infrastructures. For details regarding agreements signed by the Sellers for the purchase of part of EMG's shares see Section 7.5.2(c)(2) below.

The following is a summary of the terms and conditions of the Tamar-Dolphinus Agreement:

- (1) Initially, the gas will be supplied to Dolphinus on an interruptible basis. Likewise, the Tamar Partners have been given an option to notify Dolphinus that the gas supply will become, in whole or in part, firm (non-interruptible) (in this section: the "**Option**"). The Option may be exercised by the Tamar Partners, in whole or in part, during the period from July 2020 through December 2021, or during another period, as agreed between the Tamar Partners and Dolphinus.

- (2) As of the Option exercise date, the Tamar Partners will be obligated to supply Dolphinus with an annual quantity of up to 3.5 BCM (according to the quantities in respect of which the Option is exercised), and Dolphinus will be obligated to take or pay for the minimum annual quantity of natural gas according to the mechanism set out in the Tamar-Dolphinus Agreement. The total contract gas quantity specified in the Tamar-Dolphinus Agreement is 32 BCM.
- (3) The price of the gas to be supplied to Dolphinus under the Tamar-Dolphinus Agreement will be determined according to a formula based on the price per barrel of Brent oil.
- (4) Supply under the Tamar-Dolphinus Agreement is expected to start during 2019, after regulation of the use of the infrastructures required for natural gas transmission to Egypt. The period of the agreement is until the supply of the total contract quantity specified in the Tamar-Dolphinus Agreement or until the end of December 2030, whichever is earlier.
- (5) The Tamar-Dolphinus 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 with IGL (to the extent required), receipt of guarantees in favor of the Tamar Partners as required under the Tamar-Dolphinus Agreement, and receipt of approvals from the tax authorities in Israel with respect to transactions the subject of the Tamar-Dolphinus Agreement.

It should be noted that as of this date of this report, the parties are conducting negotiations in connection with amendments to the Tamar-Dolphinus Agreement and the MOU, which have still not produced agreements.

It should be clarified that there is no certainty that the sale of gas under the Tamar-Dolphinus Agreement will materialize, inter alia if the aforementioned negotiations to amend the agreement do not reach a conclusion and/or if the conditions precedent in the Tamar-Dolphinus Agreement are not fulfilled, in whole or in part.

**Caution regarding forward-looking information – The above assessments regarding the gas transmission possibilities, the expected date of supply, the natural gas quantities that will be bought by Dolphinus and the binding arrangements that will be determined 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 significantly 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 Dolphinus, a change of gas price owing to a change in the price per barrel of Brent oil, and changes in the Tamar-Dolphinus Agreement, should any occur in the wake of the negotiations that are being conducted as aforesaid.**

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 from March 30, 2018. The price of condensate was determined based on Brent prices minus the spread, as prescribed in the supply agreement. All 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 existing consumers, and 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 IGL (the "**National Transmission System**"), and the completion of the regional distribution systems.

## 7.5.2 Export

### (a) General

The Company, together with the Tamar Partners, is acting to find foreign markets for marketing natural gas. In the Company's estimation, potential markets include countries located close to Israel (including the Palestinian market, which currently purchases electricity from Israel, and regarding which there are plans to build in it power plants for generating its own electricity), chief among them Egypt and Jordan, to which natural gas may be exported through a pipeline, and the more distant global markets to which natural gas may be exported as LNG or as CNG (compressed natural gas). In the framework of export marketing efforts by the Company and the Tamar Partners, agreements have been signed with customers in Jordan and Egypt and negotiations for the supply of natural gas are currently being conducted with other customers in Jordan and Egypt.<sup>69</sup>

### (b) Pipelines

(1) The Tamar Partners are promoting contacts and/or negotiations, at various stages, pertaining to the export of significant amounts 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, such as 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**

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<sup>69</sup> For details regarding the export agreements that were signed, see Section 7.4.5 above.

**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 might materialize in a significantly 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.**

Additionally, to the best of the Company's knowledge, contacts are underway and a technical feasibility study is being carried out by various government entities and external business entities, and with their financing, for the construction of a pipeline for exporting natural gas to Italy through, inter alia, Cyprus and Greece.

- (c) The following is a description of the key potential target markets for the export of natural gas through pipelines from the Tamar Project<sup>70</sup>:
- (1) Jordan – To the best of the Company's knowledge, gas consumption in Jordan for domestic use stood at 3.9 BCM in 2017, an increase of 6% over 2016. Consumption in 2018 is estimated at slightly more than 4 BCM. The demand for natural gas in the Jordanian domestic market in 2020 is expected to amount to 4 BCM per year. In the area of electricity production, natural gas is the main production source in Jordan, and according to reports currently accounts for more than 90% of total electricity production, with the remainder derived from renewable energy sources. Most of the gas supplied to Jordan arrives through a floating regasification facility for the import of LNG, located near Aqaba, which began operating in 2015. Following the import of 2.1 BCM in the first year (2015), LNG imports in 2017 increased by 80% to stand at more than 3.5 BCM. As of the beginning of 2017, the Tamar Partners have been exporting 0.15 BCM of natural gas per year to two industrial plants situated on the eastern bank of the Dead Sea in Jordan, as described in Section 7.4.5, through the connection of the Israeli transmission system to plants located on the eastern bank of the Dead Sea in Jordan (the

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<sup>70</sup> Said information was prepared by the Company based, inter alia, on data from various consulting companies.

"**Southern Pipeline**"). In addition, construction of a new natural gas pipeline connecting the IGL transmission system (from the Dovrat area) to the border with Jordan has been completed, while the construction of a pipeline connecting the new pipeline that was constructed by IGL on the Israeli-Jordanian border to the existing transmission pipeline in Jordan (the Pan-Arab Pipeline operated by a Jordanian-owned company, FAJR) (the "**Northern Pipeline**") is expected to be completed in 2019.

Based on data provided to the Company by the Operator, the capacity of the Northern Pipeline will enable piping natural gas in an annual quantity of up to 7 BCM to Jordan, and via Jordan to Egypt.

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

- (2) Egypt – To the best of the Company's knowledge, natural gas plays a major role in the Egyptian energy market, accounting in 2017 for 55% of Egypt's energy sources, compared to oil and coal, which accounted for 38% and less than 3%, respectively.

Natural gas in Egypt is used mainly to produce energy, but also for industry and households. The Company's understanding is that local production in Egypt in 2017 stood slightly above 50 BCM, with an increase in production capacity demonstrated for the first time since 2010, resulting mainly from the start of natural gas production from new gas fields. In the Company's estimation, Egypt's production capacity will reach 80 BCM in 2020, after which additional gas sources will be needed to meet demand. It should be noted that the seasonality of natural gas use in Egypt contributes to Egypt possibly 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, enabling the export of up to 18-20 BCM per year, apart from local demand. As of the report publication date, due to a shortage of natural gas in Egypt, these facilities are operating at low capacity or are not operating at all. 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 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, such as the most recent exploration tender whose results were published in February 2019 and in the framework of which 12 offshore and onshore blocks were allocated for oil and natural gas exploration. Natural gas exploration activity which is promoted by the Egyptian government may boost and accelerate natural gas exploration activity in Egypt, possibly resulting in additional natural gas discoveries in Egypt.

Additionally, as the Tamar Partners were informed by Delek Drilling and Noble, EMED Pipeline BV ("**EMED**"), which is jointly owned by subsidiaries of Noble, Delek Drilling and an Egyptian partner, entered on September 26, 2018 into agreements for the acquisition of some of the shares of EMG (the "**EMG Transaction**"), the closing of the EMG Transaction being contingent, inter alia, on the signing of a capacity and operating agreement between EMED and EMG, under which EMG will grant EMED the exclusive right to lease and operate the EMG Pipeline for the transmission of natural gas from Israel to Egypt. Likewise, on September 26, 2018 the Tamar Partners signed a nonbinding memorandum of understanding in connection with capacity allocation and other arrangements for the transmission of natural gas via transmission infrastructures from Israel to Egypt, including via the EMG Pipeline and via the pan-Arab pipeline through Aqaba. For further details regarding the aforementioned memorandum of understanding and the entry into an agreement for the export of natural gas to Egypt, see Section 7.4.5 above.

To the best of the Company's knowledge, as of the report approval date, Delek Drilling and Noble are promoting various other possibilities for transmitting natural gas from Israel to Egypt, in the framework of which negotiations are being held for the transmission

of natural gas from Israel through Jordan (using the pan-Arab pipeline), by means of the Northern Pipeline, and consideration is being given to the possibility of constructing a new underwater pipeline to Egypt and/or constructing a new overland connection between the Israeli transmission system and Egypt (in the area of Nitzana or Kerem Shalom), to be executed by IGL. Likewise, consideration is being given to the possibility of implementing a direct underwater connection of the Tamar and/or Yam Tethys and/or Leviathan platforms to the EMG Pipeline, thereby obviating the need for using the IGL transmission system and the site of the Eilat-Ashkelon Pipeline Company Ltd. ("EAPC") and enabling a flow of 7 BCM (and even more) per year through the EMG Pipeline. Concurrently, consideration is being given to releasing bottlenecks in the IGL system so as to increase the possible flow capacity through the EMG Pipeline.

According to an assessment provided to the Company by Noble, in light of expected demand in the Israeli domestic market and based on the existing transmission infrastructure in the Israeli domestic market, on the expected date for the start of the commercial supply of gas from the Leviathan reservoir, it will be possible to transmit via the EMG Pipeline, using the existing infrastructure of the IGL system, natural gas in a quantity of 400,000-450,000 MMBTU per day (4 to 4.5 BCM per year). Noble likewise estimates that it will be possible to transmit natural gas from Israel to Egypt, through Jordan, as detailed above, in an additional quantity of 2 to 2.5 BCM per year. In other words, the total quantity it will be possible to transmit via the EMG Pipeline and via the existing infrastructure (the IGL system and through Jordan) stands at 6 to 7 BCM per year.

**Noble's estimates regarding the capacity of the transmission infrastructures as detailed above constitute forward-looking information as defined in Section 32A of the Securities Law, 5728-1969, which is based on tests and simulations conducted by it. This information might not materialize, in whole or in part, or might materialize in a significantly different manner, inter alia, due to operational and technical conditions and/or due to**

**system constraints and/or supply and demand conditions in the domestic market.**

7.6 Order backlog

7.6.1 Following is the Company's order backlog, 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 contract quantity, as specified in Section 7.4.4(c) above, will be exercised; (2) starting from 2019, IEC's minimal consumption will 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, 2018 <sup>71</sup>
2019 Q1*	41
2019 Q2*	41
2019 Q3*	41
2019 Q4*	41
2020	168
2021	157
2022	151
2023	150
2024	151
2025	150
2026	152
2027	154
2028	97
2029	37

\* The division by quarters was done linearly.

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<sup>71</sup> As of March 19, 2019, there has been no change in the order backlog.

**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 2018, as of December 31, 2018, amounted to USD 236 million. The Company's actual revenues for 2018 totaled USD 311 million. The discrepancy between the expected revenues from the order backlog and actual revenues for 2018 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 years<sup>72</sup>:

Period	Q1 (in BCM)	Q2 (in BCM)	Q3 (in BCM)	Q4 (in BCM)
2018	2.39	2.57	2.78	2.56
2017	2.40	2.43	2.55	2.34

#### 7.9 Facilities and production capacity

The Tamar Project facilities include, inter alia: six wells, each with a production capacity of around 250 MMCF per day; a subsea production system that concentrates the gas

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<sup>72</sup> The data refers to 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 Offshore Buoy for LNG Import, which operates mainly during the months of peak demand for natural 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 25 kilometers offshore and 2 kilometers north of the Mari B platform; two additional parallel pipes, each with a 4 inch diameter and a length of 150 kilometers, for the transmission of MEG (an antifreeze substance) from the production platform to the drilling system; a pipeline with a diameter of 10 inches<sup>73</sup> and two pipes with a diameter of 6 inches for the transmission of gas and/or condensate and/or MEG from the production platform to the Terminal, as well as a pipeline that connects the production platform to a pipe with a 30-inch diameter, existing already from the time of the Yam Tethys Project, for the transmission of gas from the platform to the Terminal; double command and control cables (umbilicals), each 150 kilometers long, that connect the production platform to the drilling system and enable control and command of the production of natural gas from the wells and pipelines with a diameter of 16 and 8 inches 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, if required. The production platform includes a jacket that is fixed to the seabed at a water depth of 236 meters. 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 facilities (TEG), generators, tanks, pumps, air compressors, a helipad, workers' living quarters, firefighting facilities, lifeboats, security facilities and additional facilities associated with the production and processing system on the platform. It should be noted that the Tamar Platform is designed to treat 1,200 MMCF of gas per day and 5,400 barrels of condensate per day, and it has a maximum production capacity when operating the four treatment lines of 1,600 MMCF of gas per day and 7,200 barrels of condensate per day, subject to implementation of necessary adjustments to 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 The Company's personnel, including senior officers, are employed under personal employment agreements. Immediately prior to the Prospectus, the Company

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<sup>73</sup> 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.

approved an officers' compensation policy. For details regarding the compensation policy and terms of employment of senior officers see Reg. 21 in Chapter D of this report.

- 7.10.2 The Company employed, as of December 31, 2017 and as of December 31, 2018, the following personnel:

Number of personnel as of December 31, 2017	Number of personnel as of December 31, 2018
5 (of which 3 officers)	6 (of which 3 officers)

On January 1, 2019, the Company appointed a Director of Geology and Environment who is an officer of the Company.

- 7.10.3 The Company also receives consulting services from external professional entities, including legal, accounting, financial, geological, and other consulting services, all according to the Company's needs from time to time.
- 7.10.4 Likewise, it should be noted that, in the framework of the operating agreements, the Operator of the Tamar Project employs personnel for the management and operation of the project. There are no employer-employee relations between the personnel 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 work and the 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, 2018
Current assets	130,131
Current liabilities	124,409
Current assets in excess of current liabilities	5,722

### 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 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 through a public offering of NIS 2,315,668,000 par value of bonds (Series A), of which a total of USD 650 million was used by the Company to finance the purchase of the object of sale under the sale agreement with Delek Drilling referred to in Section 1.2 above. The balance of the amount raised, amounting to USD 7.5 million, was used by the Company for buyback of bonds (Series A). For further details, see Note 9B to the Financial Statements and Part 5 of the Board of Directors' Report.
- 7.13.4 On March 12, 2018, the Company completed the raising of USD 519.4 million through a public offering of NIS 1,940,113,000 par value of bonds (Series B), of which a total of USD 475 million was used by the Company to finance the purchase of the object of sale under the sale agreement with Noble (described in Note 4B to the Financial Statements). Out of this amount, USD 0.8 million was used by the Company for buyback of bonds (Series B). For further details, see Note 9C to the Financial Statements and Part 5 of the Board of Directors' Report.

7.13.5 Financial covenants

With regard to the public offering of bonds (Series A and B) as described above, the Company has undertaken to comply with certain financial covenants, as described in Part 5 of the Board of Directors' Report.

7.13.6 Bond rating

For details regarding the rating of bonds (Series A and B), see Part 5 of the Board of Directors' 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 Financial Statements.

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. For details regarding these environmental directives, see Section 7.16.8(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.
- (e) Furthermore, the operating permit for the Tamar Platform obligates the Lease holder to act with respect to environmental protection issues in accordance with the law and the directives and permits issued in

accordance with any law, and provisions were stipulated regarding discharges into the sea, emissions into the air, etc. The operating permit for the Tamar Platform further stipulates that in matters for which there are no provisions in Israeli law, U.S. standards on safety and environmental protection and the provisions of some of the annexes to the MARPOL International Convention for the Prevention of Pollution from Ships applicable, presently or in the future, to mobile and fixed rigs, will apply, subject to law.

#### 7.15.3 Events connected with environmental protection

According to information provided to the Company by the Operator, in 2018 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. The Company acts to obtain ongoing updates and specific updates, as necessary, regarding the Operator's aforesaid activities. 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 7.16.8(e) 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 installation and running-in of dedicated systems for the reduction of air emissions from the Tamar platform is expected to be completed in March 2019, at a budget of USD 40 million (100%). According to the Operator, installation of said systems is expected to reduce pollutant emissions in accordance with the Operator's undertakings towards the Ministry of Environmental Protection.

#### 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 the Company and/or any of its officers in connection with environmental protection at the Tamar Project, which could be expected to have a material impact on the Company. To the best of the Company's knowledge, in February 2019 the Zalul Association filed an administrative petition against the Director of the Air Quality and Climate Change Department in the Ministry of Environmental Protection (the "**Environmental Protection Ministry**"), and against the Operator. In the petition the court is requested to issue an order nisi directing the Environmental Protection Ministry to explain why it should not exercise its authority under the Clean Air Law, 5768-2008, to notify the Operator of its intention to impose on it a financial sanction subject to its right to a hearing, and alternatively, why its said authority should not be delegated to the petitioner,

considering that the Tamar rig has been operating for some four years without an air emission permit contrary to the provisions of the law, and that the Environmental Protection Ministry is authorized to impose a financial sanction of close to NIS 100 million in this regard. At this stage it is still not possible to assess the chances of the petition.

7.15.7 Likewise, as of the report publication date, and according to information provided by the Operator, the Company is not aware of any material noncompliance or deviation by the Operator with respect to environmental protection requirements at the Tamar Project, which could have a material impact on the Company.

## 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 field<sup>74</sup> 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 Government Resolution took effect on December 17, 2015, with the grant of an exemption from certain provisions of the Economic Competition Law, 5748-1988 (the "**Economic Competition Law**")<sup>75</sup> 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 Competition Law (in this section: the "**Exemption**" or the "**Exemption Pursuant to the Competition Law**"), the key points of which Resolution are presented below.

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

- (a) Structural change of the Tamar reservoir

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<sup>74</sup> "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."

<sup>75</sup> On January 1, 2019, an amendment to the Competition Law was approved, which included a change in the name of the law from the "Restrictive Trade Practices Law" to the "Economic Competition Law."

- (1) Delek Drilling and Avner<sup>76</sup> shall transfer, within 72 months of the date of grant of the Exemption under the Competition 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 Competition 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).
- (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.

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<sup>76</sup> 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.

- (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 4 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) On April 2, 2017, in a notice sent to the Minister of Energy, the Budget Director at the Ministry of Finance and the Competition 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 8 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 Competition 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 (as hereinafter defined)<sup>77</sup>, 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 7.16.8(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, including the development plan that was approved, see Section 7.2.8 below.

(4) Sale of Karish and Tanin

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.

(5) Taxation

- a. The Government Resolution included the Tax Authority's notice which regulates various taxation issues pertaining to

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<sup>77</sup> On January 6, 2019, the conclusions of the Tzemach Committee were amended in the wake of the Adiri Committee (as hereinafter defined). For details see Section 7.16.8(a) below.

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.<sup>78</sup>

(7) Maintaining a regulatory environment that encourages investments

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 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, 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, the High Court of Justice issued a judgment on these petitions, ruling, inter alia, that the stability clause as worded in the Gas Framework<sup>79</sup> 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.

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<sup>78</sup> The Operator submitted to the Ministry of Economy audited reports regarding local suppliers' expenses in 2016-2017, amounting to a cumulative USD 448 million. On December 7, 2017, the Ministry of Economy sent the Operator a certification confirming recognition of expenses for 2016 in the amount of USD 110 million. As of the date of publication of this report, no certification has been received from the Ministry of Economy for expenses of USD 338 million for 2017. Likewise, the Operator has not submitted a report on such expenses for 2018.

<sup>79</sup> The Government's commitment to restrict future changes in regulation of the natural gas industry.

7.16.4 Antitrust

(a) On August 28, 2006, the Competition Commissioner granted an exemption, subject to certain conditions, from approval of a restrictive arrangement, under Section 14 of the Competition Law, to an agreement regarding the joint holding by the parties thereto of rights in the 309/"Matan" and 308/"Michal" licenses<sup>80</sup> (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 Competition 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 Competition 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 Competition Commissioner.
- (2) In any arrangement, agreement or understanding, in writing or orally, with regard to determination of a mechanism or manner of 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

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<sup>80</sup> On December 2, 2009, the Tamar and Dalit Leases were granted in lieu of the aforementioned licenses.

person related to either of them; "Isramco" and any person related thereto.

- (b) On November 13, 2012, the Tamar Partners received notice from the Competition 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 Competition 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) Furthermore, the Tamar Partners are obligated to submit to the Competition Commissioner all the agreements for the sale of natural gas to local customers. During the years 2012 and 2015, several decisions were issued by the Competition Commissioner regarding the grant of a conditional exemption from approval of restrictive arrangements in regard to fourteen long-term agreements for the supply of natural gas between the Tamar Partners and private gas consumers (the "**Commissioner's Decisions**"). Following are the essential points of the Commissioner's 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 (with respect to five natural gas sale agreements), or the period from January 1, 2020 to December 31, 2022 (with respect to nine natural gas sale

agreements); 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. Such period is subject to changes due to changes and adjustments in the timetables for gas production from other fields.

- (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 Competition Authority.

Following the Commissioner's Decisions, said 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 Commissioner's Decisions. As of the report publication date, most of the agreements have been amended in accordance with the aforesaid, and the Tamar Partners are acting to amend the other purchase agreements with the relevant consumers accordingly.<sup>81</sup>

- (d) 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 Competition Authority for the purpose of receiving a permit according to the

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<sup>81</sup> 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 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.

requirement stipulated in the Competition 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 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)<sup>82</sup>, 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,

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<sup>82</sup> For further details regarding State royalty calculations, see Section 7.18 below.

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.
- (9) The Commissioner 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 Commissioner 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 Commissioner 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 Commissioner 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.
  - (12) A preliminary permit, a license and a lease are personal and, save with the permission of the Commissioner, neither they nor any interest therein may be pledged or transferred in any manner whatsoever, except by way of inheritance; and the Commissioner shall not permit the pledge or transfer of a license or lease except after consultation with the Council.
  - (13) A leaseholder may construct pipelines for the conveyance of petroleum and petroleum products. No leaseholder shall construct a petroleum pipeline, other than gathering pipelines leading to tankage within or in the vicinity of the lease area, except along a route approved by the Commissioner. The construction of a petroleum pipeline shall be according to detailed diagrams in accordance with the Law; the diagrams shall require the prior approval of the Commissioner, which shall not be unreasonably withheld.
- (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 soundness<sup>83</sup>, 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 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

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<sup>83</sup> Financial soundness is proven if the conditions specified in the Regulations are fulfilled.

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. Furthermore, the Minister, with the consent of the Minister of Finance and in consultation with the Council, may modify, add to or detract from the conditions of a license, where this is essential for realizing the purposes of the Natural Gas Sector Law or for complying with a relevant international treaty to which Israel is a party, and taking into consideration technological, economic and environmental changes that have taken place since the license was issued, and after the license holder has been given an opportunity to present its case.
- (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 in any manner whatsoever. Gas facilities of a license holder and assets designated in the license as required for the performance of the activity in accordance with the provisions of the license may not be transferred, pledged or attached, in any manner whatsoever, save with the prior written approval of the Director and subject to

the conditions stipulated by him. An action done contrary to the provisions of this section shall be void.

- (14) Guarantees and commitments provided by a license holder or a controlling party thereof, and amounts received from the realization of such guarantees or commitments, may not be attached or pledged.
- (15) A person may not acquire or maintain control of or means of control in a license holder, and a holder of control of or means of control in a license holder may not transfer such control or means of control to another. Mostly, for the purpose of such transfer or acquisition, the Minister's approval is required following consultation with and consent by the Council.
- (16) 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.
- (17) 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.
- (18) 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.
- (19) 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 Emergency 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**"), as is presently the case in the Israeli market, and a situation in which the natural gas supply in the national economy comes from at least two fields connected to IGL through at least 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 IGL 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 (consumers of a gas supplier that are natural-gas-based electricity producers with a capacity of more than 45 MW) and non-electricity-producing consumers, proportionately, according to the cumulative daily average consumption of each of said types of consumers in the same month in the previous calendar year.
- The quantity to be distributed to non-electricity-producing consumers (from the quantity allocated to non-electricity-producing consumers as aforesaid) will be determined according to the share of the hourly capacity ordered for each of them under the transmission agreements they signed with the holder of the transmission license out of the total hourly capacity ordered for those consumers under the transmission agreements they signed with the holder of the transmission license.
- 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 IGL 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, a quantity of 3,600 MMBTU per hour minus the quantity supplied by the non-failing gas suppliers to the distribution consumers, will be allocated 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 non-electricity-producing consumers, proportionately, according to the cumulative daily average consumption of each of said

types of consumers in the same month in the previous calendar year;

- If any surplus gas remains for distribution, the failing gas supplier may supply natural gas from the field (the "**Additional Quantity**"), such that the surplus quantity of gas per day remaining for distribution will be allocated to electricity-producing consumers and to non-electricity-producing consumers, proportionately, according to the cumulative daily average consumption of each of said types of consumers in the same month in the year before the year in which the allocation is made less the Additional Quantity allocated to each of the types.
- The quantity to be distributed to non-electricity-producing consumers (from the quantity allocated to non-electricity-producing consumers as aforesaid) will be determined according to the share of the hourly capacity ordered for each of them under the transmission agreements they signed with the holder of the transmission license out of the total hourly capacity reserved for those consumers under the transmission agreements they signed with the holder of the transmission license, less the Additional Quantity allocated, if allocated, to each of the non-electricity-producing consumers.

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, 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, or if the Minister of Environmental Protection notifies the Minister of Energy that the continuing shortage of natural gas is causing significant harm to the

environment with resulting harm to the public health, 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, which was last updated on March 12, 2018. 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 emerges that the Company is included in the list of concentrated entities and in the list of significant real corporations. To the best of the Company's understanding, its inclusion was made, inter alia, in light of the holding of shares of the Company by Delek Drilling (which is controlled by the Delek Group). The Company intends to apply to the Committee to Reduce Economic Concentration to clarify its inclusion in the lists, and insofar as relevant, to remove it from said lists.

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 The Regulation of Security in Public Bodies Law, 5758-1998 (in this section: the "Law")

- (a) The Law states that a "public body" that is included in the Sixth Schedule to the Law will be obligated to appoint a security officer and security guards for the performance of "offshore security activities," and regulates the manner of their appointment, their training and their powers.

"Offshore security activities" are defined as activities required to protect the security of a person or to protect property, in a structure or at a site of a public body that is located in an offshore area, as well as activities to prevent harm to any of the above.

The Sixth Schedule specifies, inter alia, that a "public body" is a holder of a license by virtue of the Natural Gas Sector Law, that owns or operates an "offshore facility."

"Offshore facility" – A facility located within the offshore zone (the strip of coastal waters of Israel, as well as the continental shelf and the strip of sea above it), including vessels as defined in the Shipping (Vessels) Law, 5720-1960, used to carry out an oil discovery survey or for production drilling, transmission, liquefaction or gasification of oil, or for the treatment, storage or transport of oil.

- (b) The obligation under the Law to appoint a security officer and security guards as aforesaid also applies to a "public body" not located within the offshore zone, that is listed in the Second Schedule as the operator of a land facility for processing natural gas received by pipeline from offshore or from a foreign country, by virtue of a license or by law. Such an operator is required to carry out physical security activities and data security activities (but not activities to secure computerized systems or offshore security activities).

The Operator has appointed a security officer and security guards to carry out the aforesaid security activities.

- (c) In addition, the Law specifies that the holders of the Tamar and Dalit leases, including the Company, who are listed in the Fifth Schedule, shall appoint an officer in charge of the organization and performance of activities to secure and supervise vital computerized systems existing in reservoirs, in accordance with the directive of the National Cyber Directorate (the "**Cyber Directorate**"). Since the Operator is responsible for operating the Tamar Project's production system, it is the one that actually implements the Cyber Directorate's directive in this regard. As the

Company was informed, and to the best of its knowledge, as of the report approval date, said systems comply with all the relevant directives received from the Cyber Directorate regarding the data systems used for the operation of the Tamar Project.

7.16.7 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. 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 process 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 7.2 million (USD 5.9 million for the Tamar Lease and USD 1.3 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 right<sup>84</sup> (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

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<sup>84</sup> 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.

the aforementioned decisions; in this regard, "operating committee" – a body which the group members agreed would direct the group's activity in 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 agreements for export to Jordan specified in Section 7.4.5(a) above. The Company is acting, together with the other Tamar Partners, to receive approvals for the export of natural gas from the Tamar Project to Dolphinus. For details see Section 7.4.5(b) above.

7.16.8 Additional regulatory restrictions

(a) Government resolutions on the adoption of the recommendations of the committees to examine government policy regarding the natural gas sector

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 "**Tzemach Committee**"). On September 12, 2012 the Tzemach Committee released a final report. On June 23, 2013 the Israeli Government adopted the principal recommendations of the Tzemach 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. On January 21, 2018, the Ministry of Energy announced the establishment of a professional inter-ministerial committee, headed by the Director General of the Ministry of Energy, Udi Adiri (the "**Adiri Committee**"), to carry out a periodic review of the Tzemach Committee's recommendations. The Adiri Committee examined the developments that occurred in the natural gas sector in the five years since the adoption of the Tzemach Committee's recommendations and reviewed the issue of natural gas supply and demand in 2018. On December 18, 2018 the Adiri Committee published its final recommendations, and on January 6, 2019 the Israeli government adopted the principal recommendations of the committee (the "**Government Resolution on the Adiri Committee**"). Following are the main points of the Government Resolution on the Adiri Committee:

- (1) The volume of natural gas that must be assured for the domestic market will remain at the level approved in the Government Resolution on the Tzemach Committee (540 BCM), standing, after an adjustment for consumption of 40 BCM until then, at 500 BCM (the "**Minimum Amount for the Domestic Market**"), which will enable a supply of natural gas for the economy's needs for the next 25 years. In this section, "amount of natural gas" – cumulative amount of natural gas according to PRMS categories 2P and 2C, in discoveries recognized by the Petroleum Commissioner for which leases were granted and lease connections to the shore were completed in accordance with a development plan, enabling the supply thereof to the Israeli economy.

The obligation to supply the Minimum Amount for the Domestic Market with respect to discoveries recognized before the approval of the Government Resolution on the Adiri Committee will remain as specified in the Government Resolution on the Tzemach Committee, as set out 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>
Above 200 BCM (inclusive)	50%
Above or equal to 100 BCM, but below 200 BCM	40%
Above or equal to 25 BCM, but below 100 BCM	25%
Below 25 BCM	To be determined by the Petroleum Commissioner

The obligation to supply the Minimum Amount for the Domestic Market with respect to discoveries recognized after the approval of the Government Resolution on the Adiri Committee will be as set out 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>
For each additional 1 BCM from 200 BCM and up	55%
For each additional BCM from 50 BCM to 200 BCM	50%
Below 50 BCM	No obligation to supply

In respect of reservoirs shared by Israel and other countries, the Petroleum Commissioner will determine specific arrangements and conditions<sup>85</sup>. 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.

- (2) The export of natural gas will require approval from the Petroleum Commissioner<sup>86</sup>, 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.
- (3) 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.
- (4) The holder of a lease in a developed reservoir will be entitled to exchange its export quota against an obligation to supply to the domestic market according to its size and at the rates determined, and subject to the approval of the Petroleum Commissioner and the Competition Commissioner, after they took all the relevant considerations into account.
- (5) It was decided to stipulate an obligation to connect reservoirs to the domestic market according to the size of the reservoir, in the

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<sup>85</sup> 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.

<sup>86</sup> 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 7.16.7(c) below.

following manner: (a) Reservoirs with a volume of more than 200 BCM will be obligated to connect to the domestic market upon their development and before the commercial flow of natural gas begins. (b) Reservoirs of between 50 BCM and 200 BCM which begin commercial production of natural gas until January 1, 2028, will be obligated to connect to the domestic market by December 31, 2032, according to the discretion of the Petroleum Commissioner; such reservoirs which begin commercial production after January 1, 2028, will be obligated to connect to the domestic market upon their development and before the commercial flow of natural gas begins. (c) Reservoirs of up to 50 BCM will not be obligated to connect to the domestic market. In fields that produce by means of a single production system, where the same party is approved as operator or holds more than 50% of the rights in at least two of the leases within which such fields are located, the amount of gas will be calculated for the purpose of the obligation to connect to the domestic market on an aggregate basis. Notwithstanding the aforesaid, the Commissioner will be entitled, based on a reasoned decision, not to calculate the amount of natural gas in the fields on an aggregate basis.

- (6) In order to encourage the connection of additional natural gas fields to the domestic market, to task the Commissioner, the Director General of the Natural Gas Authority and the Director of Budgets in the Ministry of Finance to consider the state's participation in the construction of an additional offshore system in the southern polygon approved in National Outline Plan (TAMA) 37/H, which includes an offshore receiving terminal and its connection to the shore, insofar as the Commissioner is of the opinion that exploration activity has developed in the southern offshore area of Israel. In addition, to task the Commissioner with examining additional means for encouraging maximizing the potential economic benefits of natural gas fields, including encouraging the connection to the domestic market of fields that are not obligated to connect or that received a postponement of the obligation to connect as detailed above.

- (7) In view of the expected shortage in meeting demand at the hourly level in the middle of the 2030-2040 decade, it was proposed to formulate a set of solutions, including imposing on the Petroleum Commissioner the duty to consider, in relation to export permits, the issue of demand in the domestic market at the hourly level; to work towards encouraging the connection of additional fields to the domestic market (particularly towards the middle of the next decade (2030-2040), and to consider only in 2021 the cancellation of the agreement with the LNG regasification vessel (the agreement is currently valid until 2022).
- (8) To task the Minister of Energy, in consultation with the Minister of Finance and the Minister of Economy and Industry, with formulating principles of the required regulation regarding the sale of natural gas to consumers in the domestic market that is used to produce by-products designated mainly for exports.<sup>87</sup>
- (9) To task the Minister of Energy, in consultation with the Minister of Finance, with initiating regulatory amendments, including legislative amendments, if required, in order to regulate secondary trading of natural gas that could be directed to exports, and inter alia to task the Minister of Energy, in consultation with the Minister of Finance, with ensuring by means of said regulatory amendments that secondary trading of natural gas that could be directed to exports is enabled in an amount limited to 3% of the total sales of natural gas to the Israeli market during the past year. This amount will not be counted in the calculation of the total amount to be guaranteed to the domestic market, but will be counted as part of the obligation of minimum supply by a natural gas field to the domestic market. It is clarified that no export permit will be required for exporting such limited amount.
- (10) The Government Resolution on the Adiri Committee will be examined by the government at the end of five years from its approval date, for the purpose of making any necessary revisions in

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<sup>87</sup> 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.

the policy regarding discoveries that will be recognized by the Commissioner after five years from the date of approval of the resolution, based on the needs of the domestic market and taking the supply of natural gas into account.

It should be noted that the Ministry of Energy has carried out and is carrying 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 7.16.8(a) below. The Operator in the Tamar Project has provided to the Ministry of Energy all the final data required for making a resource estimate, including data from wells, production data and data from laboratory tests. The estimate of natural gas reserves and resources in the Tamar and Dalit leases brought in this report is based on resource reports received by the Company from an independent consultant, which were prepared in accordance with SPE-PRMS rules.

(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 7.24.15 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)(4) 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) It should be noted that in the framework of the Tamar-Dolphinus Agreement detailed in Section 7.4.5(b), it was agreed that the Tamar Partners would bear the costs of the gas transmission in the IGL's transmission system. In the framework of the other export agreements signed thus far by the Tamar Partners, it was agreed that the costs of the National Transmission System would be borne by the customers of gas for export, according to mechanisms prescribed in those export agreements.
- (e) 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 boundaries of the territorial waters), 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 since then several deliberations have been held by the Knesset Finance Committee ahead of its preparation for the 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.

(f) The decision of the Minister of Energy to reduce the use of coal and the reform in the IEC and in the electricity sector

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 alternative natural gas-operated power plants. 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.<sup>88</sup>

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<sup>88</sup> According to an Immediate Report of IEC from October 5, 2016.

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.

Government Resolution No. 3859 concerning a reform in the electricity sector and in the IEC (the "**Reform**") was published on June 3, 2018. The Reform includes the following measures, among others:

- (1) The IEC will reduce its activity in the electricity generation segment by selling five generation sites with a total maximum capacity of 4,000 megawatts, representing approximately one half of its electricity generation capacity, as follows: a. Alon Tavor – within a year and a half from the Reform approval date; b. Ramat Hovav – within two and a half years from the Reform approval date; c. Reading – within three years from the Reform approval date; d. Hagit East – within four years from the Reform approval date; e. Eshkol – within five years from the Reform approval date.

- (2) The IEC will establish two CCGTs operating with natural gas at the Orot Rabin site, as part of the trend towards reducing the use of coal in the electricity generation process, replacing coal-based units 1-4 which are expected to be shut down. The new generation units will be operated by a new subsidiary wholly owned by the IEC. The IEC will continue to maintain and operate the transmission and distribution networks. However, responsibility for and management of the national power grid will be transferred to a separate government company. On July 29, 2018, the government approved the cessation of the operation of coal-based units 1-4 at Orot Rabin by June 2022 at the latest, subject to the fulfillment of conditions precedent (the connection of three natural gas reservoirs to the shore and completion of the construction of an alternative electricity generation system). In July 2018 the Knesset approved the amendments to the Electricity Sector Law, 5756-1996, for the purpose of implementing the government resolution concerning the Reform.

The Ministry of Energy's work plan for 2019,<sup>89</sup> published in February 2019, states that the Ministry of Energy will act in the course of the year to advance the conversion of one generation unit at the Rutenberg power station in Ashkelon from coal-based to natural-gas-based generation, further to the Ministry of Energy's policy to discontinue the use of coal (see Subsection (f) below). The work plan for 2019 also states that one of the ministry's goals is to cause the rate of use of polluting fuels in the routine generation of electricity to stand at 29% by the end of 2019. The plan likewise states that the Ministry of Energy intends to take steps to cause the rate of use of polluting fuels in the generation of electricity to stand at 0% by the year 2030, with polluting fuels to serve for backup only.

For details regarding a gas supply agreement between the Tamar Partners and the IEC see Section 7.7.4(d) above.

- (g) The Plan to Save Israel from Polluting Energy

On October 9, 2018, the Minister of Energy published the "Plan to Save Israel from Polluting Energy," which essentially deals with reducing the

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<sup>89</sup> [https://www.gov.il/BlobFolder/reports/work\\_plans\\_2019/he/work\\_plans\\_2019.pdf](https://www.gov.il/BlobFolder/reports/work_plans_2019/he/work_plans_2019.pdf)

use of polluting fuel products by 2030. The plan set targets for 2030, detailing concrete steps and setting timetables in three main areas, as follows:

- a. In the electricity sector – To gradually reduce coal-based power generation. Starting in 2028, the use of coal for power generation will be completely discontinued in all coal-fired power plants, and power generation will be based solely on natural gas and renewable energy sources, with the coal-fired plants in Hadera and Ashkelon to be permanently shut down.
- b. In the transportation sector – Discontinuing consumption of polluting fuel products in land-based transportation, and transition to electric vehicles and compressed natural gas vehicles. Accordingly, starting in 2030, gasoline- or diesel-powered vehicles will be prohibited from entering Israel, and 100% of all new vehicles in Israel will be powered by electricity and compressed natural gas.
- c. In the industrial sector – Discontinuing the use of polluting fuels in industry, and replacing them with more efficient and cleaner energy sources, based mainly on the connection of light industry to the natural gas distribution network.

The plan has been issued for public comment and will be brought at a later date before the government for approval. The Company estimates that the plan's approval and implementation may increase demand for natural gas in Israel.

- (h) Fuel Excise Tax Order (Exemption and Refund) (Tax Amendment and Temporary Order), 5778-2018 (Green Taxation); Fuel Excise Tax Order (Imposition of Excise Tax) (Amendment No. 2 and Temporary Order No. 3), 5778-2018 (Amendment), 5779-2019; 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, and in accordance with an amendment from February 21, 2019, the Knesset Finance Committee, followed by the Knesset Plenum, approved the Orders, which provide that as of January 1, 2021, 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 January 1, 2021.

In the Company's estimation, these Orders may 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) Paris Agreement and PPCA Agreement

In December 2018 Israel signed onto the initiative of the PPCA (Powering Past Coal Alliance), a worldwide coalition working to reduce the use of coal, putting Israel in line with such advanced countries as Canada, Britain, France, Denmark and the Netherlands. The partners to the initiative have pledged to gradually reduce the production of electricity from coal and to support clean energy in government and corporate policies. The coalition supports the reduction of the use of coal in OECD countries by 2030 and the world by 2050. The most significant steps, on the basis of which Israel's participation in the initiative was approved, are, inter alia, the determination in the Government Resolution that coal units 1-4 at the Orot Rabin power station in Hadera, which account for one third of coal-based production capacity in Israel, will be shut down by June 2022 (as detailed in Section 7.16.8(f) above), as well as the declaration that the use of coal will be completely discontinued by 2030 (as detailed in Section 7.16.8(g) above).

As stated in the Ministry of Energy's announcement, Israel's participation in the initiative presents an opportunity to continue promoting the government's policy to reduce the share of coal in Israel's mix of fuels for generating electricity, also in the international arena, since reduced use of coal in Israel lessens air pollution and helps to achieve the greenhouse gas emissions reduction target to which Israel committed in the Paris Agreement from 2015. It should be noted that Israel signed the Paris Agreement in 2016, the aims of the Agreement being, inter alia, to

strengthen the implementation of the UN Framework Convention on Climate Change as well as reduce greenhouse gas emissions (above and below: the "**Paris Agreement**"). In light of the foregoing, the Israeli government is promoting an environmental policy designed to increase reliance on and use of natural gas in electricity production, in industry and in transportation. It is noted that the central undertaking of each country that has signed the Paris Agreement is to submit a plan every five years, setting out the measures it will take to cope with climate changes.

(j) 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. In the event of findings which indicate the presence of hydrocarbons in the well, further tests are carried out, with the purpose of examining the quantity and quality of the hydrocarbons. 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.
- (k) 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.

(l) 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 continue to recognize IEC's costs arising from the IEC agreement, including costs arising from the minimum contract quantity (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 sell 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 that stated in Subsection 1 above. IEC will use diesel and liquefied gas (LNG) 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.

#### 7.16.9 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%).<sup>90</sup>

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 Platform 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

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<sup>90</sup> 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.

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.

#### 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 Section 1.5 above, as well as 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 7.2.14 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 Tamar-Dolphinus Export Agreement – see Section 7.4.5(b) above.
- 7.17.9 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 transfer of the rights of a party to the Usage Agreement in the Tamar Lease, in the JOA of the Tamar Lease, in the Yam Tethys Lease or in the Yam Tethys Operating Agreement is subject to the assignment of such party's rights and obligations under the Usage Agreement according to the proportionate share transferred as aforesaid. The transferee must agree to assume the transferor's obligations under the Usage Agreement.
- (e) Fundamental breaches

If the Tamar Partners:

1. Do not provide the Yam Tethys Partners with the gas capacity produced from the Yam Tethys Project that is reserved for them in the pipeline and in the terminal according to the Usage Agreement, and such breach is not remedied within 60 days from the day of receipt of the notice from the Yam Tethys Partners regarding the breach.
2. Breached the Usage Agreement (other than in connection with the management of the Yam Tethys Facilities by the Tamar Partners), and such breach was not remedied within 60 days from the date of receipt of the notice from the Yam Tethys Partners regarding the breach.

The sole relief available to the Yam Tethys Partners for these breaches by the Tamar Partners is the filing of a claim with a demand for payment, or an application for enforcement order or injunction, as the case may be.

If any of the Yam Tethys Partners or the Yam Tethys Operator

1. Does not pay the Tamar Partners any amount required under the Usage Agreement within 10 days from the day of receipt of an invoice from the Tamar Partners.
  2. Denial of the usage rights in the Yam Tethys Facilities in any way.
  3. Breached the Usage Agreement (other than in connection with the management of the Yam Tethys Facilities by the Yam Tethys Partners), and such breach was not remedied within 60 days from the date of receipt of the notice from the Tamar Partners regarding the breach.
- (f) The sole relief available to the Tamar Partners for these breaches by the Yam Tethys Partners is the filing of a claim.
- (g) Additionally, 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 and a 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.
- (h) The Agreement is subject to English law. All differences of opinion between the parties in connection with the Agreement or its performance will be submitted to an arbitration before three arbitrators which is subject to the arbitration rules of the London Court of International Arbitration. Disputes of a technical nature may be submitted to a suitably qualified independent expert.
- (i) Ownership of the upgraded Yam Tethys Facilities will remain with the Yam Tethys Partners, with the Usage Agreement establishing provisions regarding a mechanism for settling accounts regarding the value of said facilities at the end of the period of production from the Tamar Project. Within 90 days from the end of said period, the Operator of Yam Tethys is required to submit to each of the Tamar Partners a calculation of the market value of the upgrades to the Yam Tethys Facilities, said calculation taking into account the condition and life span of the facilities, the planned use of the facilities by the Yam Tethys Partners and the Yam Tethys Group, the

dismantling and abandonment costs and any other matter which the Yam Tethys Operator considers relevant. The parties to the Agreement will conduct negotiations and agree on a final market value, and any dispute in this regard will be submitted to the decision of an expert.

The payment by the Yam Tethys Partners to the Tamar Partners for the upgraded Yam Tethys Facilities (or vice versa, if the value is negative) will be made within 60 days from the date of determination of the final market value for the upgraded Yam Tethys Facilities.

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

7.17.11 The trust deed for Series B bonds – for details see Note 9C 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 and 2018 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 2016, 2017 and 2018 is 11.15%, 11.22% and 11.16%, 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 or in a legal proceeding 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 6.2 of the Prospectus, the details of which are included herein by reference. 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 immediate report dated January 30, 2018 (Reference No.: 2018-01-008823) and supplementary immediate report dated March 1, 2018 (Reference No. 2018-01-016854), the details of which are included herein by reference.

7.19 Royalties to interested parties and to third parties for the rights transferred to the Company by Delek Drilling

7.19.1 Under the Sale Agreement with Delek Drilling, the rights in the Tamar and Dalit Leases that were transferred to the Company from Delek Drilling (i.e.: rights at a rate of 9.25%) (in this section 7.19: the "**Right Acquired from Delek Drilling**") are subject to commitments that applied to Delek Drilling for payment of royalties to interested parties and to third parties, according to the terms that applied to those royalties before the transfer of said rights to the Company. Following is information on said royalties. It is hereby clarified that the rights in the Tamar and Dalit Leases that were transferred to the Company by Noble (i.e.: rights at a rate of 7.5%) are not subject to any royalties, other than payment of royalties to the State under the Petroleum Law.

Holder of right to royalties	Rate of the royalties	Additional information
Delek Group Ltd. and Delek Energy/Delek Royalties (2012) Ltd. (" <b>Delek Royalties</b> ") <sup>91</sup>	Collectively: 1.5% before the return-on-investment date and 6.5% thereafter, of the Rights Acquired from Delek Drilling <sup>92</sup>	Said right to royalties derives from a rights transfer agreement from 1993, under which Delek Energy and Delek Israel Fuel Company Ltd. (" <b>Delek Israel</b> ") <sup>93</sup> transferred certain petroleum rights to Delek Drilling (the " <b>Delek Group Royalties</b> "). 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 in the Rights Acquired from Delek Drilling	Said right to royalties derives from the right of the general partner of Avner that was determined in the limited partnership agreement of Avner (the " <b>Avner Royalties</b> "). For details regarding the main terms of the Avner Royalties, see Paragraphs (c) and (e) below.

<sup>91</sup> The aforesaid right to royalties is held by: (1) Delek Group (25%); (2) Delek Energy/Delek Royalties (75%). According to letters from June 5, 2018 and June 17, 2018, Delek Energy and Delek Royalties notified the Company that Delek Energy had transferred said right to royalties to Delek Royalties, without changing the right to royalties or its terms or affecting any right and/or contention the Company has and/or may have against Delek Energy and/or against Delek Royalties by law and/or any right that would have accrued if not for the aforesaid assignment, including a right of reimbursement and/or offset against Delek Energy and/or Delek Royalties. In light of the foregoing and in accordance with the instruction of Delek Energy and Delek Royalties, for the period starting from June 1, 2018 the Company pays directly to Delek Royalties the receipts in respect of said right to royalties.

<sup>92</sup> For further details regarding the determination of the return-on-investment date, see Section 7.19.2 below.

<sup>93</sup> 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 Rights Acquired from Delek Drilling, calculated after the royalties to the State (i.e. 0.42%)	Said right to royalties derives from an agreement dated January 21, 2007 signed by Delek Drilling and Avner with Dor, whereby Delek Drilling and Avner 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 " <b>Dor Royalties</b> ") 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 petroleum and/or gas and/or other valuable substances produced and exploited from the rights in the Tamar and Dalit Leases that were acquired by the Company from Delek Drilling (i.e. rights at a rate of 9.25% out of 100%).

The terms and conditions of the Delek Group Royalties specify, inter alia, that 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 the Company has made or may make 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
  - (6) 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 additional conditions set out in Section 7.19.5 below.
- (d) In April 2018 the Company began paying the Delek Group and Delek Energy royalties on revenues from the Tamar Project, according to the increased rate applying after the ROI Date (6.5%), with effect from December 12, 2017, based on a draft calculation made by Delek Drilling (which included the rights of Delek Drilling and the rights of the Company in the Tamar Lease), from whom the Company acquired said rights subject to an undertaking to pay said royalties, it being made clear to the Company that said payment constitutes an advance payment only, in light of the fact that the Company had not yet performed all the examinations and calculations in connection with the calculation of the ROI Date. The

Company likewise informed the Delek Group Royalty Holders that it was aware that the supervisor at Delek Drilling was carrying out an independent examination of the calculations of Delek Drilling with the assistance of an outside consultant, and it therefore was reserving all its rights in the event it would become apparent, following the completion of all the aforesaid examinations and calculations, that the actual ROI Date was not on the aforesaid date but on a later date, including its right to reimbursement of royalties that were overpaid by it, by deducting such royalties from future royalty payments that would be made by it to the Delek Group Royalty Holders. In August 2018, in light of a revision in Delek Drilling's draft calculation, the ROI Date set by Delek Drilling at January 19, 2018 was postponed. In the wake of this postponement and further to the Company's communication to the Delek Group Royalty Holders, the Company was reimbursed royalty payments in an amount of USD 0.8 million.

- (e) In February 2019, upon the completion of all the examinations and calculations that were made by the Company, the Company's audit committee and board of directors approved a report re interim calculation of the ROI Date, according to which the ROI Date falls on February 25, 2018, based on data of Delek Drilling up to June 30, 2017, with the adjustments made by the Company, and on data of the Company starting from July 1, 2017, subject to the adjustments, assumptions and qualifications set out in said report (the "**ROI Date Report**"). The calculation is an interim calculation, since it does not include the effect of the petroleum profit tax under the Taxation of Profits from Natural Resources Law, 5771-2011 (the "**Sheshinski Levy**") on the ROI Date. The ROI Date Report was submitted to the Delek Group and Delek Energy on February 19, 2019, together with a special report of the independent auditors as well as a letter according to which the Company had requested the reimbursement of royalties in an amount of USD 0.85 million in light of the postponement of the ROI Date to February 25, 2018. The Company's aforesaid request not having been granted, it deducted said payment from the royalty payments made to the Delek Group and Delek Energy at the end of February 2019. The letter likewise stated that in light of the fact that the Company had good arguments for the inclusion of the Sheshinski Levy in the final calculation, it was requesting to establish with them an agreed

mechanism for examining the Sheshinski Levy and its inclusion in the ROI Date calculation. In letters from February 28, 2019 the Delek Group Royalty Holders stated their objection to the contents of the Company's letter, denying the Company's right to make the deduction (which, according to them, was made unlawfully). The Royalty Holders likewise noted that they had weighty arguments regarding the advancement of the ROI Date so that it should fall long before the date set by the Company. The Royalty Holders stated, furthermore, that if the Company would not transfer the amount that had been deducted, and if it failed to agree with their position regarding the advancement of the ROI Date, they would consider their steps regarding the appropriate way to clarify these issues.

To the best of the Company's knowledge, legal proceedings are underway at Delek Drilling with respect to the determination of the ROI Date in the Tamar Project. In light of the fact that the Company's ROI calculation includes the data of Delek Drilling and that the aforesaid legal proceedings relate to issues and/or items that are included in the Company's ROI Date Report, the results of those legal proceedings may have an effect on the determination of the Company's ROI Date vis-à-vis the Delek Group Royalty Holders. Following is a summary of the aforesaid legal proceedings, to the best of the Company's knowledge:

In November 2018 a motion was filed to certify a derivative action against Delek Drilling, the general partner in Delek Drilling, the Delek Group Royalty Holders, officers of Delek Drilling and its independent auditors, in which it was contended, inter alia, that the determination and approval of the ROI Date in the Tamar Project suffered from defects, including the non-inclusion of the Sheshinski Levy in the ROI Date calculation made by Delek Drilling. Delek Drilling submitted in December 2018 a motion for the summary dismissal of the certification motion and for a stay of the proceedings until a decision would be handed down in the motion for summary dismissal. The court accepted the motion for a stay of proceedings and ordered the parties to submit responses to the motion for summary dismissal, which they did. As of today, the proceeding has still not concluded.

In January 2019 the supervisor on behalf of the holders of participation units in Delek Drilling filed a statement of claim and an urgent application

for a interlocutory injunction against Delek Drilling, the general partner in Delek Drilling and the Delek Group Royalty Holders, requesting, inter alia, to declare that the Sheshinski Levy should be included in the ROI Date calculation, and that the ROI Date in the Tamar Project had not yet arrived, and requesting as well not to pay the Royalty Holders a royalty at an increased rate and to reimburse royalties that had been overpaid until then. The respondents submitted their response to the application for an interlocutory injunction, in which they presented various arguments, among them the argument that for the purpose of determining the ROI Date, payments in respect of the "Sheshinski Levy" that would be made by Delek Drilling in the future should not be taken into account. Additionally, the Royalty Holders argued, inter alia, that numerous expenses had been "loaded" onto the calculation made by Delek Drilling, which should not be taken into account (including finance, transmission and marketing expenses, disposal and abandonment costs and headquarters expenses), and that according to an alternative calculation prepared by experts on the Royalty Holders' behalf, the ROI Date had occurred already in August 2015, and they were intending file an action against Delek Drilling in this regard in the appropriate court.

On February 26, 2019, a court hearing was held in which the court made clear that interlocutory relief would not be granted in respect of a date prior to the date of the hearing in the application and requested the parties to enter into a dialogue in an attempt to reach agreements regarding the interlocutory relief. If the parties fail to reach agreements, the hearing in the motion for a stay of proceedings and in the application for interlocutory relief is expected to take place in May/June 2019.

For details regarding the legal proceeding on the issue of the ROI Date see Section 7.21.2 below.

### 7.19.3 Avner Royalties

The Avner Royalties at a total rate of 3% shall apply in respect of petroleum and/or gas and/or other valuable substances that will be produced and exploited from the rights in the Tamar and Dalit Leases that were acquired by the Company from Delek Drilling (i.e. rights at a rate of 9.25% out of 100%).

The Avner Royalties shall be subject to the additional terms specified in Section 7.19.5 below.

7.19.4 Dor Royalties

The Dor Royalties at a total rate of 0.48% shall apply in respect of petroleum and/or gas and/or other valuable substances that will be produced and exploited from the rights in the Tamar and Dalit Leases that were acquired by the Company from Delek Drilling (i.e. rights at a rate of 9.25% out of 100%), 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 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.

(c) 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 value of the royalty at the wellhead, 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 On June 18, 2014, a claim and a motion to certify the claim as a class action were filed at the Central District Court against the Tamar Partners at the time, by a consumer of the IEC (in this section: the "**Certification Motion**" and the "**Applicant**," respectively). According to the Applicant, the Tamar Partners had abused their monopolistic power in connection with the prices of sale of natural gas from the Tamar reservoir to the IEC. The requested reliefs in the Certification Motion include monetary relief equal to the difference between the price paid by the IEC to the Tamar Partners for the gas it purchased and the fair price of the gas, estimated by the Applicant on the filing date of the Certification Motion at NIS 2.5 billion (against all the Tamar Partners), as well as an order directing the Tamar Partners not to sell natural gas from the Tamar reservoir for more than the amount specified in the Certification Motion, and an order declaring that any sale for more than said amount constitutes abuse of their monopolistic standing in the market.

On November 23, 2016 a decision was handed down rejecting a motion that had been filed by the Tamar Partners to summarily strike the Certification Motion, and on December 15, 2016 the Tamar Partners submitted an application for leave to appeal this decision. On September 28, 2017, the Supreme Court issued a decision rejecting the application for leave to appeal and returning the case to the District Court for consideration of the Certification Motion on the merits.

On November 15, 2017 the Company filed an application for its joinder as a respondent to the Certification Motion. On December 8, 2017 the court ordered the joinder of the Company as a respondent, but imposed on it certain restrictions in the submission of a response. On January 10, 2018 the Company submitted its response to the Certification Motion, in which it requested to dismiss the

Certification Motion against it, inter alia, based on the arguments in the response of the other respondents and the opinions that were attached to them, as well as on additional grounds which were detailed, with emphasis placed on the circumstances pertaining to the Company.

On April 12, 2018, the attorneys of the deceased Applicant filed an application for the substitution of his widow, Ms. Michal Nizri, subject to several conditions that were set out, and on the same date the court approved the application.

As of today, the examination of the parties' experts has concluded. On January 6, 2019 the Applicant submitted its closing arguments, and the date for the submission of the Tamar Partners' closing arguments is April 7, 2019. For further details see Note 11J(2) 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 4A to the financial statements. Regarding Noble'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 4B to the financial statements.

- 7.21.2 On December 9, 2018, an application under Section 198A of the Companies Law, 5759-1999 was submitted against the Company in the Tel Aviv-Yafo District Court (Economic Department) for the disclosure and inspection of documents, aimed, according to its contents, at requiring the Company to provide the applicant with documents to help him examine the possibility of filing a motion to certify a derivative action, in which the requested relief would be the reimbursement to the Company of royalty amounts it overpaid (insofar as the documents provided would reveal the overpayment of royalties) to the Delek Group, Delek Energy and Delek Royalties. The applicant holds 18 shares of the Company which he purchased in June 2018. In the motion it is contended, inter alia, that the Company's officers were negligent in that they began paying the aforesaid royalties according to a rate of 6.5% (instead of 1.5%) with effect from January 2018, based on a calculation made by Delek Drilling, without preparing an independent calculation before the Company completed its examinations on the subject, without requesting the Company's independent auditors to audit the ROI Date calculation, and without taking into account in said calculation the levy on gas and oil profits by virtue of the Taxation of Profits from Natural Resources Law, 5771-2011.

On February 25, 2019, the Company submitted its response to the discovery application, in which it rejected the applicant's contentions and clarified, inter alia, that the Company had carried out a proper, orderly and informed decision making process on the subject of the ROI Date, which began before the discovery application was filed. Furthermore, the Company argued that the discovery application does not meet the conditions stipulated in the law and the case law for the disclosure of documents under Section 198A of the Companies Law. Concurrently with the submission of the response to the discovery application, a motion was also filed for the summary dismissal of the discovery motion based on the letters of exemption that had been issued to officers of the Company.

On March 21, 2019, the applicant submitted its response to the dismissal motion, in which argued, inter alia, that clarification of the exemption argument necessitated an examination of the facts and therefore was inappropriate for that stage of the proceeding. The date for the submission of the Company's reply occurred on March 28, 2019. The evidentiary hearing in respect of the discovery motion was set for May 2, 2019. For further details see Note 11J(2) to the Financial Statements.

- 7.21.3 On February 4, 2019, a class action and a motion for class certification (in this section: the "**Certification Motion**") were filed with the Tel Aviv District Court (Economic Department) by a shareholder of the Company, Yaniv Mantzuri, and the Public Representatives Association (in this section, jointly: the "**Applicants**") against the Company, Delek Drilling, the CEO of the general partner in Delek Drilling who served until January 17, 2019 as the chairman of the Company's board of directors and until March 6, 2019 as a director of the Company, the Company's CEO, the Company's CFO and Leader Issues (1993) Ltd. (in this section, jointly: the "**Respondents**"), in connection with a share offering of the Company in July 2017 (the "**Offering**"). The Certification Motion was filed on behalf of "anyone who was and/or will be entitled to receive dividends that were and/or will be distributed by the Company during and/or in respect of the period from July 4, 2017 to December 31, 2021."

The Applicants claim, in summary, that the Respondents misled the investing public in a non-standard offering document that was distributed to institutional investors on the eve of the Offering, regarding the Company's ability to distribute dividends to its shareholders for the period commencing on the date of the Offering and ending at the end of 2021 (the "**Period**"), and breached duties under

various laws, including breach of the duty of care of the said officers and breach of the duties of Delek Drilling as a shareholder and the controlling party in the Company prior to the Offering.

The damage alleged by the Applicants is the difference between the amount of the dividend the Company is expected to distribute for the period, as specified in the offering document for institutional investors, and the amount of the dividend which, according to an expert opinion that was attached to the Certification Motion, the Company is expected to distribute for the Period, totaling at least USD 53 million. The requested relief includes the restitution of the full damages of the class members and a mandatory injunction directing the Company to distribute the full amount of the dividends which it guaranteed to the buyers of its shares. The date for the submission of the Company's response to the Certification Motion occurs on April 14, 2019. For further details see Note 11J(3) to the Financial Statements.

- 7.21.4 On December 9, 2014, the Tamar Partners submitted an appeal to the Minister of Energy against the Petroleum Commissioner's decision to reject the plan for the development of the Tamar SW reservoir which was submitted to him by the Tamar Partners, in view of the fact that the Tamar SW reservoir partly overflows into the Eran license. Following the Commissioner's approval of the development plan for the Tamar SW reservoir in January 2019, said appeal became redundant. For details regarding the aforesaid development plan see Section 7.2.8 above.

## 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.
- 7.22.2 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.
- 7.22.3 Expansion of the production capacity of the Tamar Project as specified in Section 7.2.7 above, or by means of other alternatives.
- 7.22.4 Continued promotion of projects for export by means of pipelines from the Tamar Project to consumers in Egypt and in Jordan.

7.22.5 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.

7.22.6 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 the insurance policies which are customarily effected in Israel in the field of energy 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.

The Company reviews, from time to time, the scope of the purchased insurance, taking into account exposure, the value of the insured property and loss of profits arising from damage to this property, 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 Decreases in global fuel prices and/or 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, from the U.S. CPI, and from the price of a Brent barrel. For details regarding the various types of linkage in the natural gas price formulas, see Section 6.8.1 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 (due, inter alia, to a price adjustment, if any, the IEC will request based on the mechanism set in the agreement signed with it, as detailed in Section 7.4.4(d) above) and/or in Brent prices and/or in the U.S. CPI may adversely affect the Company's revenues from existing and future gas sale agreements. In addition, a decrease in the prices of other energy sources (including coal and other gas substitutes) may cause a change in the consumption model of the IEC and of other large customers, which could reduce the demand for natural gas and/or result in a decrease in natural gas prices in the economy.

##### 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.. Therefore, any deterioration in the geopolitical situation in the Middle East and/or deterioration in the relations between Israel and its neighbors in the relevant target markets, for security and/or political and/or economic reasons, might adversely affect the Company's ability to promote its business dealings with such countries and bodies and export gas to neighboring countries.

#### 7.24.3 Difficulties in obtaining financing

For promoting the expansion of the Tamar Project and/or for the development of additional reservoirs in the future, the Company may need additional significant financing sources, which might make it necessary for the Company to raise capital or additional funding, including through future raising of bank debt and/or a private or public bond issue. If additional funding is required as aforesaid, the Company could encounter difficulties in receiving it at terms suited to it, especially 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. Moreover, the Company's ability to obtain additional debt is subject to the covenants and other obligations stipulated in the terms of its existing bonds, as detailed in Section 7.13 above.

#### 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. Furthermore, recently it was learned that additional, large discoveries have been made in Cyprus and Egypt. Moreover, additional reservoirs may be discovered 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. Currently, Israel has, apart from the Tamar reservoir, three other reservoirs, of which two are in development stages: the Leviathan reservoir, as well as the Karish and Tanin reservoirs, which are expected to be additional major suppliers of natural gas to the domestic market. In view of the scope of demand for natural gas in 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 to the domestic market. 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 may undermine the Company's ability to market the gas reserves discovered by it and/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. 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 7.16.8(l) above. For details regarding a proposal submitted by the Tamar Partners to the IEC for the supply of natural gas, see Section 7.4.4(d) above.

#### 7.24.5 Restrictions on export

The volume of the gas reserves in the Tamar Project is greater than the expected demand in the potential markets in Israel in the coming years. Therefore, the Company's results of operations depend to a great extent on the possibility of exporting the gas and selling it on the regional and international market. The Government's resolutions on export, as detailed in Section 7.16.8(a) above, and the regulatory approvals required for export, limit and/or could limit the quantity of exportable gas. A reduction of the exportable natural gas quantities could significantly adversely impact the Company's business. Moreover, the possibility of exporting and selling the gas depends on many highly uncertain factors, such as the foreign relations between the State of Israel and countries that are potential target markets for gas export, the setup of an export system and transport of exports, receipt of the relevant regulatory approvals, the economic viability of setting up such a system, locating potential customers on the international market, finding funding sources for the investments required for the development and construction of the export system, and competition with local and international suppliers in the relevant target markets.

#### 7.24.6 Dependence on transmission systems

The Company's ability to supply the gas discovered by it to existing consumers and to additional potential consumers in and outside Israel, is contingent, inter alia, on the development, functionality and capabilities of the National Transmission System for gas supply, regional distribution networks and transmission pipelines to consumers in the neighboring countries (collectively: "**Transmission Systems**"). Any significant malfunction or disruption in the Transmission Systems serving the Company presently and/or in the future 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 and operating results.

#### 7.24.7 Operational risks

Oil and gas exploration and the development and production of natural gas in deep water generally involve more operational risks than on land. Deep water drilling usually takes a longer time, the drilling costs are higher, and advanced drilling technologies are usually necessary that entail a higher risk of technological failure. The continued development and production of natural gas from the reservoirs is associated with a variety of risks, including, inter alia, an uncontrolled eruption of fluids and gas from the well, explosion, collapse of the well and combustion, breakdowns, accidents, and other events that may harm the functioning of the production and transmission system, substandard or inefficient work, contractor or operator errors, labor disputes or disruptions, injuries, harm to health or fatalities, delay or failure to obtain permits, approvals or licenses, breach of permit or license requirements, shortages in manpower, equipment or spare parts, delays in transferring equipment or spare parts, pollution and other environmental risks, security breaches, cyber attacks or terrorist attacks as well as natural disasters.

The occurrence of any of these events could significantly reduce or interrupt natural gas production or supply, affect the reservoir development timetable and budget and impact negatively on the quality of the gas produced from the reservoir, possibly resulting in the cancellation of the Company's existing agreements for the sale of gas.

#### 7.24.8 Lack of adequate insurance coverage

Although the Company is insured under various insurance policies against various kinds of damage that may be caused in connection with its operation,

these policies do not or cannot fully cover all possible risks, 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. The Company's expected activity in Egypt (insofar as the export agreement with Egypt, as detailed in Section 7.4.5(b) above is completed) presents exposures that might be impossible to insure fully or at all, inter alia, consequential damage associated with damage of any kind to property and/or associated with damage to the property of a supplier and/or customer and/or breach of agreements or cancellation of agreements for a reason not permitted under the agreement and/or a change in the law and/or in the directives of competent authorities in Jordan and Egypt which could adversely affect the Company's business and property. Thus, in case of large-scale loss or damage, 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, the available capacity for the Company in the insurance market and the foreseeable risks.

7.24.9 Dependence on contractors and on professional services and equipment providers

There are currently no contractors in Israel that provide works 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 operations may entail high costs and/or considerable delays may be caused in the timetable established for the performance of the works. Moreover, 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 far in advance, 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.

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

Oil and gas exploration is not an exact science and therefore entails a high level of risk, as for example, in the event of failure in test and appraisal drills, and may result in the loss of the entire investment. 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 are 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 and oil resources in the reservoirs. The estimated oil and gas quantity in the Tamar reservoir in the reported period is continuously examined and may be updated 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, and in light of the materiality of the asset amortization, the changes described above could have a material impact on the Company's operating results and financial position.

7.24.11 Merely estimated costs and timetables and possible lack of means

The estimated costs of the performance of exploration, development, operation and maintenance activities and the estimated timetables for the performance thereof are based on merely general estimates and may contain considerable deviations, including due to events beyond the Company's control. Development and 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, development, operation or maintenance 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 activities to be much higher than the costs planned for such activities.

7.24.12 Forfeiture of the Company's rights its petroleum assets

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, in a situation where other parties to the Joint Operating Agreement have failed to pay sums that they were supposed to pay, in breach of the agreement, the Company may be required to pay sums that considerably exceed its pro rata share in order to complete the missing amounts, 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.

7.24.13 Dependence on the receipt of approvals from external entities

The performance of activities in natural gas and oil assets requires various approvals, inter alia, approvals under the Petroleum Law and the Natural Gas Sector Law and 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 deadline for the performance of the planned activities.

7.24.14 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, there has been an increase in the scope of regulation in the energy sector in Israel. For further details regarding the regulation applying to the Company's activity, see Section 6.8.2 above. The tightening of regulation, inter alia with respect to oil and gas exploration, development and production, the terms of natural gas supply, natural gas export, taxation of oil and gas profits, rules for allocation, insurance and guarantees, transfer and pledge of petroleum rights, antitrust, control of gas prices, planning regulation and so forth, may adversely affect the Company's business.

In the event of further changes in any relevant law, regulation or policy, or a delay in the receipt of any regulatory approval, or if the Company or its customers do not receive the required regulatory approvals or comply with their terms, the Company or its customers might not be able to meet their obligations under the existing agreements for the sale of natural gas.

7.24.15 Potential control over natural gas prices

As indicated in Section 7.16.8(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, with reporting regarding prices and profit margins of the sold natural gas required to be made every half year. According to information to be received, the need to control natural gas prices in Israel, in terms of fixing a maximum price for the sale of natural gas, 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, and 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. 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).

7.24.16 Class certification motion in connection with the IEC agreement price

On June 18, 2014, a motion to certify a class action was filed with the Tel Aviv District Court by an IEC consumer against the Tamar Partners as described in Section 7.21.1 above (in this section: the "**Certification Motion**"). If the Certification Motion is accepted, and thereafter a final and absolute judgment is obtained against the Tamar Partners, this could have a material adverse effect on the Company's revenues, operating results and ability to meet its obligations and on the prices at which the Company will sell natural gas to its customers.

7.24.17 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, the Natural Gas Sector Law and other laws (such as environmental protection laws).

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, as well as for pollution associated with the Company's facilities or resulting from its activities.

Oil and natural gas exploration and production in deep water involves various risks, including emissions and waste which are dangerous to the environment, as well as human exposure to such dangerous emissions and waste. Thus the Company may be liable for some or all of the consequences of the risks presented by dangerous emissions or waste or exposure thereto. 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 could have an effect on the costs and manner of the Company's activity, the scope of which cannot be estimated as of the report publication date.

Furthermore, as mentioned in Section 7.16.8(e) above, on November 13, 2017 the Knesset approved in the first reading the Marine Zones Bill, and on November 5, 2018 the bill was discussed by the Knesset Economic Committee ahead of its preparation for the second and third readings. The proposed law, if approved by the Knesset Plenum in the second and third readings, could adversely affect the Company's operations and their costs.

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, and in connection with the consequences arising from the emission of substances into the environment, will not exceed the amounts allocated by the Company for such purposes, or that such costs will not have a significant adverse impact on the Company's financial position and operating results. Furthermore, the interpretation and enforcement of

environmental laws and regulatory provisions changes from time to time and may be more stringent in the future.

7.24.18 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 capsizes, 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.

7.24.19 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 drilling operations, for production, transmission and such like systems, as well as for industrial control systems, such as computer systems used for supervisory control and data acquisition in industry (SCADA), which currently monitor and control comprehensive processes that include, inter alia, electricity generation and monitoring of oil and gas transmission pipelines. The Tamar Partners depend on digital technology, including information and infrastructure systems, as well as cloud services, in all that pertains to processing and documentation of financial and operational data, contracting with workers at the reservoirs and with business partners, analysis of seismic and drilling data, evaluating the amounts of oil and gas reserves, and many other activities involved in the Company's business. The Company's business partners, including suppliers, service providers, gas purchasers and financial institutions, also depend on digital technology. The greater the dependence on digital technology, the higher the incidence of cyber attacks (targeted and untargeted) . A cyber attack can include unauthorized access to digital systems for misuse of assets or sensitive information, data corruption or causing operational damage. SCADA-based systems are more exposed to cyber attacks due to the increase in the number of connections to office networks and the Internet. 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. For details regarding the obligation to secure vital computerized systems pursuant to the Regulation of Security in Public Bodies Law, see Section 7.16.6 above.

#### 7.24.20 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, 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.

#### 7.24.21 Dependence on a major customer

The IEC is currently the Company's most significant gas consumer. 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 should be noted that significant fluctuations in the prices of alternative energy sources to natural gas (including coal and other gas substitutes) relative to the price of natural gas, including those occurring due to reforms in the electricity sector and

in the IEC or due to Ministry of Energy directives, could cause the IEC to generate electricity using natural gas substitutes, subject to its Take or Pay obligation with respect to the minimum annual quantity specified in the agreement with it (as detailed in Section 7.4.4(d) above), a factor which could adversely affect the Company, its financial position and its operating results. 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 could 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 capabilities. Nevertheless, it should be noted that the Tamar Partners have signed gas supply agreements with other significant customers, which mitigate the Company's dependence on the IEC. For details regarding the request for proposals for the supply of natural gas submitted by the IEC to the Tamar and Leviathan partners, see Section 7.4.4(d) above. If as a result of said tender, the quantity sold by the Company under the agreement with the IEC falls significantly below the quantity sold by the Company in 2018, and should the Company fail to find an alternative customer for such quantity, this will have a significantly adverse effect on the Company's business.

7.24.22 Financial soundness of the Company's customers

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

7.24.23 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 JOA 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. In such an event, the Company cannot guarantee that an operator will be found to replace Noble or that a replacement operator will be found having similar experience and/or at the same terms as currently in effect with Noble. The Company's inability to find a replacement operator for Noble could adversely affect the activity of the Tamar Project and the gas production obligations under the existing gas sale agreements, resulting in a decrease in the Company's revenues.

7.24.24 Minority vote

The Company holds 16.75% in the Tamar Project. Since resolutions related to the JOA are passed by a majority vote (at the rate defined in the JOA), 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. The Company has limited ability to influence exploration, development and production activities in the Tamar Project, including the timing and costs of these activities.

7.24.25 Risk and lack of means for development and production in the event of a discovery

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 growth opportunities (such as discoveries in which the Company is a partner), are very high and the aforesaid actions would also entail risks, including operation risks. There is no certainty that the Company will be able to obtain the funding required for such development and production. 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.

7.24.26 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.

7.24.27 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.<sup>94</sup>

7.24.28 Security risk

The production facilities of the Yam Tethys Project and Tamar Project are located at sea in relative proximity to the maritime and land 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 and retain the appropriate human capital and cause damage and/or harm to the production facilities, the Terminal and other equipment, which could 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. This could also have a material adverse effect on the Company's business, financial position, results of operation or capabilities, and likewise could limit the ability of service providers and equipment suppliers to provide their services or supply the items required for the activity of the Tamar

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<sup>94</sup> See in this regard Section 7.2.8 in connection with the overflow of a part of the Tamar SW reservoir into the area of the Eran license.

Project. Furthermore, the transmission infrastructures to Jordan and Egypt (including the EMG transmission pipe), the terminal in Egypt and the related infrastructures in Egypt are also exposed to security risks, including terrorist attacks and sabotage, which could impair the Company's ability to export gas and disrupt the gas supply under the Tamar-Dolphinus Agreement. The materialization of any of the above risks could significantly reduce the Company's revenues, with a material negative impact on the Company's business, financial position, operating results and capabilities.

7.24.29 Fluctuations in the dollar rate

The Company's taxable income is measured in NIS, and therefore the Company is exposed to exchange rate risks that impact on the determination of its results for tax purposes. As of the date of the report, the Company has insignificant balances in non-dollar currencies. However, the excess of liabilities over financial assets denominated in dollars normally existing at the Company exposes the Company to fluctuations in income tax, since changes in the exchange rate of the shekel against the dollar will affect its results for tax purposes.

7.24.30 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.

7.24.31 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 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 (for example, by fixing prices at an unfair level, or by setting different terms for similar transactions, which could confer on certain customers an unfair advantage over their competitors). 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. For further details regarding restrictive trade practices, see Section 7.16.4 above.

7.24.32 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, including as a result of its inability to refinance the final repayment of the bond principal (regarding the risk of difficulties in obtaining funding see Section 7.24.3 above), may lead to the acceleration of such amounts. For details regarding the financial covenants with which the Company is required to comply, see Part Five of the Board of Directors 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.

7.24.33 "Force majeure" clause in the existing natural gas sale agreements

Under the existing natural gas sale agreements, some of the Company's customers are obligated 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. However, this obligation may be suspended upon the occurrence of events of "force majeure," as defined in the existing natural gas sale agreements, which affect the Company's customers or the Tamar reservoir. An event of "force majeure" may arise, inter alia, from war, terrorist attacks and other events which could prevent the Tamar reservoir from supplying natural gas or a customer from receiving or using natural gas, or make it impossible to transmit natural gas due to a failure or defect in the National Transmission System.

It should be noted that the existing natural gas sale agreements include provisions regarding the calculation and adjustment of the minimum quantity for billing in circumstances of "force majeure." If in a certain year there has been an event of "force majeure," as a result of which the Company is unable to supply natural gas to a customer or a customer is unable to receive or use natural gas, then in that year the minimum quantity for billing will be reduced according to the mechanism prescribed in the agreement. If an event of "force majeure" continues over an extended period as determined in the agreement, and such event prevents the supply of natural gas, this could result in the cancellation of the relevant gas sale agreement of the Company. It is clarified that an event of "force majeure" that affects a customer may also involve the transmission of gas after the delivery point (the connection point to the National Transmission System). Therefore, the

occurrence of an event of "force majeure" that suspends the customer's obligations to purchase a significant quantity of natural gas could significantly adversely impact the Company's revenues in the short term or in the long term when this results in the cancellation of a certain gas sale agreement as explained above.

#### 7.24.34 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 and activity.

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		
	Major Effect	Moderate Effect	Minor Effect
<b>Macro Risks</b>			
Changes in global fuel prices and/or in the Electricity Production Tariff and/or in the U.S. CPI and/or in other sources of energy		X	
Geopolitics	X		
Difficulties in obtaining financing		X	
<b>Industry-Specific Risks</b>			
Competition in gas supply	X		
Restrictions on export	X		
Dependence on transmission systems		X	
Operational risks		X	
Insufficient insurance coverage		X	
Dependence on contractors and on professional service and equipment providers		X	
Exploration risks and reliance on partial and estimated data		X	
Merely estimated costs and timetables and possible lack of means		X	
Forfeiture of the Company's rights in its petroleum assets			X

	Extent of Risk Factor's Effect on Company's Business		
	Major Effect	Moderate Effect	Minor Effect
Dependence on the receipt of approvals from external entities		X	
Regulatory changes		X	
Possible control on natural gas prices		X	
A motion to certify 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	
<b>Company-Specific Risks</b>			
Tax risks			X
Dependence on primary customer		X	
Financial soundness of the Company's customers			X
Dependence on the Operator	X		
Minority votes			X
Risk and lack of means for development and production in the event of a discovery		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	
"Force majeure" clause in the existing natural gas sale agreements			X
Reliance on a single petroleum asset	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**" – Petroleum and/or gas quantities allowing the economic production thereof.

"**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.

"**Preliminary permit**" – As defined in the Petroleum Law.

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

"**Hydrocarbons**" – Carbon and hydrogen compounds, including gas, petroleum and condensates.

"**Lease**" – As defined in the Petroleum Law.

"**License**" – As defined in the Petroleum Law.

"**Logs**" – Various surveys that are performed during or after the drilling activity for continuous recording of the composition, properties and content of rocks, for the purpose of locating the potential strata in which petroleum and/or gas 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"; "Contingent Resources"; "Proved Reserves"; "Probable Reserves"; "Possible Reserves"; "Low Estimate"; "Best Estimate"; "High Estimate"; "Contingent Resources in CO, 2C, 3M Categories"; "On Production"; "Approved for Development"; "Justified for Development"; "Development Pending"; "Development Unclassified 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 (the cost of which is higher than a 2D survey and the data and results of a higher quality) are performed in areas that were detected as promising in the 2D surveys 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 and/or gas and obtaining preliminary information about the composition of the reservoir rocks and the quality thereof and about the size and boundaries of the reservoir.

**"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:

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<b>BCM</b>	<b>BCF</b>	<b>MMCF</b>
1	35.3107	35310.7

<b>BCF</b>	<b>MMCF</b>	<b>BCM</b>
1	1000	0.0283

<b>MMCF</b>	<b>BCF</b>	<b>BCM</b>
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 19, 2019

Mr. Yuval Raikin  
Tamar Petroleum Ltd.  
11 Gaigalei Haplada Street  
Herzeliya 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 March 4, 2019, we, Netherland, Sewell & Associates, Inc. (NSAI), have received daily well production data through March 12, 2019. 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 March 4 report.

The March 4 report sets forth our estimates of the proved, probable, and possible reserves and future revenue, as of December 31, 2018, 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:MAG

March 19, 2019

Mr. Yuval Raikin  
Tamar Petroleum Ltd.  
11 Gaigalei Haplada Street  
Herzeliá 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):

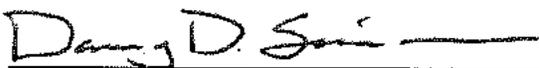
- The report dated March 4, 2019, sets forth our estimates of the proved, probable, and possible reserves and future revenue, as of December 31, 2018, to the Tamar Petroleum working interest in certain gas properties located in Tamar and Tamar Southwest Fields, Tamar Lease I/12, offshore Israel.
- The report dated March 7, 2018, sets forth our estimates of the unrisksed 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.

In addition to the reports listed above, NSAI hereby grants permission to Tamar Petroleum to use the following No Change letters:

- The No Material Change letter dated March 19, 2019, 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 March 4, 2019, report for properties located in Tamar and Tamar Southwest Fields.

Sincerely,

**NETHERLAND, SEWELL & ASSOCIATES, INC.**

By: 

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

RBT:MAG



# **Tamar Petroleum Ltd.**

## **Chapter B**

**Board of Directors Report for the year  
ended December 31, 2018**

*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.*

March 19, 2019

## **Tamar Petroleum Ltd.**

### **Board of Directors' Report** **For the year ended December 31, 2018**

The board of directors of Tamar Petroleum Ltd. (the "Company") respectfully submits the Board of Directors' Report for the year ended December 31, 2018 (hereinafter: the "reporting year").

#### **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 is engaged in the sale of natural gas produced from the Tamar reservoir, which is located in the area of the I/12 Tamar lease ("**Tamar lease**" and "**Tamar project**," respectively) to various customers, primarily to the Israel Electric Corporation Ltd. (the "**IEC**") ,as well as to industrial customers, private electricity producers and natural gas marketing companies. Likewise, the Company is engaged in the sale of condensate produced from the Tamar project and in the furtherance of the expansion of the Tamar project production system.

The Company was incorporated on November 4, 2015, and commenced operations on July 1, 2017, following fulfillment of the conditions precedent in the sale agreement signed with Delek Drilling – Limited Partnership ("**Delek Drilling**"). In the framework of said agreement, the Company acquired 9.25% (out of 100%) of the working interests in the I/12 Tamar and I/13 Dalit leases (the "**Leases**") and a proportionate share (9.25%) in the permits, and in the rights and obligations under associated agreements in return for a cash amount of \$845 million, financed by raising debt and capital from the public, as described in Note 4A to the financial statements as of December 31, 2018 attached hereto (the "**Financial Statements**"), and by consideration shares

of the Company. The Company had previously been inactive and was wholly owned and controlled by Delek Drilling.

On March 14, 2018, upon the fulfillment of the conditions precedent in the sale agreement signed with Noble Energy Mediterranean Ltd. ("**Noble**") on January 29, 2018, the Company acquired, with effect from January 1, 2018, an additional 7.5% (out of 100%) of the working interests in the Leases and a proportionate share (7.5%) in the permits, and in the rights and obligations under associated agreements (the "**rights acquired from Noble**") for \$690 million. The acquisition was made for a cash consideration of \$475 million (financed through the issuance of Series B bonds) and for the allocation of 38,495,576 ordinary shares of the Company of NIS 0.1 par value each (accounting for 43.5% of Company's issued and paid-up share capital) to Noble. For further details, see Note 4B to the Financial Statements.

As of the reporting date, the Company holds 16.75% of the rights in the Leases.

The acquisition of 9.25% of the rights in 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 were closed on January 1, 2015, while carrying out the adjustments specified in Note 2A to the Financial Statements attached hereto. As explained in Note 2B to the Financial Statements, the Company began recording finance costs related to the Series A bond issue as well as income taxes in Q3/2017.

The results of operations in respect of the rights acquired from Noble have been included in the statement of comprehensive income as of the acquisition date (March 14, 2018).

## 2. Results of Operations

### A. Analysis of statements of comprehensive income

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

	<b>Year ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Revenues from gas and condensate sales	311,273	172,334
Less royalties	49,691	27,246
Net revenues	<u>261,582</u>	<u>145,088</u>
<b><u>Costs and expenses</u></b>		
Cost of production of natural gas and condensate	21,897	12,234
Depreciation, depletion and amortization expenses	44,466	16,934
General and administrative expenses	2,661	1,698
Total costs and expenses	<u>69,024</u>	<u>30,866</u>
Income from ordinary activities	<u>192,558</u>	<u>114,222</u>
Finance expenses	(58,293)	(15,859)
Finance income	1,832	332
Finance expenses, net	<u>(56,461)</u>	<u>(15,527)</u>
Income before income taxes	136,097	98,695
Income taxes	<u>(37,279)</u>	<u>(10,469)</u>
<b>Total comprehensive income</b>	<b><u>98,818</u></b>	<b><u>88,226</u></b>
<b>Gas sales in BCM<sup>1</sup></b>	<u>10.3</u>	<u>9.7</u>
<b>Condensate sales in thousands of barrels<sup>2</sup></b>	<u>477</u>	<u>455</u>

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

<sup>2</sup> 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 \$261.6 million compared with \$145.1 million the year before, an increase of 80%. The year-over-year increase in revenues mainly derives from growth in revenues less royalties of \$109.9 million, resulting from an increase in the holding rate due to the rights acquired from Noble. The remaining net revenue growth of \$6.6 million derives from sales revenue growth of \$15.3 million, due primarily to a 6% growth in the quantities of natural gas and condensate sold in the Tamar project, which was offset by an increase in royalty expenses totaling \$8.7 million.

It should be noted that expenses for royalties to the Delek Group Ltd. and to Delek Energy Systems Ltd./Delek Royalties (2012) Ltd. as of February 25, 2018, were charged according to the increased rate after the return on investment date (6.5%) in respect of the Company's revenues deriving from its 9.25% working interest in the Tamar lease. For further details, see Note 15D to the Financial Statements.

Net revenues for Q4/2018 amounted to \$71.3 million compared with \$34.4 million in the year-before period. The growth is due primarily to an increase in revenues less royalties of \$33.3 million originating from the rights acquired from Noble.

Natural gas was supplied in 2018 to the Israel Electric Corporation (50% of total Company revenues) and to another major customer (10% 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 for shipping and transportation, payroll, consulting, maintenance and insurance. The cost of gas and condensate production in the reporting year amounted to \$21.9 million compared with \$12.2 million the year before, an increase of 80%. The major part of the increase in the cost of gas production, totaling \$8.7 million, derives from the rights acquired from Noble.

The cost of gas and condensate production in Q4/2018 amounted to \$7.3 million compared with \$3.4 million in the year-before period. The major part of the growth, totaling \$3.3 million, derives from the rights acquired from Noble.

**Depreciation, depletion and amortization expenses** amounted in the reporting year to \$44.5 million compared with \$16.9 million the year before. The major part of the increase in these expenses, totaling \$26.6 million, derives from depreciation expenses associated with the rights acquired from Noble.

Depreciation, depletion and amortization expenses in Q4/2018 amounted to \$11.3 million compared with \$3.8 million in the year-before quarter. The major part of the increase, totaling \$7.4 million, stems from depreciation expenses associated with the rights acquired from Noble.

**General and administrative expenses** in the reporting year amounted to \$2.7 million compared with \$1.7 million a year ago, and include, inter alia, expenses for professional services, payroll expenses and general expenses.

General and administrative expenses for the first half year a year ago were included based on an assessment of costs attributable to the Company out of the general and administrative expenses of Delek Drilling, as set out in Note 2A to the Financial Statements.

General and administrative expenses in Q4/2018 amounted to \$0.8 million compared with \$0.7 million in the year-before quarter.

**Net finance costs** amounted in the reporting year to \$56.5 million compared with \$15.5 million the year before. The increase in net finance costs in the reporting year mainly derived from an

increase in finance costs totaling \$16.2 million in respect of the Series A bonds issued during July 2017 and from finance costs in respect of Series B bonds issued during March 2018 totaling \$25.4 million.

Net finance costs in Q4/2018 amounted to \$15.8 million compared with \$8.1 million in the year-before quarter. The increase derives primarily from finance expenses from the issue of Series B bonds totaling \$7.8 million.

**Income taxes** in the reporting year amounted to \$37.3 million compared with \$10.5 million a year earlier. Tax expenses in the reporting year include a total of \$7.5 million originating in the difference between the measurement basis of income as reported for tax purposes (NIS) and the measurement basis as reported in the Financial Statements (USD). As explained above, the Company started to charge income tax expenses in Q3/2017.

Tax expenses in Q4/2018 amounted to \$9.6 million compared with \$4.9 million in the year-before quarter. Tax expenses in Q4/2018 include a total of \$2.8 million originating in the difference between the measurement basis of income as reported for tax purposes (NIS) and the measurement basis as reported in the Financial Statements (USD).

### 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, 2018, compared with the statement of financial position as of December 31, 2017:

**Total assets in the statement of financial position** as of December 31, 2018 amounted to \$1,316.7 million compared with \$575.3 million as of December 31, 2017.

**Total current assets in the statement of financial position** as of December 31, 2018 amounted to \$130.1 million compared with \$48.1 million as of December 31, 2017. The change is mainly attributable to the following factors:

- (1) **Cash and cash equivalents** amounted to \$86.9 million as of December 31, 2018 compared with \$28.4 million as of December 31, 2017.
- (2) **Trade receivables** amounted to \$33.4 million as of December 31, 2018 compared with \$18.3 million as of December 31, 2017. The increase mainly derives from a \$15 million increase associated with the rights acquired from Noble.
- (3) **Other accounts receivable** amounted to \$9.8 million as of December 31, 2018 compared with \$1.3 million as of December 31, 2017. The increase is mainly due to income tax receivable totaling \$7.1 million.

**Total non-current assets in the statement of financial position** as of December 31, 2018 amounted to \$1,186.6 million compared with \$527.3 million as of December 31, 2017. The change is mainly attributable to the following factors:

- (1) **Investments in oil and gas assets** amounted to \$1,040.6 million as of December 31, 2018 compared with \$380.1 million as of December 31, 2017. The increase stems primarily from the acquisition of oil and gas assets included in the rights acquired from Noble totaling \$697.3 million and from investments totaling \$6.4 million, which were partly offset as a result of depreciation, depletion and amortization expenses in the Tamar project, in the amount of \$44.5 million.

- (2) **Deferred taxes** amounted to \$98.4 million as of December 31, 2018 compared with \$134.7 million as of December 31, 2017. The decrease derives primarily from deferred tax expenses totaling \$37.1 million.
- (3) **Restricted deposits** amounted to \$42.2 million as of December 31, 2018 compared with \$10 million as of December 31, 2017. These deposits serve as a safety buffer for payment of principal and interest to the holders of Series A bonds and Series B bonds and are pledged in favor of the trustee for said bonds. The deposits also serve as security for bank guarantees provided by the Company to the Petroleum Commissioner in respect of its rights in the Leases. The increase during the reporting period stems from an increase of \$10.6 million and \$19.4 million in the safety buffer of Series A bonds and Series B bonds, respectively, and from a \$2.2 million growth in deposits provided as guarantees to the Petroleum Commissioner.

**Current liabilities** as of December 31, 2018 amounted to \$124.4 million compared with \$38.9 million as of December 31, 2017. The change is mainly attributable to the following factors:

- (1) **Current maturities of bonds** amounted to \$95.2 million as of December 31, 2018 compared with \$11.4 million as of December 31, 2017. The growth stems from an increase in current maturities of Series A bonds and Series B bonds in the amount of \$39.1 million and \$44.7 million, respectively.
- (2) **Other accounts payable** as of December 31, 2018 amounted to \$29.2 million compared with \$24 million as of December 31, 2017. The rise mainly derives from costs of interest payable to Series A and B bondholders in the amount of \$4 million and from an increase in royalties payable to the State, to interested parties and to third parties, in the amount of \$1.2 million.
- (3) **Income taxes payable** amounted to \$3.5 million as of December 31, 2017. As of December 31, 2018, the Company had no such liability.

**Non-current liabilities** as of December 31, 2018 amounted to \$1,052.9 million compared with \$639.6 million as of December 31, 2017. The change is mainly attributable to the following factors:

- (1) **Bonds net of current maturities** amounted to \$1,032.3 million as of December 31, 2018 compared with \$629.7 million as of December 31, 2017. The increase mainly derives from Series B bonds issued in March 2018 and recognized net of discount and issue expenses in the amount of \$512.2 million, plus amortization of deferred costs totaling \$5.9 million, partly offset by an increase in current maturities of \$83.9 million, repayment of principal of bonds totaling \$30.8 million and repurchase of Series B bonds in the amount of \$0.8 million.
- (2) **Asset retirement obligation** as of December 31, 2018, amounted to \$20.6 million compared with \$9.9 million as of December 31, 2017. The increase stems primarily from an \$8 million increase in the retirement obligation associated with the rights acquired from Noble.

**The Company's equity** as of December 31, 2018 amounted to \$139.4 million compared with negative equity of \$103.1 million as of December 31, 2017. The increase stems from the issuance of the Company's shares to Noble, which constituted part of the consideration for the rights acquired from Noble totaling \$215 million, and from the comprehensive income for the year totaling \$98.8 million, offset by a decrease in surplus due to dividends distributed in the amount of \$71.3 million.

**B. Cash flow**

**Net cash flows provided by operating activities** amounted in 2018 to \$208.5 million compared with net cash flows provided by operating activities amounting to \$107.7 million the year before. The increase is mainly due to operating activities arising from the rights acquired from Noble.

**Net cash flows used for investing activities** amounted in 2018 to \$511.8 million, compared with \$20.3 million a year ago. The increase mainly derives from the cost of acquisition of the rights acquired from Noble, paid in cash in the amount of \$475.2 million, and from a \$21.6 million increase in the amount deposited into restricted deposits.

**Net cash flows provided by financing activities** amounted in 2018 to \$362.1 million, and included primarily, on the one hand, net proceeds from the issuance of Series B bonds totaling \$512.2 million, and on the other hand, a dividend payment in the amount of \$71.3 million, an interest payment on Series A bonds and Series B bonds in the amount of \$47 million, and repayment of the principal of Series A bonds and Series B bonds in the amount of \$30.8 million.

**Net cash flows used for financing activities** amounted in 2017 to \$58.9 million, and included, on the one hand, payments in the total sum of \$902 million (payment for the acquisition of the Leases from a former controlling shareholder – \$845.3 million, distributions to shareholders – \$49.1 million, repurchase of Series A bonds – \$7.5 million), as against receipts of \$843.1 million (net Series A bond issue proceeds – \$647.9 million; net share issue proceeds – \$195.2 million).

**C. Financing**

In March 2018, 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 Series B bonds bear 4.69% annual interest and are linked (principal and interest) to the dollar. Approximately 53.62% of the Series B bond principal is payable in 20 unequal semiannual installments, from August 2018 until February 2028, and the remaining 46.38% of the Series B bond principal is payable in August 2028. The interest is payable semiannually, from August 2018 until the final principal payment date. The Series B bonds were assigned a rating of A1.il with stable outlook by Midroog Ltd.

For further details on the Series B bonds see Note 9C to the Financial Statements attached hereto.

## **Part Two – 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 meeting of the financial statements review committee and 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 (board chairman)). 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. Four independent directors serve on the board of directors: Ran Efrati (board chairman), Sigalia Hefetz, Nechama Ronen and Avraham Eini.

### **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.

The internal auditor is a graduate of a course on quality assurance in internal auditing held in conjunction with the international IIA, the Institute of Certified Public Accountants in Israel, and the IIA Israel – Institute of Internal Auditors in Israel, and is an accredited internal audit quality assurance reviewer (QAR).

- (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.), and also as President of ISACA Israel.
- (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.

It should be noted that besides the work of the internal auditor, the Company carries out, via an external consultant, a joint audit with the Israeli partners of the Tamar project of the Operator's work. Presently, a periodical audit of the Tamar project operator's books is being carried out for the years 2017-2018 by an international external consultant, an expert on auditing in the oil and gas industry. The audit is scheduled to be completed by the end of 2019. The audit is carried

out in conjunction with all the partners in the Tamar project besides the Operator. in accordance with the audit rules specified in the joint operation agreement.

**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 300 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 was submitted in writing.

As of the report date, a risk survey report, an annual audit plan for 2018 as well as a multiannual audit plan were submitted. For further details see (d) above.

The annual audit plan for 2018 covers four subjects as detailed below. The audit reports were submitted to the Company's management to hear its position, and subsequently submitted to the board chairman and the audit committee members, and then extensively deliberated upon by the audit committee as detailed below:

<b><u>Subject of Report</u></b>	<b><u>Date of Deliberation by Audit Committee</u></b>
Means of payment	June 17, 2018
Significant transaction – Acquisition of part of Noble's working interests in the Tamar and Dalit leases	June 17, 2018
Cash flow management	August 30, 2018
Information security and cyber protection	December 25, 2018

## **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 2018 a total of NIS 75,000. 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 – Ziv Haft, CPA, jointly with Kost Forer Gabbay & Kasierer, CPA:

### **2018**

For audit, audit-related and tax services – 3,027 hours; NIS 508 thousand.

For other services (mainly in connection with the issue of securities of the Company) – 1,460 hours; NIS 680 thousand.

### **2017**

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)(3) 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**

In August 2018, the Company adopted an internal enforcement program in the field of securities and also appointed an officer in charge of internal enforcement.

8. In January 2019, the Company's board of directors decided to enter into an agreement with Entropy Corporate Governance Consulting Ltd. for the purpose of formulating a policy document on the profile and mix of the board of directors, and to appoint a board committee for this purpose. The purpose of said document is to ensure the quality of the board of directors, in terms of mix, fitness and effectiveness, and to boost the level of trust and confidence of the Company's stakeholders in the board members, in particular, and in the Company, in general.

### Part Three – Repurchase Program

Regarding the Series B bond repurchase program that was adopted by the board of directors, see immediate report dated March 13, 2018 (reference number 2018-01-019917), 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 B bond repurchase program, as set out in immediate reports dated March 18, 2018 (reference number 2018-01-021120 and 2018-01-021123), the contents of which are included herein by reference.

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

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

See Note 22 to the Financial Statements.

2. **Critical accounting estimates**

See Note 2E to the Financial Statements.

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

<b><u>Details</u></b>	<b><u>Series A</u></b>	<b><u>Series B</u></b>
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, 2018	2,245,071	1,873,970
Linked par value as of December 31, 2018	2,389,133	2,030,540
Value in the Company's books as of December 31, 2018	2,360,397	1,865,732
Stock exchange value as of December 31, 2018	2,197,700	1,863,851
Amount of accrued interest as of December 31, 2018	37,759	32,092
Annual fixed interest rate	4.69%	4.69%
Principal payment dates	See <b><u>Annex A</u></b> to this report	See <b><u>Annex B</u></b> 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)

<b>Details</b>	<b>Series A</b>	<b>Series B</b>
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"> <li>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 "<b>Series A Indenture</b>").</li> <li>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.</li> <li>Regarding the obligation for early redemption of the bonds, see Section 9.3 of the Series A Indenture.</li> </ul>	<ul style="list-style-type: none"> <li>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 "<b>Series B Indenture</b>").</li> <li>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.</li> <li>Regarding the obligation for early redemption of the bonds, see Section 9.3 of the Series B Indenture.</li> </ul>
Guarantee for payment of the liability	None	None
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 <sup>3</sup>	A1.il	A1.il
Has the Company complied with all the conditions and obligations under the Indenture until December 31, 2018 and during the reporting year?	Yes	Yes

<sup>3</sup> Series A bonds were rated on June 25, 2017, July 2, 2017, July 5, 2017, July 12, 2017, February 20, 2018, March 12, 2018, and March 13, 2019; Series B bonds were rated on February 20, 2018, March 12, 2018, and March 13, 2019. For details see immediate report dated March 13, 2019 (reference number 2019-01-020919), the contents of which are included herein by reference.

<b>Details</b>	<b>Series A</b>	<b>Series B</b>
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"> <li>• 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.</li> <li>• As of December 31, 2018, 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>
Financial covenants as of December 31, 2018	<ul style="list-style-type: none"> <li>• 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</li> </ul>	<ul style="list-style-type: none"> <li>• Equity (including minority interests) net of capital reserve and with the addition of loans subordinated to the rights of the bondholders (as specified in Section 5.10.1 of the Series B Indenture) as</li> </ul>

<u>Details</u>	<u>Series A</u>	<u>Series B</u>
	<p>of December 31, 2018 – \$848 million.<sup>4</sup></p> <ul style="list-style-type: none"> <li>• 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, 2019) – 1.29.<sup>5</sup></li> <li>• Historical coverage ratio for the examination period (as defined in Section 5.10.2 of the Series A Indenture) (for the year ended December 31, 2018) – 2.23.<sup>6</sup></li> <li>• Economic equity (as defined in Section 5.10.3 of the Series A Indenture) as of December 31, 2018 – \$866 million.<sup>7</sup></li> </ul>	<p>of December 31, 2018 – \$848 million.<sup>8</sup></p> <ul style="list-style-type: none"> <li>• 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, 2019) – 1.29.<sup>9</sup></li> <li>• Historical coverage ratio for the examination period (as defined in Section 5.10.2 of the Series B Indenture) (for the year ended December 31, 2018) – 2.23.<sup>10</sup></li> <li>• Economic equity (as defined in Section 5.10.3 of the Series B Indenture) as of December 31, 2018 – \$866 million.<sup>11</sup></li> </ul>

## 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,

\_\_\_\_\_  
Ran Efrati  
Chairman of the Board

\_\_\_\_\_  
Liami Vaisman  
CEO

**Tamar Petroleum Ltd.**

<sup>4</sup> According to the terms of the Series A Indenture, said equity may be no less than \$250 million.

<sup>5</sup> According to the terms of the Series A Indenture, said ratio will be no less than 1.05.

<sup>6</sup> According to the terms of the Series A Indenture, as regards dividend distribution, the historical coverage ratio may be no less than 1.20 on at least one of two consecutive examination dates.

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

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

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

<sup>10</sup> According to the terms of the Series B Indenture, as regards dividend distribution, the historical coverage ratio may be no less than 1.20 on at least one of two consecutive examination dates.

<sup>11</sup> According to the terms of the Series B Indenture, said economic equity may be no less than \$350 million during two consecutive quarters.

**Annex A**  
**Schedule of Amortization of Series A Bonds**

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

**Annex B**  
**Schedule of Amortization of Series B Bonds**

<b>Payment Date</b>	<b>Percentage of Principal Paid</b>
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%
	<b>100.00%</b>



# **Tamar Petroleum Ltd.**

## **Chapter C**

### **Financial Statements**

# **Tamar Petroleum Ltd.**

**Financial Statements as of December 31, 2018**

**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, 2018**  
**In U.S. Dollars in Thousands**

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## **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, 2018 and 2017 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the years in the three-year period ended December 31, 2018. 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, 2018 and 2017 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, 2018, 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 19, 2019

**Tamar Petroleum Ltd.**

**Statements of Financial Position (dollars in thousands)**

	Note	December 31	
		2018	2017
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and cash equivalents	20A	86,928	28,439
Trade receivables	20E(2)	33,429	18,296
Other accounts receivable	5	9,774	1,324
		<u>130,131</u>	<u>48,059</u>
<b>Non-current assets;</b>			
Investments in oil and gas assets	6	1,040,550	380,065
Deferred taxes	19B	98,389	134,698
Restricted deposits	20A	42,228	9,969
Other long-term assets	7	5,406	2,521
		<u>1,186,573</u>	<u>527,253</u>
		<u>1,316,704</u>	<u>575,312</u>
<b>Liabilities and equity (deficit):</b>			
<b>Current liabilities:</b>			
Current maturities of bonds	9	95,246	11,351
Other accounts payable	8	29,163	23,992
Income taxes payable		-	3,543
		<u>124,409</u>	<u>38,886</u>
<b>Non-current liabilities</b>			
Bonds net of current maturities	9	1,032,323	629,691
Asset retirement obligation	10	20,580	9,871
		<u>1,052,903</u>	<u>639,562</u>
<b>Total liabilities</b>		<u>1,177,312</u>	<u>678,448</u>
<b>Equity (deficit):</b>			
	13		
Ordinary share capital		2,517	1,399
Share premium		784,495	570,648
Retained earnings		59,494	32,023
		<u>846,506</u>	<u>604,070</u>
Capital reserve		(707,114)	(707,206)
		<u>139,392</u>	<u>(103,136)</u>
		<u>1,316,704</u>	<u>575,312</u>

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

March 19, 2019

Date of approval of the  
financial statements

Ran Efrati  
Chairman of the Board

Liami Vaisman  
CEO

Yuval Raikin  
CFO

**Tamar Petroleum Ltd.**

**Statements of Comprehensive Income (dollars in thousands)\***

	Note	Year ended December 31		
		2018	2017	2016
Revenues from gas and condensate sales	14	311,273	172,334	159,850
Less royalties	15	49,691	27,246	24,843
Net revenues		261,582	145,088	135,007
<b>Costs and expenses</b>				
Cost of production of natural gas and condensate	16	21,897	12,234	11,638
Depreciation, depletion and amortization expenses	6	44,466	16,934	16,156
General and administrative expenses	17	2,661	1,698	1,200
Total costs and expenses		69,024	30,866	28,994
<b>Income from ordinary activities</b>		192,558	114,222	106,013
Finance expenses	2B,18	(58,293)	(15,859)	(342)
Finance income	18	1,832	332	131
Finance expenses, net		(56,461)	(15,527)	(211)
<b>Income before income taxes</b>		136,097	98,695	105,802
Income taxes	2B,19	(37,279)	(10,469)	-
<b>Total comprehensive income</b>		98,818	88,226	105,802
<b>Basic and diluted earnings per share (in \$)</b>		1.22	1.76	2.12
Weighted number of shares for the above calculation	2A(4), 13C	80,901,928	50,000,000	50,000,000

\* 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.**

**Statements of Changes in Equity (Deficit) (dollars in thousands)\***

	Ordinary share capital	Share premium	Capital reserve	Retained earnings	Total
<b>Balance as of January 1, 2016</b>	**	392,174	-	-	392,174
<b>Changes in the year 2016:</b>					
Total comprehensive income	-	-	-	105,802	105,802
Distributions to owners	-	(5,349)	-	(105,802)	(111,151)
<b>Balance as of December 31, 2016</b>	**	386,825	-	-	386,825
<b>Changes in the year 2017:</b>					
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
<b>Balance as of December 31, 2017</b>	1,399	570,648	(707,206)	32,023	(103,136)
<b>Changes in the year 2018:</b>					
Total comprehensive income	-	-	-	98,818	98,818
Share issue	1,118	213,847	-	-	214,965
Dividend	-	-	-	(71,347)	(71,347)
Share-based payment	-	-	92	-	92
<b>Balance as of December 31, 2018</b>	2,517	784,495	(707,114)	59,494	139,392

\* 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		
	2018	2017	2016
<b>Cash flows – operating activities:</b>			
Net income	98,818	88,226	105,802
<b>Adjustments required to reconcile net income to net cash used in operating activities:</b>			
Depreciation, depletion and amortization	44,466	16,934	16,156
Income taxes	26,373	6,937	-
Amortization of bond discount and issue expenses	5,902	610	-
Finance expenses, net	50,757	**14,855	197
Share-based payment	92	-	-
<b>Changes in assets and liabilities:</b>			
Increase in trade receivables	(15,133)	(20,844)	(2,696)
Decrease (increase) in other accounts receivable	(3,778)	(2,307)	50
Change in balance of the Joint Venture operator	(1,807)	-	-
Increase in other accounts payable	2,769	**3,261	483
<b>Net cash provided by operating activities</b>	<u>208,459</u>	<u>107,672</u>	<u>119,992</u>
<b>Cash flows – investing activities:</b>			
Cost of acquisition of additional rights in the Tamar and Dalit leases (see Appendix C and Note 4B)	(475,199)	-	-
Deposit in restricted deposits	(31,567)	(9,940)	-
Investments in oil and gas assets	(7,231)	(18,507)	(10,383)
Investment in other long-term assets	-	(1,666)	-
Change in balance of the Joint Venture operator	-	9,545	1,543
Interest received	1,424	109	-
Receipts in connection with other long-term assets	792	130	-
<b>Net cash used for investing activities</b>	<u>(511,781)</u>	<u>(20,329)</u>	<u>(8,840)</u>
<b>Cash flows – financing activities:</b>			
Payment to a former controlling shareholder in respect of the Sale Agreement (see Note 4A)	-	(845,299)	-
Proceeds from a bond issue, net	512,239	647,955	-
Repayment of bonds	(30,791)	-	-
Proceeds (payment of issue costs) from a share issue, net	(204)	195,160	-
Repurchase of bonds	(840)	(7,523)	-
Receipt of short-term credit from a former controlling shareholder (see Note 4A(3))	-	34,000	-
Repayment of short-term credit from a former controlling shareholder	-	(34,000)	-
Distributions to owners	-	(49,091)	(111,152)
Dividend paid	(71,347)	-	-
Interest paid	(46,978)	(106)	-
<b>Net cash provided by (used for) financing activities</b>	<u>362,079</u>	<u>(58,904)</u>	<u>(111,152)</u>
<b>Losses from exchange rate differences on cash and cash equivalents</b>	<u>(268)</u>	<u>-</u>	<u>-</u>
Increase in cash and cash equivalents	58,489	28,439	-
Cash and cash equivalents at beginning of year	28,439	-	-
<b>Cash and cash equivalents at end of year</b>	<u><u>86,928</u></u>	<u><u>28,439</u></u>	<u><u>-</u></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.

\*\* Reclassified

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

## Tamar Petroleum Ltd.

### Statements of Cash Flows (dollars in thousands) (cont.)\*

	Year ended December 31		
	2018	2017	2016
<b>Annex A – Investing activities not involving cash flows</b>			
Issuance of shares in consideration for the acquisition of rights in Tamar and Dalit	215,169	-	-
Investment in other long-term assets against other accounts payable	-	-	1,615
Investments in oil and gas assets against other accounts payable	1,120	485	5,141
Asset retirement obligation against oil and gas assets	1,795	197	635
<b>Annex B – Additional information on cash flows</b>			
Income tax paid	10,906	3,530	-

#### Annex C – Acquisition of additional rights in the Tamar and Dalit leases (see also Note 4B)

Includes the assets and liabilities identified as of the acquisition date as follows:

#### Cash flows – investing activities:

	Year ended December 31, 2018
Working capital, net	(1,092)
Oil and gas assets	697,288
Other long-term assets	1,440
Deferred taxes	778
Asset retirement obligations	(8,046)
Total assets net of obligations	690,368
Issuance of share capital (including premium)	(215,169)
	475,199

\* **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, 2018 (U.S. dollars in thousands)

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#### Note 1 – General:

- A. Tamar Petroleum Ltd. (the "**Company**") is engaged in the sale of natural gas produced from the Tamar reservoir within the area of the I/12 Tamar lease (the "**Tamar lease**" and "**Tamar project**," respectively) to various customers, and primarily to the Israel Electric Corp. Ltd. (the "**IEC**"), industrial customers, private electricity producers and natural gas marketing firms. Likewise, the Company is engaged in the sale of condensate produced from the Tamar project to Paz Ashdod Oil Refineries, as well as in promoting the expansion of the Tamar project's production system.

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).

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 I/12 Tamar and I/13 Dalit leases (jointly referred to as: the "**Leases**" or "**Tamar and Dalit leases**" and/or the "**Joint Venture**"), in which the Company holds, as of the date of the financial statements, 16.75% of the rights (see Sections B and C below). The Company is an Israeli resident public company incorporated in Israel on November 4, 2015 under its previous name Karish Tanin Management Ltd. Trading in the Company's securities on the Tel Aviv Stock Exchange Ltd. (the "**TASE**") commenced in July 2017.

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

- B. The Company commenced operations on July 1, 2017, following fulfillment of the conditions precedent in the sale agreement signed with Delek Drilling – Limited Partnership ("**Delek Drilling**" or the "**Partnership**"), in which framework the Company acquired 9.25% (out of 100%) of the working interests in the Tamar and Dalit leases and a proportionate share (9.25%) in the permits, and in the rights and obligations under associated agreements in return for a cash amount of \$845 million, financed by raising debt and capital from the public (see Note 4A below) and by consideration shares of the Company. The Company had previously been inactive and was wholly owned and controlled by Delek Drilling.
- C. On March 14, 2018, upon the fulfillment of the conditions precedent in the sale agreement signed with Noble Energy Mediterranean Ltd. ("**Noble**" or the "**Operator**") on January 29, 2018 (see Note 4B below), the Company acquired, with effect from January 1, 2018, an additional 7.5% (out of 100%) of the working interests in the Leases and a proportionate share (7.5%) in the permits, and in the rights and obligations under associated agreements for \$690 million. The Acquisition was made for a cash consideration of \$475 million (financed through the issuance of Series B bonds) (see Note 9C below) and for the allocation of 38,495,576 ordinary shares of the Company of NIS 0.1 par value each (accounting for 43.5% of Company's issued and paid-up share capital) to Noble (see Note 4B below).
- D. As of the approval date of the financial statements, to the best of the Company's knowledge, there is no controlling shareholder in the Company (within the meaning of a "**controlling party**" in the Securities Law, 5728-1968). Following completion of the acquisition of the aforesaid rights, Delek Drilling holds 22.6% of the Company's shares. In October 2018, Noble sold all the Company's shares allotted to it, within the framework of the Sale Agreement, as described in Section C above. As regards the voting rights linked to the shares held by Delek Drilling, see Note 13D below.

## **Tamar Petroleum Ltd.**

### **Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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#### **Note 2 – Basis for Preparation of the Financial Statements:**

- A.** The acquisition of the rights in the Tamar and Dalit leases from Delek Drilling (9.25%) in 2017, which constituted a transaction with a controlling shareholder as stated in Note 1B 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 from Delek Drilling 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 Notes 15B and 15C below); differences due to disagreements between the Tamar partners and several customers in connection with the price of gas that is linked to the Electricity Production Tariff.
  - 2) General and administrative expenses for periods prior to July 1, 2017 were included according to an 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 prior to July 1, 2017, 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 expenses incurred by the Company due to the issue of Series A bonds for the purpose of acquiring the Leases from Delek Drilling (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 participation units).
- C.** The financial figures in these financial statements are based, among other things, on 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 the Operator.
- D.** The acquisition of the rights in the Tamar and Dalit leases from Noble in the reporting period (see Note 4B below) was accounted for by the acquisition method, in accordance with the principles laid down in IFRS 3: Business Combinations. Accordingly, the statement of comprehensive income includes the results of operations attributable to said rights in the Tamar and Dalit leases as of the acquisition date (March 14, 2018).

**Note 2 – Basis for Preparation of the Financial Statements: (cont.)**

**E. 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 natural gas and condensate reserves (the "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 the proven reserves 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 filed against it, 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. In this regard see Note 11J.

**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, 2018 (U.S. dollars in thousands)

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#### Note 2 – Basis for Preparation of the Financial Statements: (cont.)

##### E. 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 determining the overriding royalty rate** (see Note 11H2) – In determining the overriding royalty rate, used for calculating the royalty expenses in the financial statements, the Company relied on an interim calculation report as of the ROI date, prepared by the Company and based, inter alia, on the principles established in a decision by 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. ("**Delek Energy**"), on the other (Delek Group Ltd. and Delek Energy will be jointly referred to in this section as: the "**Royalty Receivers**"), who stated his opinion on the method of calculating the ROI date and on the different components that should be taken into account. As regards the dispute between the Royalty Receivers and the Company concerning the ROI date, see Note 15D. Any change in the determination of the ROI date may materially affect the Company's results of operations and financial position.

#### Note 3 – Significant Accounting Policies:

- A. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Likewise, the financial statements are prepared in conformity with the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

The accounting policies presented in this note have been applied consistently in the financial statements for all the reported periods, unless otherwise stated (see Sections K and M below). 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;

## **Tamar Petroleum Ltd.**

### **Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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#### **Note 3 – Significant Accounting Policies: (cont.)**

##### **B. Functional currency and presentation currency: (cont.)**

- Non-monetary items carried at historical cost in foreign currency are translated using the exchange rate at the date of the transaction;
- 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. Any costs attributable to the business combination are expensed as incurred, except costs in respect of the issuance of equity instruments or debt instruments of the Company.

##### **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 and/or production 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, 2018 (U.S. dollars in thousands)**

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#### **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 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:**

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 is calculated for each project separately (Tamar or Dalit), and is accounted for in accordance with IFRIC 21 - "Levies." Therefore, the Company recognizes, where relevant, expenses in respect of the levy only on the date on which the obligation to pay the levy is triggered. As of the date of the statement of financial position, the obligation to pay the levy had 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.

**Note 3 – Significant Accounting Policies:** (cont.)

**H. Expenses of oil and gas exploration and development of proved reservoirs:** (cont.)

- 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 classified circumstances, the major one being receipt of certification from the Petroleum Commissioner (the "**Commissioner**") that the reservoir is a commercial finding) are defined as oil and gas assets and classified, subject to the performance of a test for impairment, in the statement of financial position under the "oil and gas assets" item, 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 para. (2) below), are amortized to profit or loss based on the depletion method (i.e. based on the quantity produced), as follows:  
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 stemming from timing, discount rates and the amount of financial resources required to settle the obligation are added to or subtracted from the asset in the current period concomitantly with a change in liability. The discount rate used in calculating the asset retirement obligation as of December 31, 2018 is 5.1% (December 31, 2017 – 4.8%). 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.

**Note 3 – Significant Accounting Policies:** (cont.)

**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 in respect of 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 amount of capitalized borrowing costs during the reporting periods includes general borrowing costs at a weighted capitalization rate. All other borrowing costs are recognized in profit or loss.

**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.

**K. Financial instruments:**

IFRS 9 - Financial Instruments (the "Standard") was applied by the Company for the first time as of January 1, 2018. The Company elected to apply the provisions of the Standard retrospectively without restatement of comparative figures.

Insofar as this relates to the Company, application of the Standard has not led to a change in the classification, measurement or presentation of financial instruments held by the Company as of December 31, 2017.

The accounting policy applied by the Company as of January 1, 2018 in respect of financial instruments is as follows:

1) **Financial assets:**

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset, except for financial assets measured at fair value through profit or loss, in respect of which transaction costs are carried to profit or loss.

The Company classifies and measures debt instruments in the financial statements based on the following criteria:

- a. The Company's business model for managing financial assets; and
- b. The contractual cash flow characteristics of the financial asset.

**Note 3 – Significant Accounting Policies:** (cont.)

**K. Financial instruments:** (cont.)

**The Company measures debt instruments at amortized cost when:**

The Company's business model is the holding of financial assets with the objective of collecting contractual cash flows; also, the contractual terms of the financial asset entitle the Company, on specified dates, to cash flows that are solely payments of principal and interest for the amount of the unpaid principal.

Subsequent to initial recognition, instruments in this class will be presented according to their terms at amortized cost, using the effective interest method minus a provision for impairment (see Section 2 below).

**The Company measures debt instruments at fair value through profit or loss when:** a financial asset that is a debt instrument does not meet criteria for its measurement at amortized cost or at fair value through other comprehensive income. Subsequent to initial recognition, the financial asset is measured at fair value, with profits or losses as a result of fair value adjustments carried to profit or loss.

Likewise, at initial recognition, a company may irrevocably designate a debt instrument for measurement at fair value through profit or loss, if such designation eliminates or significantly reduces measurement or recognition inconsistency, for example, when the related financial liabilities are also measured at fair value through profit or loss.

**Equity instruments and other financial assets held for trading**

Investments in equity instruments do not meet the above criteria and are therefore measured at fair value through profit or loss.

Other financial assets held for trading, such as derivatives, including embedded derivatives separated from the host contract will be measured at fair value through profit or loss, unless they are designated for use as effective hedging instruments.

2) **Impairment of financial assets**

In accordance with the Standard, as of January 1, 2018, the Company has applied the Expected Credit Losses Model for measuring financial asset impairment. According to this model, the Company assesses expected credit losses in respect of financial debt instruments that are not measured at fair value through profit or loss.

The Company differentiates between two situations of loss allowance recognition:

- a) Debt instruments with no significant impairment in credit quality since initial recognition or with a low credit risk – the loss allowance recognized for this debt instrument will take into account expected credit losses in the 12 months' period after the reporting date or;
- b) Debt instruments with significant deterioration in credit quality since initial recognition and whose credit risk is not low – the loss allowance recognized will take into account the expected credit losses over the remaining life of the instrument.

## **Tamar Petroleum Ltd.**

### **Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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#### **Note 3 – Significant Accounting Policies: (cont.)**

##### **K. Financial instruments: (cont.)**

The Company applies the practical expedient in the Standard, whereby it assumes that the credit risk of a debt instrument has not increased significantly from the date of initial recognition, if it was determined on the reporting date that the instrument has a low credit risk.

Impairment of debt instruments measured at amortized cost is recognized in profit or loss against an allowance.

The Company has short-term financial assets such as trade receivables, regarding which it may apply the practical expedient prescribed in the model, i.e. the Company measures the loss allowance at an amount equal to the expected credit losses over the life of the instrument. The Company has elected to apply the practical expedient to these financial assets.

Until December 31, 2017, the Company included financial asset impairment allowances in accordance with the "incurred loss model" in IAS 39, whereby impairment losses on financial assets are recognized only when there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset. The adoption of the new standard did not have any material impact as a result of this change.

##### **3) Derecognition of financial assets**

The Company derecognizes a financial asset when and only when:

- a) The contractual rights to the cash flows from the financial asset have expired; or
- b) The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or when part of the risks and rewards are retained by the Partnership during transfer of the financial asset, but it may be said that it has transferred control of the asset.
- c) The Company has retained the contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full, without material delay, to a third party.

##### **4) Financial liabilities:**

###### **Financial liabilities measured at amortized cost:**

At initial recognition, the Company measures the financial liabilities at fair value net of transaction costs directly attributable to the issuance of the financial liability.

After initial recognition, the Company measures all financial liabilities at amortized cost, using the effective interest method.

**Note 3 – Significant Accounting Policies:** (cont.)

**K. Financial instruments:** (cont.)

**5) Derecognition of financial liabilities and changes in the terms of an existing liability:**

The Company derecognizes a financial liability when, and only when, it is extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expires.

A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services, or is legally released from the liability.

When there is a modification in the terms of an existing financial liability, the Company evaluates whether the modification is substantial.

If the terms of an existing financial liability are substantially modified, such modification is accounted for as a derecognition of the original liability and recognition of a new liability at fair value. The difference between these two liabilities in the financial statements is recognized in profit or loss.

If the modification is not substantial, the Company adjusts the amount of the liability by discounting the revised cash flows at the original effective interest rate, with any resulting difference carried to profit or loss.

When evaluating whether the modification in the terms of an existing liability is substantial, the Company considers both quantitative and qualitative factors.

**6) 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 set off the recognized amounts and there is also intent either to settle on a net basis both the asset and the liability, or to realize the asset and settle the liability concurrently. The right to offset must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of offset to be immediately available, it must not be contingent on a future event, there must be no periods during which the right is not available, or there must be no events that will cause the right to expire.

**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.

**Note 3 – Significant Accounting Policies:** (cont.)

**L. Impairment of non-financial assets** (cont.)

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:**

**The revenue recognition accounting policy applied until December 31, 2017 is as follows:**

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.

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.

**The revenue recognition accounting policy applied as of January 1, 2018 is as follows:**

As of January 1, 2018, the Company has applied IFRS 15 – Revenue from Contracts with Customers, which came into force on the same date and superseded the existing standard on the subject.

**Note 3 – Significant Accounting Policies:** (cont.)

**M. Revenue recognition:** (cont.)

The core principle of IFRS 15 is that the recognition of revenue from contracts with customers should be done in a manner reflecting the transfer of control over the goods or services supplied to customers in the framework of the contracts, in amounts reflecting the consideration the entity expects to receive for those goods or services in accordance with the contract's terms.

Revenue recognition pursuant to the aforesaid core principle is done by implementing five steps: (a) identify the contract with a customer; (b) identify distinct performance obligations in the contract; (c) determine the transaction price; (d) allocate the transaction price to each distinct performance obligation in the contract; and (e) recognize revenue when each of the performance obligations is satisfied.

The Company elected to apply IFRS 15 retrospectively, taking into account the practical expedients set out in the transition provisions, while recognizing the aggregate effect of first-time application of IFRS 15 as an adjustment to the opening balance of retained earnings as of the initial application date (meaning, without restatement of comparative figures for previous reporting periods). Nevertheless, considering the nature of the Company's operations and its accounting policy set out below, IFRS 15 had no material effect on these financial statements, including as regards adjustment to the opening balance of retained earnings.

The Company generates its revenues from the sale of natural gas and condensate to a variety of customers, generally in the framework of long-term contracts. The Company's revenues from the sale of gas and condensate in the ordinary course of business are measured at the fair value of the consideration received or that the Company is entitled to receive on its own behalf, only. Accordingly, the entitlement of the State and third parties to receive royalties at a certain rate is presented as a direct deduction from revenues from the sale of natural gas and condensate. Revenues from the sale of natural gas and condensate are recognized by the Company when the natural gas and/or condensate is delivered to the customer.

Credit terms in respect of these sales do not exceed a year and the Company applies the practical expedient that does not require separating the financing component in these circumstances. The Company has no other performance obligations after delivery of the goods.

**N. Employee benefits:**

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

Short-term employee benefits, which include salaries, convalescence pay, 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.

**Note 3 – Significant Accounting Policies:** (cont.)

**N. Employee benefits:** (cont.)

**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.

**O. 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, in which case the tax results are carried to other comprehensive income or to equity, accordingly. 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.

**P. Earnings per share:**

1. 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 Notes 2A4 and 13C.
2. Diluted earnings or loss per share are calculated by the Company by dividing the net income or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. Potential ordinary shares, which derive from the potential exercise of options granted to employees and officers in the Company into shares, are included in the computation of diluted earnings per share only when their effect is dilutive (would reduce earnings per share or increase loss per share).

**Note 3 – Significant Accounting Policies:** (cont.)

**Q. Dividend distribution**

Distribution of a dividend to shareholders of the Company is recognized as a liability in the Company's statement of financial position in the period the dividends were approved for distribution by the Company's Board of Directors.

**R. Share-based payment**

The Company granted employees who are officers in the Company unregistered options that are exercisable into Company shares and represent share-based payment. The fair value of the services received from the employees in return for the options is recognized as an expense in the statement of comprehensive income and simultaneously carried to a capital reserve in the statement of changes in equity. The overall amount, which is recognized as an expense over the option vesting period, is determined based on the fair value of the options granted on the grant date while relying on the best estimate available for the number of equity instruments that are expected to vest.

**S. Change in accounting policy –First-time adoption of new financial reporting standards**

Regarding the first-time adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" – see Sections K and M above. In addition, in 2018, no IFRS standards or amendments to IFRS standards came into force that had a material impact on the Company's financial statements.

**T. Disclosure of new standards in the period prior to their adoption**

**1) IFRS 16 – "Leases":**

In January 2016, the IASB issued IFRS 16 - "Leases" (hereinafter in this section: the "New Standard"). According to the New Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a specified period of time in exchange for payment.

The effects of adoption of the New Standard are as follows:

- According to the New Standard, lessees are required to recognize all leases in the statement of financial position (excluding certain exceptions, see below). Lessees will recognize a liability for lease payments with a corresponding right-of-use asset, similar to the accounting treatment for finance leases under the existing standard, IAS 17, "Leases". Lessees will also recognize interest expenses and depreciation expenses separately, in lieu of recognizing rental expenses.
- Lessees will recognize a liability for lease payments with a corresponding right-of-use asset.
- Variable lease payments that are not dependent on the Consumer Price Index ("CPI") or interest rates, but are based on performance or use, are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.

## **Tamar Petroleum Ltd.**

### **Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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#### **T. Disclosure of new standards in the period prior to their adoption (cont.)**

- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and record the effect of the remeasurement as an adjustment to the carrying amount of the right-of-use asset.
- The accounting treatment by lessors remains substantially unchanged from the existing standard, namely, classification of a lease as a finance lease or an operating lease.
- The New Standard includes two exceptions which allow lessees to account for leases based on the existing accounting treatment for operating leases - leases for which the underlying asset is of low financial value and short-term leases (up to one year).

The New Standard is effective for annual periods beginning on or after January 1, 2019.

The Company plans to apply the standard using the modified retrospective approach, as permitted by the transition provisions of the New Standard. This approach does not require restatement of comparative data. The balance of the liability as of the date of initial adoption of the New Standard will be calculated using the lessee's incremental borrowing rate of interest on the date of initial adoption of the New Standard, with the right-of-use assets measured at an amount equal to the amount of the lease liabilities, as measured on the transition date (as permitted by the standard).

In assessing the impact of the New Standard on the financial statements, the Company has relied on the information it possesses. In the Company's estimation, its application is not expected to have any material effect on the financial statements, and it is continuing to evaluate the implications of the New Standard.

#### **2) Amendment to IAS 23 – Borrowing Costs (as part of the IASB Annual Improvements Project 2015-2017 cycle):**

The amendment clarifies that borrowing costs eligible for capitalization include also specific borrowing costs. Specific borrowing costs are capitalized to the cost of a project for which the specific borrowing has been received so long as the project is under construction. Once construction of the specific project is completed, the specific borrowing costs are added to the pool of general borrowing costs for capitalization and are taken into account for calculating the capitalization interest rate and the sums capitalizable to the cost of qualifying assets.

The amendment will be applied prospectively for annual periods beginning on January 1, 2019.

**T. Disclosure of new standards in the period prior to their adoption (cont.)**

**3) IFRIC 23 – "Uncertainty Over Income Tax Treatments":**

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 "Income Taxes" for uncertainties in income taxes.

Uncertainty regarding income taxes means uncertainty about whether a tax treatment applied by an entity will be accepted by the tax authorities. This uncertainty is likely to persist until a decision is taken by the relevant tax authority or by a court. Accordingly, a dispute with the tax authorities or a review carried out by the tax authorities on a particular tax treatment are likely to affect the accounting treatment applied by the entity regarding current or deferred tax assets or liabilities arising from said tax treatment.

According to IFRIC 23, when determining taxable income or tax loss, tax bases, tax loss carryforwards, unused tax credits and tax rates when there is uncertainty over income tax treatments, the entity should assess whether it is probable that the tax authority will accept its tax position. Insofar as it is probable that the tax authority will accept the entity's tax position, the entity will recognize the tax effects on the financial statements according to that tax position. On the other hand, if it is not probable that the tax authority will accept the entity's tax position, the entity is required to reflect the uncertainty in its accounts by using one of the following methods: the most likely outcome or the expected value. IFRIC 23 clarifies that when the entity examines whether or not it is probable that the tax authority will accept the entity's position, it is assumed that the tax authority with the right to examine any amounts reported to it will examine those amounts and that it has full knowledge of all relevant information when doing so. Furthermore, according to IFRIC 23, an entity has to consider changes in circumstances and new information that may change its assessment. IFRIC 23 also emphasizes the need to provide disclosures of the judgments and assumptions made by the entity regarding uncertain tax positions.

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019.

In the Company's estimation, the application of IFRIC 23 is not expected to have any material effect on the financial statements.

**4) Amendment to IFRS 3 – "Business Combinations":**

The amendment clarifies whether a transaction to acquire an operation is the acquisition of a "business" or an asset. For purposes of this examination, the amendment added the possibility of utilizing the concentration test so that if substantially all of the fair value of the acquired assets is concentrated in a single identifiable asset or a group of similar identifiable assets, the acquisition will be of an asset. In addition, the minimum requirements for definition as a business have been clarified, such as, for example, the requirement that the acquired processes be substantive so that in order for it to be a business, the operation shall include at least one input element and one substantive process, which together significantly contribute to the ability to create outputs. Furthermore, the amendment narrows the reference to the outputs element required in order to meet the definition of a business and adds examples illustrating the aforesaid examination.

The amendment is effective for asset or business acquisition transactions whose acquisition date is in annual periods beginning on or after January 1, 2020, with early application permitted.

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### Note 4 – Agreement for acquisition of working interests in the Tamar and Dalit leases:

##### A. Sale agreement with Delek Drilling for the acquisition of 9.25% working interests in the Tamar and Dalit leases

1. Pursuant to a contingent sale agreement from July 2, 2017, signed between Delek Drilling as the seller, of the first part, and the Company as the purchaser, of the second part (in this Section A: the "**Parties**"), and upon fulfillment of the conditions precedent in the agreement (including the Commissioner's approval), the Company acquired, with effect from July 2017 (in this Section A: the "**Effective Date**"), a working interest of 9.25% (out of 100%) in the Tamar and Dalit leases, subject to existing commitments to pay overriding royalties to related parties and third parties, as well as a pro rata share (9.25%) of the rights and obligations under the Joint Operating Agreement signed in connection with the Leases ("**JOA**"), 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 owner of the transmission license under Section 10 of the Natural Gas Sector Law, 5762-2002, operating permit for the Tamar platform and the permits for export from Tamar (above and below, in this section: the "**Object of Sale**"). The Company's rights in the Leases were registered in the Petroleum Register.
2. In consideration for the Object of Sale, the Company paid Delek Drilling in cash \$845 million and allotted it 19,990,000 ordinary shares of the Company of NIS 0.1 par value each (accounting for 39.98% of the Company's issued and paid-up share capital at the time). Pursuant to a waiver provided by Delek Drilling, described in Note 13D 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 Company's 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 Series A 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.

3. In accordance with the sale agreement with Delek Drilling, 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.
4. Upon the closing of the transaction and as of the Effective Date, the Company and Delek Drilling bear the following obligations and commitments:
  - a) The Company bears any and all obligations and commitments relating to the Object of Sale with respect to the Royalty Holders.

## **Tamar Petroleum Ltd.**

### **Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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#### **Note 4 – Agreement for acquisition of working interests in the Tamar and Dalit leases:** (cont.)

##### **A. Sale agreement with Delek Drilling for the acquisition of 9.25% working interests in the Tamar and Dalit leases (cont.)**

- b) 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 the sale agreement with Delek Drilling, 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 D below.
- c) 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 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.
- d) 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 the Yam Tethys project, 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 11J(1) 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), except for 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, 5771-2011; taxes applying to Delek Drilling in connection with the transfer of the Object of Sale to the Company; and liabilities, if any, in connection with Delek & Avner (Tamar Bond) Ltd.

##### **B. Sale agreement with Noble for the acquisition of 7.5% working interests in the Tamar and Dalit leases**

On March 14, 2018, upon the fulfillment of the conditions precedent stipulated in the sale agreement signed on January 29, 2018 between Noble as the seller and the Company as the buyer (the "**Sale Agreement with Noble**"), the Company acquired 7.5% (of 100%) of the working interests in the Tamar and Dalit Leases (in this Section B: the "**Working Interests**"). The Working Interests were registered in the Petroleum Register and pledged in favor of the trustee of the Series B bondholders, after obtaining the approval of the Petroleum Commissioner. Following are the main details of the acquisition and its terms:

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### Note 4 – Agreement for acquisition of working interests in the Tamar and Dalit leases: (cont.)

##### B. Sale agreement with Noble for the acquisition of 7.5% working interests in the Tamar and Dalit leases (cont.)

1. Noble sold and transferred to the Company the Working Interests in the Leases as well as the pro rata share (7.5%) in the operating permit for the system of natural gas production from the Tamar lease, in the shares of Tamar 10-Inch Pipeline Ltd., in the rights and obligations under the JOA, 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 agreements and permits for export to Jordan and Egypt), and in the memorandum of understanding regarding the supply of gas from the Tamar reservoir to the Yam Tethys partners (all the above jointly referred to in this Section B: the "**Acquired Asset**").
2. The settlement of accounts between the parties for the transfer of the Acquired Asset was completed, with effect from January 1, 2018 (the "**Effective Date**")/ The Acquired Asset rights are not subject to any third-party royalties.
3. The Sale Agreement specifies that the Acquired Asset does not include the rights and obligations with respect to the following excluded matters: the arbitration and 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 (see Note 11J(1))regarding amounts received by Noble for natural gas supplied in the period before the Effective Date; taxes and royalties to the State relating to the period before the Effective Date, or taxes and royalties in connection with any profit, income or receipt of Noble in connection with the Acquired Asset 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 Acquired Asset to the Company; claims made by or against Noble customers in respect of the Acquired Asset 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 onwards (the "**Excluded Matters**").
4. The consideration for the Acquired Asset is as follows:
  - a) **Cash consideration:** an amount of approximately \$ 475 million (the "**Cash Consideration**") representing the proceeds from the issuance of the Company's bonds (Series B) on the TASE, after reduction of a net sum of \$43 million arising from the following adjustments: (1) reduction of the issuance expenses borne by Noble; (2) reduction of amounts received for the Acquired Asset from the period between the Effective Date and March 14, 2018 (the "**Interim Period**"); (3) reduction of the 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 bonds (Series A) as of the Effective Date, and all multiplied by the rate of Noble's holdings in the Company (after the share allocation as specified in (2) below); (4) addition in the amount of payments for royalties and cash calls under the JOA in respect of the Acquired Asset during the Interim Period.

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### Note 4 – Agreement for acquisition of working interests in the Tamar and Dalit leases: (cont.)

##### B. Sale agreement with Noble for the acquisition of 7.5% working interests in the Tamar and Dalit leases (cont.)

- b) **Consideration in shares:** The Company allocated to Noble in a private placement 38,495,576 ordinary shares of the Company of NIS 0.1 par value each, accounting for 43.5% of the Company's shares after the allocation ("**the Shares**"). Noble provided 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 and bonus shares and the right to receive surplus assets upon dissolution of the Company. In October 2018, Noble sold the entire shares to third parties in off-market transactions, and effective from the date of the sale of the shares, they confer the entire rights attached to ordinary shares in the Company.

It should be noted that the Shares allocated to Noble are restricted from being transacted on the TASE (without issuing a prospectus) in accordance with the provisions of the Israeli Securities Law, as detailed below: in the first half-year – fully restricted; for six consecutive quarters – in each quarter, the Shares can be sold in a number that does not exceed the daily average trading cycle of the Shares on the TASE in the period of eight weeks before the date of sale and in a number that does not exceed 1% of the Company's issued share capital, after which period the restriction will be lifted. It should be noted that the above restrictions apply to the buyers of the shares from Noble.

5. Noble has undertaken to 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 with Noble, subject to a cap as determined with the parties' consent, as well as issuance expenses related to fees and payments to the ISA and to the TASE, an early commitment fee and 50% of the fees for underwriters/distributors (regardless of the fulfillment of the conditions precedent underlying the closing of the transaction). These amounts were taken into account in determining the aforesaid cash payment and the acquisition cost.
6. The Company shall provide the guarantees required to replace the guarantees provided by Noble to the Petroleum Commissioner in connection with the Acquired Asset (see Note 11K).
7. The acquisition cost of \$690 million consists of the Cash Consideration described above and the fair value attributed to the Shares allocated to Noble, determined based on their quoted market price on the closing date of the transaction (after adjustments in respect of the Shares' restriction period as explained above). The Company allocated the acquisition cost to the identifiable assets and liabilities as of the acquisition date, based on a purchase price allocation (PPA) study. (As for the PPA, see Appendix C to the statement of cash flows). The transaction costs, allocated between the bonds (Series B) and the Shares issued, amounted to \$7.1 million and \$0.2 million, respectively, and the balance of \$0.1 million, was carried to expenses in the statement of comprehensive income for 2018.

**Tamar Petroleum Ltd.**

**Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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**Note 4 – Agreement for acquisition of working interests in the Tamar and Dalit leases:**  
(cont.)

**B. Sale agreement with Noble for the acquisition of 7.5% working interests in the Tamar and Dalit leases (cont.)**

Total net revenues and pre-tax income in respect of 7.5% of the working interests in the Tamar and Dalit leases acquired from Noble (taking into account also finance expenses on bonds (Series B)), as included in the statements of comprehensive income for 2018, amounted to \$109.9 million and \$48.9 million, respectively.

**Note 5 – Other Accounts Receivable:**

	December 31	
	2018	2017
Prepaid expenses and other receivables	1,711	791
Income tax receivable	7,076	-
Amounts receivable in connection with the construction of export infrastructure	987	533
	<u>9,774</u>	<u>1,324</u>

**Tamar Petroleum Ltd.**

**Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

**Note 6 – Investments in Oil and Gas Assets:**

**A. Composition:**

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
<b><u>Cost</u></b>		
<b>Balance at the beginning of the year</b>	448,813	437,045
Additions during the year:		
Oil and gas assets acquired in the framework of the sale agreement with Noble (see Note 4B)	697,288	-
Exploration drilling (completion/adjustment)	-	(46)
Investments in development	6,551	12,360
Subtractions	(683)	-
Impairment	(3,001)	(743)
Movement in long-term asset retirement cost	1,795	197
	<u>701,950</u>	<u>11,768</u>
<b>Balance at the end of the year</b>	<u>1,150,763</u>	<u>448,813</u>
 <b><u>Accumulated depreciation</u></b>		
<b>Balance at the beginning of the year</b>	68,748	52,557
Depreciation and impairment*	41,465	16,191
<b>Balance at the end of the year</b>	<u>110,213</u>	<u>68,748</u>
<b><u>Net book value at the end of the year**</u></b>	<u>1,040,550</u>	<u>380,065</u>
* Average rate of impairment of the producing assets during the period	<u>4.4%</u>	<u>4.7%</u>
** Net book value includes:		
Net book value of assets under a finance lease from Yam Tethys (see section I below)	<u>34,403</u>	<u>14,316</u>
Balance of asset retirement obligation cost	<u>17,332</u>	<u>7,404</u>

- B.** In December 2009 the Commissioner issued 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 provisions of 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 areas 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.
- C.** 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.

## **Tamar Petroleum Ltd.**

### **Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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#### **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**") includes six subsea production wells, each of which is able to produce 250 MMCF per day. Gas flows from the Tamar field wells, through two 16-inch pipelines, 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 and condensate flow through a 30-inch and 6-inch pipelines, respectively, from the Tamar platform to the terminal, for completion of treatment and from there the natural gas flows to the national transmission system of Israel National Gas Lines Ltd. ("**INGL**"), while the condensate flows via a pipeline to nearby Paz Ashdod Refinery. In addition, in August 2016, the Minister of Energy granted the Tamar partners a license for the operation of a 10-inch pipeline, originally 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. The gas supply capacity from the Tamar project (which includes the Tamar project facilities, the compressor systems and the transmission and treatment systems of the Yam Tethys project that were upgraded and adapted for use in the Tamar project) to the INGL transmission system, stands at 1.1 BCF per day at maximum production.

##### **E. Examination of the possibility of expanding the Tamar project's supply capacity:**

Overall supply capacity of the Tamar facilities is currently limited to the flow capacity of two 16-inch pipelines. As of the date of approval of the financial statements, the Tamar partners are considering possibilities for expanding the Tamar project's supply capacity, should this be necessary, based on expected local market and export demand.

##### **F. The Tamar South West reservoir and development thereof:**

According to the development plan for the Tamar SW reservoir, which was approved by the Commissioner in January 2019, taking into consideration the provisions of the Gas Framework, the Tamar SW reservoir is to be developed through the conversion of the development well into a producing well and its connection to the subsea facilities of the Tamar project. In the Company's estimation, the Tamar SW reservoir will be completed and connected to the production system in 2021.

It should be clarified that some of the reserves in the Tamar SW reservoir overflow into the area of the 353 Eran license, which expired on June 14, 2013. In the framework of a mediation proceeding between the Eran license partners and the State, the Eran license partners turned to the Tamar partners with a request to receive their consent to the division of the Tamar SW reservoir according to the ratio of 78% to the Tamar lease and 22% to the Eran license. In March 2019, the Tamar partners gave their consent to said division. As of the approval date of the financial statements, the mediation proceeding had not yet concluded.

## **Tamar Petroleum Ltd.**

### **Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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#### **Note 6 – Investments in Oil and Gas Assets: (cont.)**

##### **G. Evaluation of the natural gas and condensate reserves in the Tamar gas field:**

According to a report from March 4, 2019, by Netherland Sewell & Associates Inc. ("NSAI," a certified, expert and independent reserve and resource evaluator), based on SPE-PRMS rules, as of December 31, 2018, the amount of natural gas reserves on production in the Tamar project (which include the Tamar and Tamar SW reservoirs) is as follows: reserves classified as proved reserves amount to 229.6 BCM (of which 9.8% are attributed to Tamar SW) and reserves classified as proved + probable reserves amount to 315.5 BCM (of which 8.6% are attributed to Tamar SW). According to said report, as of December 31, 2018, the amount of condensate reserves on production in the Tamar and Tamar SW reservoirs is as follows: reserves classified as proved reserves amount to 10.5 million barrels (of which 9.5% are attributed to Tamar SW), and reserves classified as proved + probable reserves amount to 14.5 million barrels (of which 8.3% are attributed to Tamar SW). The aforesaid reserves do not include the reserves that overflow into the Eran license. See Section J below regarding uncertainty in the appraisal of reserves.

##### **H. 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). As of the approval date of the financial reports, there has been no change in the details brought in said report. 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 Section J 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.

##### **I. 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.

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.

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### Note 6 – Investments in Oil and Gas Assets: (cont.)

##### I. Agreement for the grant of usage rights in the facilities of the Yam Tethys project:

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.

##### J. Appraisals of reserves 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 aforesaid working interests. 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, including as a result of continued production from the Tamar project.

#### Note 7 – Other Long-Term Assets:

	December 31	
	2018	2017
Amounts receivable in connection with the construction of infrastructure for export	2,666	1,949
Ministry of Energy in respect of royalties (Note 15B)	1,899	373
Interested parties (Note 21)	614	103
Other	227	96
	<u>5,406</u>	<u>2,521</u>

**Tamar Petroleum Ltd.**

**Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

**Note 8 – Other Accounts Payable:**

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Interest payable	18,637	14,616
Ministry of Energy in respect of royalties	3,269	1,635
Interested parties (Note 21)	537	1,028
Payables in connection with the Joint Venture	6,052	6,025
Other	668	688
	<u>29,163</u>	<u>23,992</u>

**Note 9 – Bonds:**

A. Following is the composition of bonds as presented in the statements of financial position:

	<b>Effective Interest Rate*</b>	<b>December 31</b>				
		<b>2018</b>		<b>2017</b>		
		<b>As of December 31, 2018</b>	<b>Par Value*</b>	<b>Amortized Cost</b>	<b>Par Value*</b>	<b>Amortized Cost</b>
		<b>%</b>	<b>NIS thou.</b>	<b>USD thou.</b>	<b>NIS thou.</b>	<b>USD thou.</b>
Bonds (Series A)	4.88	2,245,071	637,442	2,289,300	650,000	
Bonds (Series B)	6.37	1,873,970	541,766	-	-	
Total			1,179,208		650,000	
Less discount amounts related to issuance and issuance expenses, after accumulated amortization			(51,639)		(8,958)	
Less – current maturities			(95,246)		(11,351)	
Total			<u>1,032,323</u>		<u>629,691</u>	

\* The interest and principal are linked to the dollar, based on the exchange rate set for the issuance of bonds: Series A - \$1 = NIS 3.522, Series B - \$1 = NIS 3.459.

**B. Bonds (Series A):**

In July 2017, the Company raised \$658 million (net amount after deduction of issue costs - \$648 million) through a public offering of NIS 2,315,668 thousand 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.

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### Note 9 – Bonds: (cont.)

##### B. Bonds (Series A): (cont.)

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 unequal semi-annual 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 half-year, 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 Series A bonds (the "**Base Rating**").

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 from Delek Drilling pursuant to the Sale Agreement (described in Note 4A 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, the Company carried out a repurchase amounting to NIS 26,368,000 par value of Series A bonds, during the third quarter of 2017, in consideration for \$7.5 million.

##### C. Bonds (Series B):

In keeping with its undertaking in the framework of the acquisition of the Working Rights from Noble (see Note 4B above), on March 12, 2018, the Company completed a capital raising round of \$519.4 million (before the deduction of issuance expenses totaling \$7.1 million) through a public offering of NIS 1,940,113 thousand par value of bonds (Series B), according to a shelf offering report dated March 12, 2018 issued pursuant to the Company's shelf prospectus dated July 4, 2017.

The bonds (Series B) bear annual interest of 4.69% ("**the Base Interest**"), and are linked (principal and interest) to the U.S. dollar. About 53.62% of the principal of the bonds is payable in 20 unequal semiannual 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 half-year, 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 Series B bonds ("**the Base Rating**").

The Company undertook that the proceeds of the offering of the bonds (Series B) over and above the amount of \$560 million raised on the par value of the bonds (Series B), multiplied by the U.S. 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 the bonds (Series B). Accordingly, in the course of March 2018, the Company completed the repurchase of NIS 3,073 thousand par value of bonds (Series B) in consideration for \$0.8 million.

##### D. The Company's undertakings regarding the bonds (Series A and B):

- 1) The interest rate on the bonds shall be adjusted for changes in the rating of the bonds, such that if the rating of the 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, 2018 (U.S. dollars in thousands)**

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**Note 9 – Bonds: (cont.)**

**D. The Company's undertakings regarding the bonds (Series A and B): (cont.)**

- 2) In addition, the Company shall pay added interest at a rate of 0.25% for each of the series, insofar as the Company's equity (as defined in the trust deeds) falls below \$320 million with respect to Series A and \$450 million with respect to Series B). In any event, for a rating downgrade according to Section 1 above and according to this section, the Company shall not pay a rate exceeding 1.25% above the Base Interest.
- 3) The assumption of additional debt by the Company through the expansion of bond series 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 deeds 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.
- 4) The Company may carry out a dividend distribution upon the fulfillment of conditions determined in the trust deeds, 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 bondholders; the expected and historical debt service coverage ratio, as defined in the trust deeds, shall be no less than 1:1.20 (the historical 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 historical ratio as of December 31, 2018 is 2.23); the full amount as required shall have been deposited in the debt service safety reserve. As of December 31, 2018, the Company has deposited in the safety reserve the full amount required at that date, which are presented in the statements of financial position under non-current assets in the "restricted deposits" item.

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### Note 9 – Bonds: (cont.)

##### E. Financial covenants and events of default:

The trust deeds define events of default, the occurrence of which shall establish for the bondholders grounds for acceleration of the 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 a minimum equity (as defined in the trust deeds) of no less than \$250 million (for two consecutive quarters) for Series A, and no less than \$350 million (for two consecutive quarters) for Series B; 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, 2019 is 1.29), and minimum economic equity (as defined in the trust deeds) of no less than \$250 million (during two consecutive quarters) for Series A and no less than \$350 million for Series B (the economic equity as of December 31, 2018 is \$866 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 is 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 with regard to both bond series.

##### F. Encumbrances:

- 1) To secure Series A and B bonds, the Company encumbered in favor of the bonds' trustee, by a single first-ranking fixed charge the following (the encumbrances in 1-8 below relate only to the rights acquired from Delek Drilling – with respect to Series A, and only to the rights acquired from Noble – with respect to Series B): 1) its rights in the Tamar reservoir; 2) its rights in the operating permit 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 accounts for the project (the "**Operating Accounts**"); and 8) the Company's rights in the safety reserve accounts for payment of the principal and interest. It is noted that the aforesaid encumbrances are subject to the State's royalty rights, and with respect to Series A bonds – also to rights of other royalty holders entitled to receive royalties from the Company. Likewise, the realization of encumbrances is subject to approval of the Commissioner, pursuant to Section 76 of the Petroleum Law and to any law.

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.

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### Note 9 – Bonds: (cont.)

##### F. Encumbrances: (cont.)

- 2) The Company irrevocably instructed all the parties to the gas sale agreements to pay the amounts due from them to the Company into bank accounts as defined in the trust deeds which were encumbered in favor of the bondholders as aforesaid (the "**Operating Accounts**"). It was stipulated that all the payments deposited in the Operating Accounts shall be used by the Company exclusively for making payments that were explicitly determined in the trust deeds as permitted to be paid out of the Operating Accounts and according to the order of payments determined in the trust deeds. The Company shall be entitled to withdraw funds from the Operating Accounts other than for the purpose of payments as aforesaid, only in the amount contained in the Operating Accounts 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 Accounts, 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 deeds.

#### 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:

	<u>2018</u>	<u>2017</u>
Balance at the beginning of the year	9,871	9,228
Retirement obligation added in the framework of the sale agreement with Noble (see Note 4B)	8,046	-
Additions and other changes	2,872	197
Passage-of-time effect	868	446
Effect of capitalization rate adjustment	(1,077)	-
Balance at the end of the year	<u>20,580</u>	<u>9,871</u>

**Tamar Petroleum Ltd.**

**Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

**Note 11 – Contingent Liabilities and Commitments**

**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)<sup>1</sup>:**

	Supply Commencement Year	Basic Gas Supply Period <sup>2</sup>	Is there an Extension Option?	Total Maximum Amount for Supply (100%) (BCM) <sup>3</sup>	Total Amount Supplied by December 31, 2018 (100%) (BCM)	Primary Gas Price Linkage Basis
IEC <sup>4</sup>	2013	15 years	Option for extension by two additional years.	Approx. 87	Approx. 25.8	The U.S. CPI.
Dalia Power Energies Ltd.	2015	17 years	Option for extension by two additional years.	Approx. 23.3	Approx. 4.1	The linkage formula is mostly based on linkage to the Electricity Production Tariff and includes a "floor price."
Other private electricity producers <sup>5</sup>	2013-2020	15-18 years except for one agreement for a shorter period	Some of the agreements include an option for extension by one to three additional years. <sup>6</sup>	Approx. 57.5	Approx. 12.2	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 according to a formula that includes a base price and linkage, and it includes a "floor price."
Industrial customers	2013-2017	5-7 years	One of the agreements includes an	Approx. 7.6	Approx. 5	The linkage formula in most of the agreements is based on linkage to the Brent

<sup>1</sup> For details about an export agreement to Egypt, see Note 11F below.

<sup>2</sup> In most of the agreements, the gas supply period, which starts from the transmission date as per the relevant agreement, 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.

<sup>3</sup> This is the maximum quantity for gas supply specified in the agreements for the entire term of the agreements. The quantity the purchasers have undertaken to purchase is lower than this quantity.

<sup>4</sup> For details regarding the agreement with the IEC, see C below.

<sup>5</sup> In some of the agreements, not all the conditions precedent were fulfilled.

<sup>6</sup> 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 stipulated 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, 2018 (U.S. dollars in thousands)**

	Supply Commencement Year	Basic Gas Supply Period <sup>2</sup>	Is there an Extension Option?	Total Maximum Amount for Supply (100%) (BCM) <sup>3</sup>	Total Amount Supplied by December 31, 2018 (100%) (BCM)	Primary Gas Price Linkage Basis
			option for extension by two additional years.			prices and includes a "floor price" (in one agreement, in addition to the aforesaid, the linkage formula is also based in small part on the Electricity Production Tariff). 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 determined in the Gas Framework.
Natural gas marketing companies	2013-2018	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 agreements – NBL <sup>7</sup>	2017	15 years	Option for extension by an additional two years.	Approx. 3	Approx. 0.2	The linkage formula is mostly based on linkage to the Brent prices and includes a "floor price."

<sup>7</sup> NBL is a subsidiary wholly owned (indirectly) by Noble Energy Inc., which is the controlling shareholder in Noble. In October 2018, another agreement was signed with NBL for an interruptible supply of an overall quantity of up to 1 BCM. It is noted that according to a taxation decision regarding export agreements, the Tamar partners undertook to offer every new Israeli customer an alternative natural gas price to be determined based on the price of a Brent barrel, calculated by the best formula for the consumer existing at the time of the Government's resolution in the agreements of the Tamar partners.

**Note 11 – Contingent Liabilities and Commitments (cont.)**

**B. Further details on 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 the purchasers, to the extent the supply is on a firm (uninterruptible) basis, to purchase or pay ("Take or Pay") for a minimum annual amount of natural gas on 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.

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, 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. Upon the reduction of the Minimum Quantity, the other amounts specified in the supply agreement will be reduced accordingly.

In the wake of the Gas Framework, the natural gas supply agreements signed starting from August 16, 2015, for a period of more than 8 years, granted the consumer a unilateral right to shorten the agreement period. This right will be granted also in agreements to be signed up to December 13, 2020 for a period longer than 8 years.

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.

- 2) **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 controlled by Delek Group. 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.

**Note 11 – Contingent Liabilities and Commitments** (cont.)

**B. Further details on the agreements for the sale of natural gas by the Tamar partners:** (cont.)

- 3) **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, 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.
- 4) In February 2019, after the date of the statement of financial position, the Tamar partners signed an amendment to the agreement with Dalia Energies, in which framework Dalia Energies undertook to purchase from the Tamar project the entire quantity of natural gas it would consume in its facilities during the period starting from the date of gas flow from the Leviathan reservoir until the date on which Dalia Energies exercises the option ("**the Period**"), to the extent the option is exercised. Likewise, as part of said amendment, it was agreed between the parties that the calculation of the average annual quantity consumed by Dalia Energies under the agreement in the three years preceding the notice of option exercise in relation to the Period, will be done based on the Minimum Quantity (according to the mechanism prescribed in the amendment to the agreement with it), and not on the actual quantity taken by Dalia Energies. The amendment to the agreement with Dalia Energies is subject, inter alia, to the approval of the Competition Authority.

**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, in connection with the exercise of options for increasing the gas quantities to be consumed by the IEC.
- 2) As part of the Agreement, IEC exercised the options to increase the total contractual quantity from 78 BCM to 87 BCM.
- 3) Starting from January 1, 2019 until the end of the Agreement period, the Minimum Quantity will be 3 BCM per year. The Agreement contains provisions regarding the calculation and adjustment of the Minimum Quantity, including under circumstances of force majeure or sellers' failure to supply.
- 4) 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.

**Note 11 – Contingent Liabilities and Commitments** (cont.)

**C. Further details on the gas supply agreement between the Tamar partners and the IEC:** (cont.)

- 5) 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 8 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).
- 6) 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.
- 7) 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.
- 8) The assignment of the IEC's rights and obligations under the Agreement is contingent on the assignee being technically and financially able to meet its obligations under the Agreement and on the transfer to the assignee 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 assignee, it must also receive a pro rata share of the IEC power plants).
- 9) In December 2018, the IEC solicited from the Company, the other Tamar Partners and Leviathan project partners a request for proposal (RFP) for the supply of natural gas in addition to IEC's consumption under its present agreement with the Tamar partners, in an estimated annual quantity of up to 2 BCM, to be supplied starting from October 2019 or from the date of start of gas production from the Leviathan reservoir, whichever is later, until June 30, 2021 or the date of start of gas production from the Karish reservoir, whichever is earlier ("**the Supply Period**"). Said RFP stated that during the Supply Period, the IEC would turn only to the RFP winner for the purchase of gas, according to its needs, besides the gas supplied to it under the gas supply agreement between the Tamar partners and the IEC described above. On March 7, 2019, after the date of the statement of financial position, the Tamar partners submitted a proposal in the framework of said RFP.

**Note 11 – Contingent Liabilities and Commitments (cont.)**

**C. Further details on the gas supply agreement between the Tamar partners and the IEC: (cont.)**

- 10) In February 2019, after the date of the statement of financial position, the Tamar partners approved an amendment to the IEC Agreement in connection with the gas price that will be in effect until the first adjustment date and regarding the daily gas quantity that the IEC may order under the Agreement ("**Amendment to the Agreement**"). The Amendment to the Agreement provides that starting from January 2019 until the first adjustment date ("**the Interim Period**"), the linkage clause prescribed in the Agreement will not be applied, so that the price paid by the IEC will be the contractual price that was in force during 2018. On the first adjustment date, the contractual price will be adjusted as prescribed in the Agreement, taking into consideration the contractual price that would have been paid if not for the Amendment to the Agreement, that is, the contractual price assuming application of the linkage prescribed in the Agreement as described above. If it is decided that a price reduction is necessary at the first adjustment date, the parties will discuss how and to what extent to take into account the savings amount that is supposed to accrue to the IEC from the Amendment to the Agreement during the Interim Period, in the said reduction. It was further provided in the Amendment to the Agreement that as of the date of gas flow from the Leviathan project to the Israeli economy, the maximum daily gas quantity that the IEC may order under the Agreement, will be reduced from 655,200 MMBTU to 500,000 MMBTU, without any reduction in the minimum annual quantity it committed to take or pay, as stipulated in the Agreement.

The Amendment to the Agreement is subject to receiving the approval of the financing bodies of some of the Tamar partners and to receiving the approval of the Competition Authority, if and to the extent this is required by law. The Amendment to the Agreement is expected to be signed upon receipt of the regulatory approvals required of the IEC (if and to the extent received). As of the approval date of the financial statements, said approvals have not yet been received.

**D. Estimates regarding gas quantities and supply dates:**

The above estimates regarding the natural gas quantities which will be purchased, and the supply start dates according to the supply agreements, constitute information whose materialization, 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 these are not yet fulfilled), changes in the scope, rate and timing of consumption of the natural gas by each of the aforesaid purchasers, 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 of the supply agreements and the date of exercise thereof, etc.

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### Note 11 – Contingent Liabilities and Commitments (cont.)

##### E. Commercial arrangement for the operation of and production from the Yam Tethys and Tamar projects ("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.

Starting from 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 natural gas both to the customers of Yam Tethys and to the customers of the Tamar project. In May 2018, the Yam Tethys partners and the Tamar partners entered into a spot agreement (which was revised in September 2018) for the sale of production surpluses (which are insignificant) from the Yam Tethys reservoir to the Tamar partners, for selling to customers of the Tamar project for a period of 24 months as of October 1, 2017.

##### F. Additional details on natural gas export commitments:

In February 2018, an agreement was signed between Delek Drilling and Noble (jointly referred to as: "**the Sellers**") and Dolphinus Holdings Ltd. in Egypt ("**the Purchaser**") for the export of natural gas from the Tamar project to Egypt ("**the Tamar-Dolphinus Agreement**"), whose scope is significantly larger than that of the agreement signed between the Tamar partners and Dolphinus on March 17, 2015, and which is meant to supersede the original agreement. On September 26, 2018, the Sellers assigned the Tamar-Dolphinus Agreement to the other partners in the Tamar project, including the Company. According to the Tamar-Dolphinus Agreement, the gas supply to the Purchaser will be initially on an interruptible basis, with the Tamar partners granted the option to notify the Purchaser that the gas supply (in whole or in part) will become a firm (uninterruptible) basis service (in this section: "**the Option**"). The Option may be exercised, in whole or in part, during the period from July 2020 until December 2021, or during a different period, as will be agreed between the Tamar partners and the Purchaser. From the date of exercise of the Option, the Tamar partners will be obligated to supply an annual output of up to 3.5 BCM (based on the quotas underlying the exercise of the Option) and the Purchaser will be obligated to purchase or pay for a minimum annual quota of natural gas based on the mechanism determined in the Tamar-Dolphinus Agreement. The overall contractual quantity of gas specified in the Tamar-Dolphinus Agreement is 32 BCM. The price of the gas supplied to the Purchaser under the Tamar-Dolphinus Agreement will be fixed according to a formula based on the price per Brent oil barrel.

According to the Tamar-Dolphinus Agreement, the supply 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 Tamar-Dolphinus Agreement or till December 2030, whichever is earlier.

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### Note 11 – Contingent Liabilities and Commitments (cont.)

##### F. Additional details on natural gas export commitments: (cont.)

The Tamar-Dolphinus Agreement includes several conditions precedent mainly concerning the receipt of regulatory approvals in Israel and Egypt (including the receipt of import and export permits), entry into agreements allowing the use of the transmission infrastructure, including the signing of a transmission agreement with Israel Natural Gas Lines Ltd. ("INGL") (if required), receipt of guarantees in favor of the Tamar partners as required under the Tamar-Dolphinus agreement, as well as receipt of approvals from the Israeli tax authorities with respect to the transactions the subject of the Tamar-Dolphinus agreement. It should be noted that there is no certainty that the sale of gas to the Purchaser under the Tamar-Dolphinus will materialize, which could be due, among other things, to the non-fulfillment of all or part of the conditions precedent in said agreement, and the like.

At the time of assignment of the Tamar-Dolphinus agreement to the Tamar partners, the Sellers signed a non-binding memorandum of understandings with partners in the Tamar project, in connection with the allocation of capacity and other arrangements for the transport of natural gas via transmission infrastructures from Israel to Egypt, including via the EMG gas pipeline and the Pan-Arab gas pipeline through Aqaba.

The binding agreement between the Tamar partners, to the extent it is signed, will be subject to the receipt of the relevant regulatory approvals, including the approval of the Israel Competition Authority and the approval of the Ministry of Energy, if required. As the Company was informed by Delek and Noble, concurrently with the assignment of the Tamar-Dolphinus agreement to the Tamar partners, the Sellers assigned to the partners in the Leviathan project (Delek Drilling, Noble and Ratio Oil Explorations (1992) – Limited Partnership) ("**the Leviathan partners**") the agreement signed between them and Dolphinus for the export of natural gas to Egypt from the Leviathan project, and the Leviathan partners signed a non-binding memorandum of understandings on the regulation of capacity and other arrangements in the transmission infrastructures.

As the Company was informed by Delek and Noble, the Sellers signed on September 26, 2018, through EMED Pipeline B.V. ("**EMED**") (a company jointly owned by subsidiaries of each of the Sellers and by an Egyptian partner), an agreement for the acquisition of 39% of the share capital of East Mediterranean Gas Ltd. ("**the EMG transaction**"). Closure of the EMG transaction is contingent, inter alia, on the signing of a capacity and operation agreement between EMED and EMG, in which framework EMG will grant EMED the exclusive right to lease and operate the EMG pipeline for the purpose of transporting natural gas from Israel to Egypt.

It should be noted that, as of the date of this report, the parties are conducting negotiations concerning amendments to the Tamar-Dolphinus agreement and to the memorandum of understandings, which have yet to yield consensus.

It should be clarified that there is no certainty that the sale of gas under the Tamar-Dolphinus agreement will materialize, which could be due, inter alia, to failure of the negotiations to ripen into an amendment of the agreement and/or due to nonfulfillment of all or part of the conditions precedent in the Tamar-Dolphinus agreement.

**Note 11 – Contingent Liabilities and Commitments (cont.)**

**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 2018 totaled \$155.1 million (2017 – \$91.7 million; 2016 – \$88.1 million). The balance of the IEC's debt as of December 31, 2018 is included in trade receivables and amounts to \$13 million (December 31, 2017– \$6.7 million) (see also Note 14B).

**H. Commitments for payment of royalties:**

**1. Royalties to the State:**

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. 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 with Delek Drilling, the rights in the leases that were transferred to the Company are subject to undertakings that applied to Delek Drilling to pay 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 that were transferred from Delek Drilling (9.25% from the Tamar and Dalit leases, accounting for 55% of the Company's stake in the rights):

1) Royalties to companies in the Delek Group (interested parties):

Under a rights transfer agreement signed in 1993, the rights transferred to the Company from Delek Drilling are subject to a liability to pay royalties to Delek Group and to Delek Energy/Delek Royalties (2012) Ltd. from any share the Company has in the oil and/or gas and/ or other valuable substances, produced and exploited from the oil assets transferred from Delek Drilling (before deduction of royalties of any type, but after deduction of the oil used for purposes of the production itself); the royalty rate is 1.5% until the ROI date, and 6.5% after the ROI date (ROI – as defined in the agreement for the transfer of rights to Delek Drilling from 1993).

As regards the dispute concerning the ROI date, see Note 15D.

**Note 11 – Contingent Liabilities and Commitments (cont.)**

**H. Commitments for payment of royalties: (cont.)**

- 2) Royalties to Cohen Development and Industrial Buildings Ltd. (interested party) and other third parties

The rights transferred to the Company from Delek Drilling are subject to a liability to pay 3% royalties from any share the Company has in the oil and/or gas and/ or other valuable substances, produced and exploited from the oil assets (of which the interested party's share is 1.438%) (before deduction of royalties of any type, but after deduction of the oil used for purposes of the production itself).

- 3) Royalties to Dor Chemicals Ltd.

The Company has a commitment to pay 0.42% royalties from any share the Company has in the oil and/or gas and/ or other valuable substances, produced and exploited from the oil assets transferred from Delek Drilling, after deduction of the State's royalties.

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 oil and/or natural gas and/or other valuable substances that will be produced and exploited from the oil assets that were transferred from Delek Drilling. If any of the Royalty Holders elects to receive the royalties in kind, the parties shall stipulate how and when it is to 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. Measurement of the quantities of oil and/or natural gas and/or other valuable substances that will be produced and exploited from the oil asset, for the purpose of calculating the royalties, shall be in accordance with accepted principles in the petroleum industry.

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

**Note 11 – Contingent Liabilities and Commitments (cont.)**

**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 an 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 of 1% of total direct expenses, except with respect to marketing activities. In respect of 2018 the Tamar partners paid Noble an operator fee of \$1.6 million (100%, Company's share – \$0.25 million), in respect of 2017 the Tamar partners paid Noble an operator fee of \$2.5 million (100%, Company's share – \$0.2 million), and in respect 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 2016.

**J. Legal Proceedings:**

- 1) In 2014, a claim and a motion to certify the claim as a class action were filed with the Central District Court against the then Tamar partners. According to the applicant, the Tamar Partners had abused their monopolistic power in connection with the prices of sale of natural gas from the Tamar reservoir to the IEC ("**the Certification Motion**" and "**the Class Action**," respectively). The reliefs requested in the Class Action include monetary relief, estimated by the applicant on the filing date of the Certification Motion at NIS 2.5 billion (against all the Tamar Partners), as well as an order directing the Tamar Partners not to sell natural gas from the Tamar reservoir for more than the amount specified in the Class Action, and an order declaring that any sale for more than said amount constitutes abuse of their monopolistic standing in the market.

On November 23, 2016 a decision was handed down rejecting a motion that had been filed by the Tamar Partners to summarily strike the Certification Motion, and on September 28, 2017, the Supreme Court issued a decision rejecting the application for leave to appeal the decision and remanding the case to the District Court for consideration of the Certification Motion on the merits.

In November 2017, the Company filed an application for its joinder as a respondent to the Certification Motion. In December 2017, the court ordered the joinder of the Company as a respondent, but imposed on it certain restrictions in the submission of a response.

As of the approval date of the financial statements, the examination of the parties' experts has concluded. On January 6, 2019, the applicant submitted its closing arguments, and the date for the submission of the Tamar partners' closing arguments is April 7, 2019.

Regarding the liability of Delek Drilling and Noble in connection with the aforesaid proceeding, in respect of the amounts received by each of them, before the effective date for the acquisition of the rights in the leases from each of them, see Notes 4A(4)(d) and 4B(3).

In the Company's estimation, based on the opinion of counsel, the chances of the Certification Motion being accepted are lower than 50%.

**Note 11 – Contingent Liabilities and Commitments (cont.)**

**J. Legal Proceedings: (cont.)**

- 2) On December 9, 2018, an application under Section 198A of the Companies Law, 5759-1999 was submitted against the Company in the Tel Aviv-Yafo District Court (Economic Department) for the disclosure and inspection of documents, aimed, according to its contents, at requiring the Company to provide the applicant with documents to help him examine the possibility of filing a motion to certify a derivative action, in which the requested relief would be the reimbursement to the Company of royalty amounts it overpaid (insofar as the documents provided would reveal the overpayment of royalties) to the Delek Group, Delek Energy and Delek Royalties. The applicant holds 18 shares of the Company which he purchased in June 2018. In the motion it is contended, inter alia, that the Company's officers were negligent in that they began paying the aforesaid royalties according to a rate of 6.5% (instead of 1.5%) with effect from January 2018, based on a calculation made by Delek Drilling, without preparing an independent calculation before the Company completed its examinations on the subject, without requesting the Company's independent auditors to audit the ROI Date calculation, and without taking into account in said calculation the levy on gas and oil profits by virtue of the Taxation of Profits from Natural Resources Law, 5771-2011.

On February 25, 2019, after the date of the statement of financial position, the Company submitted its response to the discovery application, in which it rejected the applicant's contentions and argued that the applicant had not lifted the burden of proof set out in law and in case law for the disclosure of documents under Section 198A of the Companies Law. Concurrently with the submission of the response to the discovery application, a motion was also filed for the summary dismissal of the discovery motion based on the letters of exemption that had been issued to officers of the Company. The date for submission of the applicant's response to the dismissal motion is March 21, 2019. The evidentiary hearing in respect of the discovery motion was set for May 2, 2019. In the Company's estimation, based on the opinion of counsel, at this preliminary stage, and before submission of the applicant's reply to the Company's response, the chances of the Certification Motion being accepted cannot be assessed.

- 3) In February 2019 (after the date of the statement of financial position), a class action and a motion for class certification (the "**Certification Motion**") were filed with the Tel Aviv District Court (Economic Department) by a shareholder of the Company, Yaniv Mantzuri, and the Public Representatives Association (in this section, jointly: the "**Applicants**") against the Company, Delek Drilling, the CEO of the general partner in Delek Drilling who served until March 6, 2019 as a director of the Company and until January 17, 2019 as the chairman of the Company's board of directors, the Company's CEO, the Company's CFO and Leader Issues (1993) Ltd. (in this section, jointly: the "**Respondents**"), in connection with a share offering of the Company in July 2017 (the "**Offering**"). The Certification Motion was filed on behalf of "anyone who was and/or will be entitled to receive dividends that were and/or will be distributed by the Company during and/or in respect of the period from July 4, 2017 to December 31, 2021."

## **Tamar Petroleum Ltd.**

### **Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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#### **Note 11 – Contingent Liabilities and Commitments (cont.)**

##### **J. Legal Proceedings: (cont.)**

The Applicants claim, in summary, that the Respondents misled the investing public in a non-standard offering document that was distributed to institutional investors on the eve of the Offering, regarding the Company's ability to distribute dividends to its shareholders for the period commencing on the date of the Offering and ending at the end of 2021 (the "**Period**"), and breached duties under various laws, including breach of the duty of care of the said officers and breach of the duties of Delek Drilling as a shareholder and the controlling party in the Company prior to the Offering.

The damage alleged by the Applicants is the difference between the amount of the dividend the Company is expected to distribute for the period, as specified in the offering document for institutional investors, and the amount of the dividend which, according to an expert opinion that was attached to the Certification Motion, the Company is expected to distribute for the Period, totaling at least \$53 million. The requested relief includes restitution of the full damages of the class members and a mandatory injunction directing the Company to distribute the full amount of the dividends which it guaranteed to the buyers of its shares. The deadline for submission of the Company's response to the Certification Motion is scheduled for April 14, 2019.

In the Company's estimation, based on the opinion of counsel, the chances of the Certification Motion being accepted cannot be assessed at this preliminary stage.

##### **K. Guarantees:**

In September 2014, pursuant to Section 57 of the Petroleum Law, the Commissioner issued directives on the provision of collateral in connection with petroleum rights. In accordance with said directives, the Company provided bank guarantees for the Tamar and Dalit leases, which as of December 31, 2018, total \$5.9 million and \$1.3 million, respectively. The Company provided deposits in the overall amount of \$2.2 million as security for said guarantees.

#### **Note 12 – Levy under the Taxation of Profits from Natural Resources Law 2011:**

The Taxation of Profits from 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%.

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

#### Note 12 – Levy under the Taxation of Profits from Natural Resources Law 2011: (cont.)

- 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 and the applicable levy rate, 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.

- 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.

It should be noted that there is disagreement between the tax authorities and the holders of rights in Tamar regarding the levy reports of the Tamar project for the years 2013-2016, which pertain mostly to the manner of classification and quantification of some data in the levy reports for those years. It should be noted that the disagreements regarding the levy reports for the years 2013-2015 are currently being deliberated by the parties in the framework of an appeal being heard at the Tel Aviv District Court, while the disagreements regarding the levy reports for 2016 are being deliberated in the framework of objection proceedings before the Assessing Officer for Large Enterprises. It is noted that these disagreements have no effect on the financial statements, as the liability to pay the levy has not yet arisen.

#### Note 13 – Capital, Reserves and Retained Earnings:

##### A. Share capital:

	December 31			
	2018		2017	
	Registered	Issued and paid up	Registered	Issued and paid up
	Number of shares			
Ordinary shares of NIS 0.1 par value each	<u>200,000,000</u>	<u>88,495,576</u>	<u>50,000,000</u>	<u>50,000,000</u>

##### B. Prospectus and shelf offering report 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 with Delek Drilling (described in Note 4A 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, constituted 40% of the Company's issued and paid-up share capital at the time.

## **Tamar Petroleum Ltd.**

### **Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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#### **Note 13 – Capital, Reserves and Retained Earnings: (cont.)**

##### **C. Private placement**

Pursuant to the sale agreement with Noble (see Note 4B above), on March 14, 2018, in the framework of a private placement, the Company made an allotment to Noble of 38,495,576 ordinary shares of NIS 0.1 par value each, constituting 43.5% of the Company's shares after the allotment. Following the private placement, Delek Drilling's share in the Company's issued and paid-up capital decreased to 22.6%.

##### **D. 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 to Delek Drilling, 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.

##### **E. Share-based payment:**

On January 28, 2018, the Company's compensation committee, and thereafter its board of directors, approved an allotment of 112,770 warrants and 95,855 warrants to the Company CEO and to two officers, respectively (the "**Offerees**"). Each warrant is exercisable into one share of the Company. Following are the principal terms applying to the warrants:

The warrants will vest in three equal tranches, as follows: first tranche – one third of the number of warrants vesting at the end of two years from the date of allotment of the warrants to the trustee (the "**Grant Date**"); second tranche – one third of the number of warrants vesting at the end of three years from the Grant Date; third tranche – one third of the number of warrants vesting at the end of three years from the Grant Date.

Exercise price for each of the warrants: first tranche – NIS 23.06; second tranche – NIS 24.21; third tranche – NIS 25.42.

Warrant period: The warrants are exercisable, subject to the vesting times, until the end of four years from the Grant Date. After the end of said period, a warrant that was not exercised shall expire and become null and void.

The warrants 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 warrants and the price of the shares on the TASE), according to the Offeree's choice.

## **Tamar Petroleum Ltd.**

### **Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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#### **Note 13 – Capital, Reserves and Retained Earnings: (cont.)**

##### **E. Share-based payment: (cont.)**

The average theoretical economic value of the warrants as of their Grant Date, calculated using the Black and Scholes formula, amounts to NIS 4.47 per warrant, based on the following assumptions: dividend yield – since the exercise price of the warrants 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 warrants – 4 years.

The grant of the warrants was subject to the approval of the Company's general meeting of shareholders, which gave its approval on March 8, 2018.

##### **F. Capital reserves:**

The capital reserves presented in the statements of financial position include a negative capital reserve of \$707,206 thousand, arising from the registration of the assets and liabilities that are being transferred in the transaction with Delek Drilling according to their book value – see also Note 2A, and the balance of \$92,000 in respect of a share-based payment (see Section E above).

##### **G. 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 of each year 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 distributable profits, within the meaning of this term 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:

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 (see also Note 9D(4));
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 for 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 Note 9D(4) above.

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### Note 13 – Capital, Reserves and Retained Earnings: (cont.)

##### G. Dividends (cont.)

On March 20, 2018, the board of directors approved the distribution of a dividend to the Company's shareholders in the amount of \$32,023 thousand (\$0.36 per share), which was carried out on April 11, 2018.

On August 30, 2018, the board of directors approved the distribution of a dividend to the Company's shareholders in the amount of \$39,324 thousand (\$0.44 per share), which was carried out on October 10, 2018.

#### 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 11 above.

	Year ended December 31		
	2018	2017	2016
Sale of natural gas	306,630	170,338	158,272
Sale of condensate	4,643	1,996	1,578
	<u>311,273</u>	<u>172,334</u>	<u>159,850</u>

- B. The volume of sales in 2018 (as a percentage of the total turnover) to the IEC was 50%, to Dalia Power Energies Ltd. ("**Dalia**") 10% (2017: IEC – 53%, Dalia – 11%; 2016: IEC – 55%, Dalia – 10%).
- C. The total quantity of natural gas (for all the Tamar partners) sold in 2018 amounted to 10.3 BCM (2017: 9.7 BCM, 2016: 9.3 BCM). The total quantity of condensate (for all the Tamar partners) sold in 2018 amounted to 477.1 thousand barrels (2017: 454.7 thousand barrels, 2016: 447.6 thousand barrels).

#### Note 15 – Royalties:

##### A. Composition:

	Year ended December 31		
	2018	2017	2016
Royalties to the State (see B below)	34,737	19,262	17,820
Royalties to interested parties (see C and D below)	11,624	4,918	4,188
Royalties to third parties (see C below)	3,330	3,066	2,835
	<u>49,691</u>	<u>27,246</u>	<u>24,843</u>

## **Tamar Petroleum Ltd.**

### **Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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#### **Note 15 – Royalties: (cont.)**

- B.** In accordance with the Petroleum Law, 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 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.

Pursuant to a letter received from the Ministry of Energy, as of January 1, 2017, the Tamar partners, including the Company (starting from the acquisition date of the leases), made advance payments of royalties for 2017 and 2018, at a rate of 11.65%. It was also clarified that such rate was 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 2016, 2017 and 2018 is 11.15%, 11.22%, and 11.16%, 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 periods commencing on the effective dates for the transfers of the rights to the Company (see Notes 4A and 4B), amounted, as of December 31, 2018, to \$1,899 thousand (December 31, 2017 - \$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, in accordance with the provisions of the sale agreement with Delek Drilling, as set out in Note 11H2 above. The effective overriding royalty rate paid on total Company sales of natural gas and condensate in 2016-2018 ranged between 4.4% and 4.8% (out of which the royalty rate paid to interested parties in those years ranged between 2.6% and 3.7%) of gross sales for each of the years.

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 from Delek Drilling, amounted, as of December 31, 2018, to \$614 thousand and \$200 thousand, respectively (December 31, 2017: \$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).

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### Note 15 – Royalties: (cont.)

- D. Further to that stated in Note 11H2a(1) above regarding the Company's commitment to pay royalties to Delek Energy Systems Ltd/Delek Royalties (2012) Ltd. and to Delek Group Ltd. (the "**Royalty Holders**") at a rate of 6.5% (instead of 1.5%), it is noted that in April 2018, the Company started to pay the Royalty Holders royalties at the increased rate applicable after the ROI date, in force from December 12, 2017 (according to a draft computation prepared by Delek Drilling, it being made clear that said payment constitutes only advance payment, given that, at the time, the Company had not yet carried out all the examinations and calculations regarding the calculation of the ROI date). In August 2018, in light of the revision of Delek Drilling's draft calculation, the ROI date determined by Delek Drilling was pushed off to January 19, 2018. In the wake of said deferment, the Company was reimbursed by the Royalty Holders for royalty overpayments it made totaling \$0.8 million.

In February 2019, after the date of the statement of financial position, upon completion of all the examinations and calculations carried out by the Company, the audit committee and board of directors of the Company approved a report re interim calculation of the ROI date, which determines that the ROI date falls on February 25, 2018, based on Delek Drilling's figures up to June 30, 2017 with adjustments made by the Company and based on the Company's figures starting from July 1, 2017, subject to the adjustments, assumptions and qualifications set out in said report (the "**ROI Date Report**"). This is an interim calculation as it does not include the effect of the oil profits levy under the Taxation of Profits from Natural Resources Law, 5771-2011 (in this section: the "**Sheshinski Levy**") on the ROI date. The ROI Date Report was furnished to the Royalty Holders on February 19, 2019 along with a special report by the independent auditors plus a letter in which the Company requests reimbursement of \$0.85 million in royalty payments. The letter also states that as the Company has legitimate arguments for including the Sheshinski Levy in the final calculation, it requests to determine with the Royalty Holders an agreed mechanism for examining the Sheshinski Levy and its inclusion in the calculation of the ROI date. As the Company's request for the aforesaid reimbursement was not accepted, the Company deducted said payment from the royalty payments made to the Royalty Holders at the end of February 2019.

On February 28, 2019, the Company received letters from the Royalty Holders expressing their objection to that stated in the Company's letters and rejecting the Company's right to make an offset (which they allege was done unlawfully). The Royalty Holders further stated in said letters that they had heavily weighted arguments for setting the ROI date much earlier than the date set by the Company. It was further stated by the Royalty Holders that to the extent the Company does not transfer the offset amount and insofar as it disagrees with their position on advancing the ROI date, they will consider the appropriate steps to be taken to clarify the aforesaid issues.

In the Company's estimation, based on the opinion of counsel, the chances of the Royalty Holders' arguments for advancing the ROI date being accepted are lower than 50%. A change in the determination of the ROI date is likely to materially affect the results of operations and the financial position of the Company.

**Tamar Petroleum Ltd.**

**Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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**Note 16 – Cost of Production of Natural Gas and Condensate\*:**

	Year ended December 31		
	2018	2017	2016
Salaries and related payments	4,279	2,520	1,587
Guarding and security	1,357	831	757
Insurance	3,367	1,838	1,780
Transportation and shipping costs	2,921	1,978	2,338
Operator and operation management fee	3,667	1,924	2,381
Maintenance and other	6,306	3,143	2,795
<b>Total</b>	<b>21,897</b>	<b>12,234</b>	<b>11,638</b>

\*Mostly through the operator of the Joint Venture, Noble.

**Note 17 – General and Administrative Expenses:**

Composition of general and administrative expenses for 2018 (total – \$2,661 thousand): salaries and related payments - \$1,230 thousand, professional services - \$626 thousand, and other services - \$805 thousand.

Composition of general and administrative expenses for 2017 (total – \$1,698 thousand):

For the six-month period ended June 30, 2017 – the share attributable to the Tamar project out of the Partnership's total general and administrative expenses - \$600 thousand;

For the six-month period ended December 31, 2017: salaries and related payments - \$486 thousand, professional services - \$254 thousand, and other services - \$358 thousand.

General and administrative expenses of \$1,200 thousand for 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).

**Tamar Petroleum Ltd.****Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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**Note 18 – Finance Expenses and Income:**

	Year ended December 31		
	2018	2017	2016
<b>Expenses:</b>			
For bonds	(56,853)	(15,234)	-
Interest on short-term loan from Delek Drilling	-	(106)	-
Exchange rate differences for monetary items, net	(294)	-	-
For changes in asset retirement obligations due to the passage of time	(868)	(446)	(308)
Other	(278)	(73)	(34)
<b>Total expenses</b>	<u>(58,293)</u>	<u>(15,859)</u>	<u>(342)</u>
<b>Income:</b>			
Exchange rate differences for monetary items, net	-	263	111
Interest income	1,832	69	20
Total income	<u>1,832</u>	<u>332</u>	<u>131</u>
<b>Total finance expenses, net</b>	<u>(56,461)</u>	<u>(15,527)</u>	<u>(211)</u>

**Note 19 – Income Taxes:****A. Corporate tax:**

The Company's revenues in Israel are liable to corporate tax at the regular rate, and are measured for tax purposes in shekels. Tax rates applicable to the Company are as follows: in 2017 –24%, in 2018 and onwards – 23%.

Since the tax liability for the profits of Delek Drilling is imposed on the holders of participation units in Delek Drilling, and not on Delek Drilling (see also Note 2B), tax expenses in respect of profits for periods before July 1, 2017 (the date of transfer of Delek Drilling's rights to the Company) are not reflected in these financial statements.

Income taxes included in the statement of comprehensive income for 2018 amount to \$37,279 thousand, as follows: current taxes (for previous years) - \$192 thousand; deferred taxes (see B below) - \$37,087 thousand (in 2017: \$10,469 thousand, as follows: current taxes – \$7,074 thousand; deferred taxes – \$3,395 thousand).

**B. Deferred income taxes:**

The Company recognized a deferred tax asset in respect of the Object of Sale from Delek Drilling 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 the acquisitions of oil and gas assets for tax purposes and the book value of the assets as recognized in the books.

**Tamar Petroleum Ltd.**

**Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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**Note 19 – Income Taxes: (cont.)**

**B. Deferred income taxes: (cont.)**

Following is the movement in deferred taxes for the years 2017 and 2018:

Balance as of January 1, 2017	-
<u>Movement in 2017:</u>	
Carried to capital reserve	138,093
Carried to profit or loss	(3,395)
<b>Balance as of December 31, 2017</b>	<u>134,698</u>
<u>Movement in 2018:</u>	
Addition for the sale agreement with Noble	778
Carried to profit or loss	(37,087)
<b>Balance as of December 31, 2018</b>	<u><u>98,389</u></u>

Deferred taxes as of the dates of the statements of financial position are calculated at a tax rate of 23%. The amount of deferred taxes expected to be recovered within 12 months from the date of the statement of financial position as of December 31, 2018 is \$12 million (December 31, 2017 - \$10.6 million).

**C. ITA tax rulings 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 acquired from Delek Drilling. On February 8, 2018, a tax ruling by agreement was received from the Israel Tax Authority regarding the manner of amortization of the acquisition cost of the rights acquired from Noble. The tax rulings 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.

**Tamar Petroleum Ltd.****Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)****Note 19 – Income Taxes: (cont.)****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 comprehensive income:

	<b>Year ended December 31</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Income before income taxes, as reported in the statements of comprehensive income	136,097	98,695	105,802
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 holders of participation units in Delek Drilling, see also Note 2B)	-	(56,203)	(105,802)
Income before income taxes, as attributed to the Company	136,097	42,492	-
Theoretical tax on this income (2018 - 23%; 2017 - 24%)	31,302	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)*	7,508	180	-
Effect of the change in the tax rate on the deferred tax balances (see B above)	-	148	-
Adjustment of deferred taxes in connection with asset retirement	(2,167)	-	-
Nondeductible expenses	50	(110)	-
Other	586	53	-
Income taxes	<u>37,279</u>	<u>10,469</u>	<u>-</u>

\* The different basis of measurement causes fluctuations in the Company's tax liability, arising mainly from changes in the shekel-dollar exchange rate.

**E. Tax assessments:**

The Company has not been issued any final tax assessments. Regarding Delek Drilling's and Noble's commitment to bear tax differences relating to periods prior to the transfer of the rights to the Company – see Notes 4A(4) and 4B(3).

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### 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:

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>Financial assets:</b>		
Cash and cash equivalents (1)	86,928	28,439
Trade receivables	33,429	18,296
Other accounts receivable	987	533
Long-term restricted deposits (2)	42,228	9,969
Other long-term assets	3,480	2,109
<b>Total financial assets</b>	<b>167,052</b>	<b>59,346</b>
<b>Financial liabilities:</b>		
Other accounts payable	25,893	22,357
Bonds (Note 9)	1,127,569	641,042
<b>Total financial liabilities</b>	<b>1,153,462</b>	<b>663,399</b>

- (1) The amount as of December 31, 2018 includes bank deposits with a maturity of less than three months totaling \$77.8 million, at a weighted annual interest rate of 2.69% (December 31, 2017: the deposits totaled \$19.9 million, bearing annual interest at a rate of 1.38%).
- (2) Includes: bank deposits encumbered as security for the payment of principal and interest to the Series A bondholders and Series B bondholders, totaling as of December 31, 2018 – \$40,009 thousand (December 31, 2017 - \$9,969 thousand) (see Note 9D(4)), and bearing as of December 31, 2018 a weighted annual interest rate of 2.8% (December 31, 2017: 1.4%); and deposits totaling \$2,219 thousand as security for bank deposits (see Note 11K), and bearing as of December 31, 2018 a weighted annual interest rate of 2.59%.

##### 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 and B bonds, which are traded on the Tel Aviv Stock Exchange. These series, which bear fixed interest, have a fair value as of December 31, 2018, based on a quoted price on the TASE (Level 1), of \$1,084 million (in 2017 – Series A: \$663 million), and a book value, including accrued interest payable as of that date, of \$1,146 million (in 2017 – Series A: \$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 actions to minimize possible negative effects on the Company's financial performance.

**Note 20 – Financial Instruments:** (cont.)

**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 (see Note 19D).

**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).

**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. As explained in Note 3K, as of January 1, 2018, the Company applies IFRS 9 and determines the allowance for impairment of trade receivables, using the expected credit loss model. However, owing to the nature of the Company's customers and its entry into long-term contracts, the expected credit losses in respect of the Company's customers are insignificant.

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 very low.

**Tamar Petroleum Ltd.****Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)****Note 20 – Financial Instruments:** (cont.)**E. Credit risks:** (cont.)

2. The balance of trade receivables at December 31, 2018 is \$33,429 thousand (at December 31, 2017: \$18,296 thousand). The balance does not include amounts in arrears.
3. The Company has cash and cash equivalents that are held with large banks 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 Section 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 9E).

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 dates of the statements 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 dates of the statements of financial position:

<b>As of December 31, 2018</b>	<b>Up to 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Other accounts payable*	7,257	-	-	-	7,257
Bonds (Series A and B)	155,908	267,627	197,220	941,216	1,561,971
<b>Total</b>	<b>163,165</b>	<b>267,627</b>	<b>197,220</b>	<b>941,216</b>	<b>1,569,228</b>
<b>As of December 31, 2017</b>	<b>Up to 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Other accounts payable*	7,741	-	-	-	7,741
Bonds (Series A)	47,386	160,310	126,280	555,405	889,381
<b>Total</b>	<b>55,127</b>	<b>160,310</b>	<b>126,280</b>	<b>555,405</b>	<b>897,122</b>

\* Interest payable on the bonds that is recorded in the statements of financial position under the "other accounts payable" item is included in this table in the bonds item.

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### 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 13D above.

Yossi Abu, CEO of the general partner in Delek Drilling, served as a director in the Company until March 6, 2019, and as chairman of the Company's board of directors until January 17, 2019.

Regarding the issue of shares to Noble, following which Noble became an interested party in the Company, in the period from March 2018 until October 2018, at which time these shares were sold by Noble, see Note 4B.

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		
	2018	2017	2016
Remuneration and salary of an interested party employed by the Company, see B below	477	202	-
Remuneration of seven directors not employed by the Company	326	174	-
Revenues from the sale of natural gas (1)	7,084	3,907	2,454
Royalties to interested parties (see Notes 11H2 and 15)	11,624	4,918	4,188
Gas supply expenses from the Yam Tethys project (see Note 6J)	1,307	108	-
Interest expenses to an interested party (2)	-	106	-

(1) The Company has gas sale agreements with I.P.P. Delek Sorek Ltd., with Delek The Israel Fuel Corporation Ltd. and with NBL – see Notes 11A and 11B.

(2) Regarding a short-term loan received from Delek Drilling – see Note 4A(3).

In July 2017, the Company decided to grant letters of exemption and indemnity to officers in the Company in accordance with the provisions of the Companies Law, the Company's articles and the Company's compensation policy.

Regarding a transaction for the acquisition of rights in the Tamar and Dalit leases from Delek Drilling – see Note 4A.

Regarding a transaction for the acquisition of rights in the Tamar and Dalit leases from Noble – see Note 4B.

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, Noble, Delek Drilling and Delek Group, and the Tamar partners, of the other part, including, inter alia, the Company, Noble and Delek Drilling, see Note 6I.

## Tamar Petroleum Ltd.

### Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)

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#### Note 21 – Interested and Related Parties (cont.)

##### A. Transactions and balances with interested and related parties: (cont.)

###### Balances with interested and related parties:

	December 31	
	2018	2017
Trade receivables	575	334
Other long-term assets	614	103
Other accounts payable	537	1,028
Highest receivable during the year	11,997	535

##### 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 is 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. The Company may grant Mr. Vaisman 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 Mr. Vaisman, see Note 13E.

On March 17, 2019, the Company's compensation committee approved, and on March 19, 2019, the Company's board of directors approved the grant of a bonus of \$129 thousand to Mr. Vaisman for 2018.

- C. On January 17, 2019, Mr. Ran Efrati was appointed chairman of the Company's board of directors. On March 19, 2019, the compensation committee and board of directors of the Company approved, pursuant to the Company's compensation policy and subject to the approval of the general meeting of the Company, entry into an agreement with Mr. Ran Efrati, chairman of the board, whereby Mr. Efrati is to provide the Company with management services as an active board chairman, on the scope of 10 weekly hours in consideration for NIS 20,000 plus statutory VAT per month (linked to an increase in the CPI from the index published on March 15, 2019). Likewise, Mr. Efrati will be entitled to reimbursement of reasonable expenses expended by him in the framework of his role as Company board director, against the presentation of appropriate receipts, and will also be entitled to an annual bonus of up to 6 months' management fees, subject to the fulfillment of the goals set pursuant to the compensation policy. As of the effective date of the management agreement (the date of approval by the general meeting, insofar as approved), Mr. Efrati will not be entitled to compensation for meeting participation, nor to yearly compensation for serving as a director in the Company.

**Tamar Petroleum Ltd.**

**Notes to the Financial Statements as of December 31, 2018 (U.S. dollars in thousands)**

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**Note 22 – Events after the Date of the Statement of Financial Position:**

- A. For details regarding the filing of a class action and a motion for class certification against the Company, Delek Drilling, and officers in the Company, in connection with the issuance of shares in July 2017, see Note 11J(3).
- B. For details regarding an amendment to the IEC agreement in connection with the gas price up to the first adjustment date, see Note 11C(10).
- C. For details regarding the signing by the Tamar partners on an amendment to the gas sale agreement with Dalia Energies, see Note 11B(4).



March 19, 2019

**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 an Independent auditor's report dated March 19, 2019 on the Company's financial statements as of December 31, 2018 and 2017 and for each of the years in the three-year period ended December 31, 2018.

(-)  
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, 2018

**Report date:** March 19, 2019

**Regulation 8B:** **Very Material Valuation**

For details about a study regarding a business combination cost allocation made in connection with the acquisition of 7.5% of the working interests in the I/12 Tamar and I/13 Dalit leases, which constitutes a very material valuation (as the term is defined in Regulation 8B), see Section 4 in Part One of the Board of Directors' Report included in the Q2 2018 Report published on August 20, 2018 (TASE reference: 2018-01-077113).

**Regulation 9B:** **Exemption from Attachment of Independent Auditor's Report on the Effectiveness of Internal Control**

In accordance with Regulation 9B(c1) of the Securities Regulations (Immediate and Periodic Reports), 1970, the obligation to attach an opinion of the Company's independent auditor on the effectiveness of the internal control over financial reporting and on significant weaknesses identified by him in said control does not apply to the Company, since it meets the conditions of said Regulation 9B(c1).

**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 2018 and for 2018 as a whole (US\$ in thousands)**

	<b>1-3/18</b>	<b>4-6/18</b>	<b>7-9/18</b>	<b>10-12/18</b>	<b>2018</b>
Revenues from sale of natural gas and condensate	50,536	84,569	92,357	83,811	311,273
Less - royalties	(9,496)	(12,762)	(14,931)	(12,502)	(49,691)
<b>Net revenues</b>	<b>41,040</b>	<b>71,807</b>	<b>77,426</b>	<b>71,309</b>	<b>261,582</b>
Cost of production of natural gas and condensate	(3,721)	(5,308)	(5,581)	(7,287)	(21,897)
Depreciation, depletion and amortization expenses	(5,377)	(13,812)	(13,939)	(11,338)	(44,466)
General and administrative expenses	(730)	(565)	(566)	(800)	(2,661)
<b>Operating income</b>	<b>31,212</b>	<b>52,122</b>	<b>57,340</b>	<b>51,884</b>	<b>192,558</b>
Finance expenses	(9,515)	(16,199)	(16,024)	(16,555)	(58,293)
Finance income	179	236	635	782	1,832
Finance expenses, net	(9,336)	(15,963)	(15,389)	(15,773)	(56,461)
<b>Income before income taxes</b>	<b>21,876</b>	<b>36,159</b>	<b>41,951</b>	<b>36,111</b>	<b>136,097</b>
Income taxes	(6,462)	(12,249)	(8,978)	(9,590)	(37,279)
<b>Total comprehensive income</b>	<b>15,414</b>	<b>23,910</b>	<b>32,973</b>	<b>26,521</b>	<b>98,818</b>

**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 shelf offering report of March 12, 2018 (TASE reference: 2018-01-019125) (the "**Shelf Offering Report**"), the Company issued NIS 1,940,113,000 par value of bonds (Series B). The issue proceeds were used by the Company to meet the targets established in Section 11.2 of the Shelf Offering Report.

**Regulation 20:**      **Trade on the Tel-Aviv Stock Exchange ("TASE")**

- a. On March 14, 2018, NIS 1,940,113,000 par value of bonds (Series B) issued according to the Prospectus and the Shelf Offering Report, were listed on the TASE.
- b. On March 14, 2018, 38,495,576 ordinary shares of the Company of NIS 0.1 par value each, issued to Noble Energy Mediterranean Ltd. in a private allotment according to immediate report of January 30, 2018 (TASE reference: 2018-01-008823), supplementary immediate report of March 1, 2018 (TASE reference: 2018-01-016854) and amending immediate report of March 1, 2018 concerning a private allotment of the Company and concerning the convening of a general meeting of the Company (TASE reference: 2018-01-016890), were listed on the TASE.

**Regulation 21:**

**Compensation to Interested Parties and Senior Officers<sup>1</sup>**

- (a) The following table provides details of the compensation paid in the reporting year, as recognized in the financial statements for 2018, as well as compensation paid after the reporting year, which was not recognized in the financial statements for the reporting year, to the Company's senior officers in connection with their service at the Company in the reporting year, and of the compensation paid in 2018 to interested parties in the Company in connection with services provided by them as officers of the Company (US\$ in thousands):

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<sup>1</sup> See more details on the terms of tenure and employment of senior officers and interested parties in the Company in Section (b) below.

Senior officers in the Company														
Details of compensation recipients				Compensation for services							Other compensation			Total
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	
Liami Vaisman	CEO	100%	-	370	129 <sup>2</sup>	50	-	-	-	-	-	-	-	549
Yuval Raikin	CFO	100%	-	259	85 <sup>3</sup>	25	-	-	-	-	-	-	-	369
Efrat Hozeh-Azrad	General Counsel, VP	100%	-	218	70 <sup>4</sup>	17	-	-	-	-	-	-	-	305
Alon Amit	Internal Auditor	-	-	20	-	-	-	-	-	-	-	-	-	20

Interested parties in the Company														
Details of compensation recipients				Compensation for services							Other compensation			Total
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	
Directors <sup>5</sup>	-	-	-	326	-	-	-	-	-	-	-	-	-	326

<sup>2</sup> The amount includes a sum of US\$ 65 thousand which was not recognized in the financial statements. See more details on said bonus and the manner of its determination in Section (b)(2) below. Apart from the aforesaid amount, the Company's CEO was paid a bonus of US\$ 20 thousand for 2017 pursuant to a resolution of the Company's general meeting as detailed in Subsection (2) of Regulation 29(c) below.

<sup>3</sup> The amount includes a sum of US\$ 42 thousand which was not recognized in the financial statements. See more details on said bonus and the manner of its determination in Section (b)(3) below.

<sup>4</sup> The amount includes a sum of US\$ 35 thousand which was not recognized in the financial statements. See more details on said bonus and the manner of its determination in Section (b)(4) below.

<sup>5</sup> Regarding 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**

Regarding the Company's compensation policy for senior officers as adopted by the Company prior to the issue of the Prospectus, see Section 8.2 of the Prospectus, included herein by reference.

Regarding the amendment of the compensation policy, see Section 3.2 of amended immediate report of March 6, 2018 on an extraordinary private placement and notice of a special general meeting (TASE reference: 2018-01-018000), included herein by 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 section: "**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 section: "**the salary**"), which is 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 Subsection (1) above. In 2018, the cost of the CEO's employment totaled approximately US\$ 549 thousand.

On March 27, 2018, the Company allocated to the CEO 95,855 unlisted warrants at terms as detailed in Note 13E to the financial statements. On March 17, 2019 and March 19, 2019, the Company's Compensation Committee and Board respectively approved the grant of a bonus to the CEO for 2018 in the amount of NIS 484 thousand, based on the following components: (a) Measurable, performance-based components (80%): (1) an increase in earnings per share for 2018 compared to average annual earnings per share in the last three years ended according to the pro forma figures for the acquisition of 7.5% of the Tamar reservoir (disregarding revenues and/or expenses of a one-time nature and subject to adjustment of depreciation directly connected with depreciation of the cost of acquisition of 7.5% from Noble on the books); (2) entry into additional agreements for the sale of gas from the Tamar reservoir and/or completion of the conditions precedent in the Dolphinus transaction; (3) adoption of ISOX; (4) adoption of an enforcement program within the Company. Said targets were met, and therefore Mr. Vaisman was entitled to a bonus for these components in the amount of NIS 387 thousand. (b) Discretionary component (20%) – a sum of NIS 97 thousand.

(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 section: "**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 section: "**the salary**"), which is 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 Subsection (1) above. In 2018, the cost of the CFO's employment totaled approximately US\$ 369 thousand.

On March 27, 2018, the Company allocated to the CFO 56,385 unlisted warrants at terms as

detailed in Note 13E to the financial statements.

On March 17, 2019 and March 19, 2019, the Company's Compensation Committee and Board respectively approved the grant of a bonus to the CFO for 2018 in the amount of NIS 318 thousand, based on the following components: (a) Measurable, performance-based components (80%) as set out in Subsection (2) above. Said targets were met, and therefore Mr. Raikin was entitled to a bonus for these components in the amount of NIS 254 thousand. (b) Discretionary component (20%) – a sum of NIS 64 thousand.

**(4) Efrat Hozeh-Azrad**

Following is a description of the employment agreement of the Ms. Efrat Hozeh-Azrad, General Counsel and VP of the Company:

Effective from September 1, 2017, Ms. Hozeh-Azrad has been serving as the Company's General Counsel based on an employment agreement signed on September 1, 2017 (in this section: "**the employment agreement**"). According to the employment agreement, in 2018, Ms. Hozeh-Azrad's gross monthly salary amounted to NIS 43 thousand based on a 100% position (in this section: "**the salary**"), which is updated every three months based on a positive change in the Israeli CPI (the base index is the known index on July 1, 2017).<sup>6</sup>

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 General 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 Subsection (1) above. On January 28, 2018, the Company's Compensation Committee and the Board reaffirmed the General Counsel's employment terms and decided to increase her position to 100% effective from January 1, 2018 at the aforesaid terms. In 2018, the cost of the General Counsel's employment totaled approximately US\$ 305 thousand.

On March 27, 2018, the Company allocated to the General Counsel 39,471 unlisted warrants at terms as detailed in Note 13E to the financial statements.

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<sup>6</sup> As of March 1, 2019, Ms. Hozeh-Azrad's gross salary stands at NIS 46 thousand.

On March 17, 2019 and March 19, 2019, the Company's Compensation Committee and Board respectively approved the grant of a bonus to the General Counsel for 2018 in the amount of NIS 262 thousand, based on the following components: (a) Measurable, performance-based components (80%) as set out in Subsection (2) above. Said targets were met, and therefore Ms. Hozeh-Azrad was entitled to a bonus for these components in the amount of NIS 210 thousand. (b) Discretionary component (20%) – a sum of NIS 52 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 Grade E in the Second and Third Schedules to the Israeli Companies Regulations (Rules of Compensation and Expenses of External Directors), 2000.

On March 19, 2019, the Compensation Committee and Board of Directors approved, in accordance with the Company's compensation policy and subject to approval of the general meeting, an agreement with Mr. Ran Efrati, the Chairman of the Board, whereby Mr. Efrati will provide ten weekly hours of management services to the Company as an active Chairman of the Board, in consideration for a monthly sum of NIS 20,000 plus statutory VAT (linked to an increase in the CPI compared to the index published on March 15, 2019). Mr. Efrati will also be entitled to reimbursement of reasonable expenses incurred by him in performing his duties as Chairman of the Board, against the presentation of appropriate receipts, as well as to an annual bonus at up to six months of management fees depending on his meeting targets determined in accordance with the compensation policy. Starting from the date of entry of the management agreement into force (the date of approval by the general meeting, if approval is given), Mr. Efrati will not be entitled to Board meeting attendance fees or to annual compensation in his capacity as a director of the Company.

**Regulation 21A:** **The Controlling Shareholder in the Company**

As of the date of the Periodic Report, the Company does not have a controlling shareholder.

**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, 2018 in an immediate report issued by the Company on January 10, 2019 (TASE reference: 2019-01-004048), included herein by reference.

**Regulation 24A:**      **Authorized Share Capital, Issued Share Capital and Convertible Securities**

**Authorized and issued share capital**

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 <sup>7</sup>
Shares of NIS 0.1 par value each	200,000,000	79,115,045	9,380,531

**Convertible securities**

Class of security	Number of allocated securities
Unlisted warrants	208,626

**Regulation 24B:**      **Register of the Company's Shareholders**

Name of holder	Number of shares held
Israel Discount Bank Nominee Company Ltd.	88,495,576
<b>Total</b>	<b>88,495,576</b>

**Regulation 25A:**      **Registered Domicile**

Address:            11 Galgalei Haplada St., Herzliya Pituach 4672211

Tel.:                074-7044779

Fax:                074-7044762

Email:              [office@tamarpetroleum.co.il](mailto:office@tamarpetroleum.co.il)

<sup>7</sup> The above shares do not confer voting rights as long as they are held by Delek Drilling. Once they are sold by Delek Drilling, they will confer the entire voting rights attached thereto.

**Regulation 26:      The Company's Directors**

<b>Name:</b>	<b>Ran Efrati</b>	<b>Sigalia Hefetz</b>	<b>Nehama Ronen</b>
<b>Position in the Company:</b>	Chairman of the Board <sup>8</sup>	Director	Director
<b>I.D. no.:</b>	028056919	057248528	057238479
<b>Date of birth:</b>	September 26, 1970	August 15, 1961	September 15, 1961
<b>Domicile for service of judicial documents:</b>	45 Snir St., Nehalim 4995000	12 Hatzedef St., Tel-Aviv 6803434	37 Harishonim St., Beit Herut 40291
<b>Residency:</b>	Israeli	Israeli	Israeli
<b>Membership on the Board's Committees:</b>	No	Balance Sheet Committee	Audit Committee
<b>Independent director:</b>	Yes	Yes	Yes
<b>External director:</b>	No	No	No
<b>1) If so, The director possesses accounting and financial expertise or is professionally competent:</b>	-	-	-
<b>2) If so, is the director an expert external director?<sup>9</sup></b>	-	-	-
<b>3) If so, does the director qualify as independent director?<sup>10</sup></b>	-	-	-
<b>Is the director employed by the Company, a subsidiary, a related company or an interested party?</b>	No	No	No
<b>Date of beginning tenure:</b>	June 25, 2017	June 25, 2017	June 25, 2017
<b>Education:</b>	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 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
<b>Occupations in the last five years:</b>	General Counsel and head of investor relations at the store chain Rami Levy Hashikma Marketing 2006 Ltd. and CEO of Rami Levy	Director in Hadera Paper Mills and Beit Shemesh Engines. She was a member of the board of "Muses" – a school of the arts in	Chairman of the Board of Maman Cargo Terminals & Handling Ltd. and ELA, Israel's Recycling

<sup>8</sup> Chairman of the Board since January 17, 2019. Until that date, Mr. Yossi Abu served as Chairman of the Board.

<sup>9</sup> As this term is defined in Regulation 1 of the Companies Regulations (Rules of Compensation and Expenses of External Directors), 2000.

<sup>10</sup> As this term is defined in Section 1 of the Companies Law, 1999.

<b>Name:</b>	<b>Ran Efrati</b>	<b>Sigalia Hefetz</b>	<b>Nehama Ronen</b>
	Hashikma Marketing Communications Ltd.,	Jaffa, and a member of the board of the Friends of Habima Theater; business consulting and development	Corporation. Director in Bank Hapoalim, SHL Telemedicine Ltd. and ADO Group Ltd.
<b>Corporations in which he/she serves as director (other than the Company):</b>	Chairman of the Board of Cofix Group Ltd.	Clal Industries Ltd., Clal Biotechnology Industries Ltd., Golf & Co. Group, Maman Cargo Terminals & Handling Ltd., Vesta Investments & Management Ltd., Z. Properties Ltd. (inactive)	Chairman of the Board of Maman Cargo Terminals & Handling Ltd.
<b>Is the director a family relation of another interested party in the Company:</b>	No	No	No
<b>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) of the Companies Law?</b>	Yes	Yes	No

<b>Name:</b>	<b>Giora Inbar</b>	<b>Avi Eini</b>	<b>Alon Cohen</b>
<b>Position in the Company:</b>	External Director	Director	External director
<b>I.D. no.:</b>	053442505	70879457	004055364
<b>Date of birth:</b>	December 19, 1955	September 27, 1947	June 11, 1946
<b>Domicile for service of judicial documents:</b>	9 Harav Nissim St., Tel Aviv	17 Hamaapilim St., Jerusalem	9 Mazeh St., Tel-Aviv
<b>Residency:</b>	Israeli	Israeli	Israeli
<b>Membership on the Board's Committees:</b>	Balance Sheet Committee, Compensation Committee, Audit Committee	Compensation Committee	Balance Sheet Committee, Compensation Committee, Audit Committee
<b>Independent director:</b>	No	Yes	No
<b>External director:</b>	Yes	No	Yes
<b>1) If so, The director possesses accounting and financial expertise or is professionally competent:</b>	Yes	-	Yes
<b>2) If so, is the director an expert external director?<sup>11</sup></b>	No	-	No
<b>3) If so, does the director qualify as independent director?<sup>12</sup></b>	Yes	-	Yes

<sup>11</sup> As this term is defined in Regulation 1 of the Companies Regulations (Rules of Compensation and Expenses of External Directors), 2000.

<sup>12</sup> As this term is defined in Section 1 of the Companies Law, 1999.

<b>Name:</b>	<b>Giora Inbar</b>	<b>Avi Eini</b>	<b>Alon Cohen</b>
<b>Is the director employed by the Company, a subsidiary, a related company or an interested party?</b>	No	No	No
<b>Date of beginning tenure:</b>	June 25, 2017	June 25, 2017	September 10, 2017
<b>Education:</b>	BA in geography and Land of Israel studies, an MBA from the University of Haifa, and an MA in social science from the University of Haifa, USA War College graduate, graduate of directors' course at the Israel Management Center	LL.B from the Academic Center of Law and Business; attorney; graduate of senior business administration course	BA in social science – economics and political science from the Hebrew University of Jerusalem
<b>Occupations in the last five years:</b>	External director in IDB Development Corporation Ltd., Schnapp Industries Ltd., Aran Dolomit and Golf. Chairman of IDB Tourism. CEO and owner of Ofakei Danish Ltd., Chairman of the Friends of the Emek Hospital (Afula); Chairman of the National Initiative Association	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 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 of Industrial Buildings Corp. Ltd., chairman and CEO of SMYC Assets Ltd., independent director and member of balance sheet committee of Jerusalem Economic Corp. Ltd., receiver and liquidator of Kika (in Liquidation and Receivership) Ltd., external director and chairman of the audit committee

<b>Name:</b>	<b>Giora Inbar</b>	<b>Avi Eini</b>	<b>Alon Cohen</b>
			and balance sheet committee and member of the compensation committee of Fox Wizel Ltd.
<b>Corporations in which he/she serves as director (other than the Company):</b>	External director of Dolomite Holdings Ltd., Aran Research & Development (1982) Ltd., Golf & Co. Group Ltd., IDB Development Corporation Ltd. and Schnapp Industries Ltd.	Tadiran Group Ltd.	External director and chairman of the audit and balance sheet committees and member of the compensation committee of Fox Wizel Ltd., director and member of the balance sheet committee of Jerusalem Economic Corp. Ltd., chairman of SMYC Assets Ltd., receiver and liquidator and effectively director of Kika (in Liquidation and Receivership) Ltd., chairman of Alon Cohen Economic Consulting Ltd.
<b>Is the director a family relation of another interested party in the Company:</b>	No	No	No
<b>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) of the Companies Law?</b>	Yes	Yes	Yes

**Regulation 26A: The Company's Senior Officers**

	<b>Name</b>	<b>Liami Vaisman</b>	<b>Yuval Raikin</b>	<b>Efrat Hozeh-Azrad</b>	<b>Yaniv Marig</b>	<b>Alon Amit</b>
<b>1.</b>	<b>Position in the Company:</b>	CEO	CFO	General Counsel	Director of Geology and Environment	Internal auditor
<b>2.</b>	<b>ID no.:</b>	038620613	023928266	027234855	037350741	025670647
<b>3.</b>	<b>Date of birth:</b>	March 10, 1976	September 13, 1968	July 28, 1974	February 4, 1980	August 5, 1973
<b>4.</b>	<b>Date of beginning tenure:</b>	June 25, 2017	July 1, 2017	September 1, 2017	January 1, 2019	October 1, 2017
<b>5.</b>	<b>Holds any positions in a subsidiary, a related company or an interested party?</b>	No	No	No	No	No
<b>6.</b>	<b>Is an interested party in the Company?</b>	Yes, as CEO	No	No	No	No
<b>7.</b>	<b>Is a family relation of another senior officer or interested party in the Company?</b>	No	No	No	No	No
<b>8.</b>	<b>Education:</b>	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	BSc in geology from Ben Gurion University, MSc in geology from Ben Gurion University	MA in internal and public audit from Bar-Ilan University, BA in political sciences and communications from Bar-Ilan University; CISA, CIA; graduate of a course on quality assurance in internal auditing held in conjunction with the international IIA, the Institute of Certified Public Accountants in Israel, and the IIA – Israel – Institute of Internal Auditors in Israel; accredited internal audit quality assurance reviewer (QAR).
<b>9.</b>	<b>Experience in the last five years:</b>	CFO of Israel Natural Gas Lines Ltd., partner	CFO of Alon Natural Gas Exploration Ltd.	Partner at Agmon & Co. Rosenberg	Geologist at Delek Drilling	Head of Internal Audit Department at Raveh –

	<b>Name</b>	<b>Liami Vaisman</b>	<b>Yuval Raikin</b>	<b>Efrat Hozeh-Azrad</b>	<b>Yaniv Marig</b>	<b>Alon Amit</b>
		and head of Project Finance at Giza Singer Even, 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 a director of Tamar 10 Inch Ltd.	Hacohen & Co. law firm		Ravid & Co.

**Regulation 26B:**

**Independent Signatories**

The Company has no independent signatories.

**Regulation 27:**

**The Company's Auditors**

Joint auditors: BDO Ziv Haft, CPA, of 48 Menachem Begin Road, Tel-Aviv and Kost Forer Gabbay & Kasierer (EY), CPA, of 144 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), included herein by reference.

**Regulation 29:**

**Directors' Recommendations and Resolutions**

**Regulation**

**Distributions, as defined in the Companies Law**

**29(a)(1):**

See details of the Company's Board's resolutions of March 20, 2018 and August 30, 2018 to distribute a dividend in Section 4.4 in Chapter A of this Report.

**Regulation**

**Early redemption of bonds**

**29(a)(5):**

Regarding a buyback plan of bonds (Series B) adopted by the Board, see an immediate report of March 13, 2018 (TASE reference: 2018-01-019917), included herein by 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), included herein by reference.

**Regulation**

See details on the assignment of an export agreement in Subsection (2) of Regulation 29A(3) below.

**29(a)(6):**

**Regulation 29(c):**

**Resolutions of special general meeting**

**(1) On March 8, 2018, the special meeting of the Company's shareholders passed the following resolutions:**

- 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 Section 3.1.2 of 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 Section 3.2 of 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 Section 5 of 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.
- (2) **On May 28, 2018, the special meeting of the Company's shareholders resolved as follows:** To approve the grant of a bonus of NIS 72 thousand to Mr. Liami Vaisman, the Company's CEO, as detailed in Section 3 of the immediate report on the convening of the meeting dated May 16, 2018.

**Regulation 29A:      Company's Resolutions**

Regulation  
29A(1):

Approval of actions pursuant to Section 255 of the Companies Law

On January 30, 2019 and February 3, 2019, the Audit Committee and the Board of Directors, respectively, approved a report re interim calculation of the return on investment date, in connection with the payment of overriding royalties to the Delek Group Ltd. and to Delek Energy Systems Ltd./Delek Royalties (2012) Ltd., in light of the service of Mr. Yossi Abu, the Chairman of the Board at the time, as CEO of Delek Energy Systems Ltd. See more details in Section 7.19.2 in Chapter A of the Periodic Report.

Regulation  
29A(3):

Transactions that require special approval as per Section 270(1) of the Companies Law

- (1) Regarding the Company's engagement with Noble on January 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), included herein by 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 at the time.
- (2) Regarding the assignment of an agreement for the export of natural gas from the Tamar project that was signed between Delek Drilling and Noble on the one hand and Dolphinus Holdings Limited on the other hand, from Delek Drilling and Noble to the Company (together with the other Tamar partners), see immediate report of September 27, 2018 (TASE reference: 2018-01-086338), whose details are included herein by reference. Said assignment was approved by the Company's Audit Committee and Board of Directors in meetings on September 20, 2018, in light of the service of Mr. Yossi Abu, the CEO of the general partner in Delek Drilling, as Chairman of the Company's Board at the time.

**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 Section 8.4.2 of the Prospectus, included herein by reference.
- (b) See details of the Company's directors and officers liability insurance policy in Section 8.4.1(a) of the Prospectus, included herein by reference. See also details of changes in said policy in an immediate report of January 30, 2018 (TASE reference: 2018-01-008826), included herein by reference.
- (c) See details of a public offering of securities insurance (POSI) in connection with the Company's Prospectus in Section 8.4.1(b) of the Prospectus, included herein by reference. See also details of changes in said policy in Section 3.2 of 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), included herein by reference. The above changes were approved by the Company's general meeting on March 8, 2018.

March 19, 2019

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**Date**

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**Tamar Petroleum Ltd.**

**Name and position of signatories**

Ran Efrati, Chairman of the Board

Liami Vaisman, CEO



# **Tamar Petroleum Ltd.**

## **Chapter E**

### **Annual Report on Effectiveness of Internal Control over Financial Reporting and Disclosure**

**Tamar Petroleum Ltd.**

**Chapter E**

**Annual Report Concerning the Effectiveness of the Internal  
Control over Financial Reporting and Disclosure under  
Section 9B(a) of the Securities Regulations (Periodic and  
Immediate Reports),  
5730-1970**

*This report is a translation of Tamar Petroleum Ltd.'s Hebrew-language Annual Report on the Effectiveness of the Internal Control over Financial Reporting and Disclosure, 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.*

**Annual Report Concerning the Effectiveness of the Internal Control over Financial Reporting and Disclosure:**

The management of Tamar Petroleum Ltd. (hereinafter – the Company), under the supervision of its board of directors, is responsible for designing and maintaining proper internal controls over financial reporting and disclosure within the Company.

For this purpose, the members of management are:

1. Liami Vaisman, CEO
2. Yuval Raikin, CFO
3. Efrat Hozeh-Azrad, General Counsel and VP

Internal control over financial reporting and disclosure consists of existing controls and procedures within the Company that were designed by, or under the supervision of, the principal executive and the principal financial officer, or persons performing similar functions, under the supervision of the board of directors, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, and to ensure that information required to be disclosed by the Company in the reports it issues under the provisions of the law is collected, processed, summarized and reported within the time and in the form prescribed in the law.

Internal control includes, inter alia, controls and procedures designed to ensure that information required to be disclosed by the Company as aforesaid, is accumulated and communicated to the Company's management, including the principal executive and the principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Owing to its structural limitations, internal control over financial reporting and disclosure is not intended to provide complete assurance regarding the prevention or detection of misstatements or the omission of information in reports.

The management, under the supervision of the board of directors, has reviewed and evaluated the internal control over financial reporting and disclosure within the Company, and its effectiveness.

The evaluation of the effectiveness of internal control over financial reporting and disclosure, performed by the management under the supervision of the board of directors, included mapping and documentation of overall processes (financial statement closing processes, entity level controls (ELC) and IT general controls (ITGC), as well as key processes involving net revenue, cash and bond management and accounting with the joint venture operator.

Based on the evaluation of effectiveness performed by the management under the supervision of the board of directors, as detailed above, the board of directors and the management of the Company have concluded that the internal control over financial reporting and disclosure within the Company, as of December 31, 2018, is effective.

Certification of Principal Executive Officer pursuant to Regulation 9B(d)(1):

**Officers' Certification**  
**Certification of Principal Executive Officer**

I, Liami Vaisman, hereby certify that:

- (1) I have reviewed the periodic report of Tamar Petroleum Ltd. (hereinafter – the Company) for 2018 (hereinafter – the Reports).
- (2) Based on my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports.
- (3) Based on my knowledge, the financial statements and other financial information included in the Reports, fairly present, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.
- (4) I have disclosed to the Company's independent auditor, board of directors, audit committee and financial statement review committee, based on my most recent evaluation of the internal control over financial reporting and disclosure:
  - (a) All significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize and report financial information, in a manner capable of casting doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and –
  - (b) Any fraud, whether or not material, that involves the principal executive or anyone directly or indirectly subordinate to him, or other employees who have a significant role in the internal control over financial reporting and disclosure.
- (5) I, alone or together with others in the Company:
  - (a) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to ensure that material information relating to the Company is made known to me by others within the Company, particularly during the period of preparation of the Reports; and –
  - (b) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including generally accepted accounting principles.
  - (c) Evaluated the effectiveness of the internal control over financial reporting and disclosure, and presented in these Reports the conclusions of the board of directors and the management about the effectiveness of said internal control as of the date of the Reports.

That stated above does not derogate from my responsibility or the responsibility of any other person in law.

March 19, 2019

\_\_\_\_\_  
Liami Vaisman  
CEO

Certification of Principal Financial Officer pursuant to Regulation 9B(d)(2):

**Officers' Certification**  
**Certification of Principal Financial Officer**

I, Yuval Raikin, CFO of the Company, hereby certify that:

- (1) I have reviewed the financial statements of Tamar Petroleum Ltd. (hereinafter – the Company) and other financial information included in its reports for 2018 (hereinafter – the Reports).
- (2) Based on my knowledge, the financial statements and other financial information included in the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports.
- (3) Based on my knowledge, the financial statements and other financial information included in the Reports, fairly present, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports.
- (4) I have disclosed to the Company's independent auditor, board of directors, audit committee and financial statement review committee, based on my most recent evaluation of the internal control over financial reporting and disclosure:
  - (a) All significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure, as relevant to the financial statements and other financial information included in the Reports, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize and report financial information, in a manner capable of casting doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and –
  - (b) Any fraud, whether or not material, that involves the principal executive or anyone directly or indirectly subordinate to him, or other employees who have a significant role in the internal control over financial reporting and disclosure.
- (5) I, alone or together with others in the Company:
  - (a) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to ensure that material information relating to the Company, as relevant to the financial statements and other financial information include in the Reports, is made known to me by others within the Company, particularly during the period of preparation of the Reports; and –
  - (b) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including generally accepted accounting principles.
  - (c) Evaluated the effectiveness of the internal control over financial reporting and disclosure, as relevant to the financial statements and other financial information included in the Reports, as of the date of the Reports. My conclusions pursuant to my said evaluation were presented to the board of directors and the management and are included in the Reports.

That stated above does not derogate from my responsibility or the responsibility of any other person in law.

March 19, 2019

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Yuval Raikin  
CFO