



Tamar Petroleum Ltd.

**Financial Statements
as of June 30, 2018**

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This report is a translation of Tamar Petroleum Ltd.'s Hebrew-language Update to the 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.

Tamar Petroleum Ltd. ("the Company")¹

Chapter A – Update to the Description of the Company's Business

1. Section 7.2.10(a) to the Annual Report - actual rate of participation in the expenses and revenues of the Tamar Project

On June 17, 2018, Delek Energy Systems Ltd. ("**Delek Energy**") and Delek Royalties (2012) Ltd. ("**Delek Royalties**") informed the Company that Delek Energy's right to receive its share of the royalties paid to the Company in respect of oil and/or gas and/or other valuable substances produced by the I/12 "Tamar" and I/13 "Dalit" leases ("**the leases**") in respect of its 9.25% interests in the leases has been assigned and transferred to Delek Royalties, without effecting any changes to the right to royalties or its terms and without impairing any other right and/or argument that is held and/or will be held by the Company towards Delek Energy and/or towards Delek Royalties pursuant to applicable law and/or any right that would have been conferred thereto had it not been for the above assignment, including a right of recovery and/or offset towards Delek Energy and/or Delek Royalties. Accordingly, for the period from June 1, 2018, the Company directly pays Delek Royalties the royalties in accordance with the said right. For more information see Note 16 to the condensed interim financial statements as of June 30, 2018 hereby attached.

2. Section 7.2.15(a) to the Annual Report - production data in the Tamar Project

The following table presents the Tamar Project's natural gas and condensate production data for Q1 and Q2 2018²:

		Natural gas		Condensate	
		Q1	Q2	Q1	Q2
Total production (attributed to equity holders of the Company) in the period (in MMCF of natural gas and thousands of barrels of condensate)		9,082	15,206	11.5	19.9
Average price per production unit (attributed to equity holders of the Company) (in USD per MCF and per barrel)		5.49	5.47	58.9	67.6
Average royalties (each payment derived from the producing asset's production, including gross revenue from the oil asset) paid per production unit (attributed to equity holders of the Company) (in USD per MCF and per barrel)	The State	0.61	0.61	6.6	7.6
	Third parties	0.08	0.05	0.9	0.7
	Interested parties	0.34	0.16	3.6	2.0
Average production costs per production unit (attributed to equity holders of the Company) (in USD per MCF and per barrel) ³		0.41	0.35	2.2	1.9
Average net receipts per production unit (attributed to equity holders of the Company) (in USD per MCF and per barrel)		4.05	4.30	45.6	55.4

¹ The update includes material changes or developments which occurred in the Company's business affairs from the date of publication of the Report for Q1 2018 on May 16, 2018 (TASE reference: 2018-01-048478) through the date of this Report regarding all matters that require disclosure in the Annual Report.

² The percentage attributed to the Company's equity holders at the average price per production unit, in royalties, production costs and net receipts, rounded up to two digits after the decimal point.

³ Please note that the average production costs per production unit only include current production costs and exclude the reservoir's exploration and development costs.

3. **Section 7.10 to the Annual Report - human capital and Regulation 26 to Chapter D to the Annual Report**

On May 16, 2018, the Company issued an update to the agenda of the special general meeting of the Company's shareholders to be held on May 28, 2016 for including the approval of the grant of a bonus of NIS 72 thousand to Mr. Liami Vaisman, the Company's CEO, for 2017. The general meeting approved said bonus. The overall bonus paid to Mr. Liami Vaisman for 2017 amounted to NIS 120 thousand.

As for convening an annual general meeting whose agenda includes the appointment of directors in the Company and updated information of directors, see an immediate report of August 14, 2018 (TASE reference: 2018-01-075889) hereby included by way of referral.

4. **Section 7.13 to the Annual Report - financing**

For details of the financial covenants which the Company has undertaken to meet in the context of the issue of bonds (Series A) in July 2017 and the issue of bonds (Series B) in March 2018 as of June 30, 2018, see Part 5 of the Board of Directors' Report hereby attached.

5. **Section 7.16.7(a) to the Annual Report - restrictions and supervision on the Company's operations - the Tzemach Committee**

On July 16, 2018, the Ministry of Energy published for public reference an interim report by the interministerial professional team headed by Mr. Udi Adiri, the Director General of the Ministry of Energy ("**the Adiri Committee**"), for the periodic examination of the recommendations of the committee appointed for studying the Israeli Government's domestic natural gas sector policy ("**the Tzemach Committee**") as adopted by a Government resolution under certain adjustments (and based on the amendments to the resolution in the context of the Gas Outline) ("**the Government's resolution**"). The recommendations of the Adiri Committee include the following:

- a. It was proposed not to change the gas quantity that should be guaranteed in favor of domestic consumption as determined in the Government's resolution (540 BCM), namely, guaranteed supply of 500 BCM (after consumption of 40 BCM to date).
- b. In view of the expected shortage of supply for hourly demands in the middle of 2030-2040, it was proposed to formulate a mix of solutions which include obligating the Petroleum Commissioner to address the issue of domestic hourly demands in export permits, act to encourage connecting additional fields to the domestic market and examine the deferral of the cancellation of the agreement with the LNG tanker to 2021.
- c. In order to encourage new investors to invest in natural gas exploration and production, it is recommended to establish mandatory domestic market connection based on field size as follows: (1) reservoirs producing in excess of 200 BCM will be required to connect to the national grid upon development and before beginning to supply natural gas commercially; (2) reservoirs producing between 50 BCM and 200 BCM which begin producing natural gas by January 1, 2028 will be required to connect to the national grid by December 31, 2032, at the discretion of the Petroleum Commissioner; (3) reservoirs producing below 50 BCM will not be required to connect to the domestic market.

- d. It is recommended to change the method of calculation of the mandatory minimum supply to the domestic market applicable to each new reservoir pro rata to its size and to the incremental part thereof as follows: (1) reservoirs producing less than 25 BCM - no mandatory supply; (2) every additional 1 BCM in excess of 25 BCM up to 100 BCM - 40%; (3) every additional 1 BCM in excess of 100 BCM up to 200 BCM - 50%; (4) every additional 1 BCM in excess of 200 BCM - 55%. It should be noted that this recommendation, as all the other recommendations made by the Adiri Committee, does not pertain to fields which have already been discovered in Israel's economic waters but rather to undiscovered fields.

6. **Section 7.16.7(g) to the Annual Report - restrictions and supervision on the Company's operations - the decision of the Minister of Energy to reduce the use of coal**

On June 3, 2018, the Government approved a reform in the domestic electricity sector and in the Israel Electric Corporation ("**the reform**" and "**the IEC**", respectively) which consists, among others, of the following steps:

- a. The IEC will sell five production sites representing about half of its gas-fired production capacity as specified below: (a) Alon Tavor - within 18 months from the date of the reform's approval; (b) Ramat Hovav - within 30 months from the date of the reform's approval; (c) Reading - within 36 months from the date of the reform's approval; (d) Hagit East - within 48 months from the date of the reform's approval; (e) Eshkol - within 60 months from the date of the reform's approval;.
- b. The IEC will set up two innovative natural gas production units in Orot Rabin as part of the policy to minimize the use of coal to generate power to replace the coal-fired power units 1-4 which are expected to shut down.

In keeping with the above approval, on July 29, 2018, the Government endorsed the shutdown of the four coal-fired power units in Orot Rabin by June 2022, subject to the fulfillment of certain suspending conditions (the onshore connection of three natural gas reservoirs and completion of construction of an alternative natural gas based power production system).

7. **Section 7.21.1 to the Annual Report - legal proceedings**

According to the Court's decision of May 26, 2018, the petitioner in the class action motion must submit its written summations by November 18, 2018 and the respondents (including the Company) must submit their summations within 90 days thereafter. The petitioner will then have the right to respond within another 30 days only to questions which could not be addressed in the main summations.

Date: August 19, 2018

Tamar Petroleum Ltd.

By: Mr. Yossi Abu, Chairman of the Board
Mr. Liami Vaisman, CEO

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

Tamar Petroleum Ltd.

Board of Directors' Report **For the period ended June 30, 2018**

The Board of Directors of Tamar Petroleum Ltd. ("**the Company**") is hereby pleased to present the Board of Directors' Report for the periods of six and three months ended June 30, 2018 ("**the Reporting Period**").

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

1. General

On March 14, 2018, upon the fulfillment of the suspending conditions stipulated in the sale agreement signed with Noble Energy Mediterranean Ltd. ("**Noble**") on January 29, 2018, the Company completed the acquisition of an additional 7.5% (of 100%) of the working interests in the Tamar I/12 and Dalit I/13 Leases (jointly, "**the Leases**" or "**the Tamar and Dalit Leases**"), and the pro rata share (7.5%) in the approvals, rights and obligations pursuant to related agreements ("**the Acquired Working Interests**") in consideration of approximately \$ 690 million. The acquisition was made for a cash consideration of approximately \$ 475 million, which was financed through the issuance of bonds (Series B), 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 the Company's issued and outstanding share capital) to Noble. See additional information in Notes 3 and 4 to the condensed interim financial statements as of June 30, 2018. Accordingly, the statement of comprehensive income includes the operating results relating to the acquired Working Interests from the acquisition date (March 14, 2018).

2. Operating results

Analysis of statements of comprehensive income

Below are main figures from the Company's statements of comprehensive income and proforma total comprehensive income for the Reporting Period, in U.S. Dollars in thousands:

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2018	2017 *	2018	2017 *	2017 *
	Unaudited				Audited
Revenues from sale of gas and condensate	135,105	85,003	84,569	42,674	172,334
Less - royalties	22,258	13,190	12,762	6,631	27,246
Net revenues	112,847	71,813	71,807	36,043	145,088
Costs and expenses:					
Cost of production of natural gas and condensate	9,029	5,887	5,308	2,787	12,234
Depreciation, depletion and amortization expenses	19,189	9,062	13,812	4,739	16,934
General and administrative expenses	1,295	600	565	300	1,698
Total costs and expenses	29,513	15,549	19,685	7,826	30,866
Operating income	83,334	56,264	52,122	28,217	114,222
Finance expenses	(25,714)	(149)	(16,199)	(79)	(15,859)
Finance income	415	88	236	83	332
Finance expenses, net	(25,299)	(61)	(15,963)	4	(15,527)
Income before taxes on income	58,035	56,203	36,159	28,221	98,695
Taxes on income	(18,711)	-	(12,249)	-	(10,469)
Total comprehensive income for the period	39,324	56,203	23,910	28,221	88,226
Proforma total comprehensive income for the period **	48,609	53,330	23,910	26,857	105,357
Gas sales in BCM¹	5.0	4.8	2.6	2.4	9.7
Condensate sales in thousands of barrels²	227	226	119	112	455

* Data prepared according to the as pooling method, as explained in Note 2 to the annual financial statements as of December 31, 2017.

** See the proforma condensed statements of comprehensive income attached hereto, excluding for the period of three months ended June 30, 2018 which represents non-proforma comprehensive income.

¹ The data relate to sales of natural gas by all the Tamar partners, rounded up to the nearest BCM tenth.

² The data relate to condensate sales (100%) from the Tamar project, rounded up to thousands of barrels.

Revenues less royalties in the Reporting Period amounted to approximately \$ 112.8 million, compared with approximately \$ 71.8 million in the corresponding period of last year, an increase of about 57%. The increase in revenues less royalties in the Reporting Period compared to the corresponding period of last year mainly arises from an increase in revenues less royalties of approximately \$ 39.8 million originating from the acquisition of the Working Interests.

Revenues less royalties in Q2 2018 amounted to approximately \$ 71.8 million, compared with approximately \$ 36 million in Q2 2017, an increase of about 99% mainly arising from an increase in revenues less royalties of approximately \$ 33.6 million originating from the acquisition of the Working Interests.

It should be noted that in the reporting Period, the Company paid the Delek Group Ltd. and Delek Energy Systems Ltd./Delek Royalties (2012) Ltd. royalties based on the increased rate applicable after the date of return of the investment (6.5%) to the Company's revenues from its 9.25% interests in the Tamar Lease. In view of the increase in the rate of overriding royalties as above, the expenses in respect of royalties increased by approximately \$ 4 million and approximately \$ 2 million in H1 2018 and Q2 2018 compared with H1 2017 and Q2 2017, respectively. See more information in Note 6g to the condensed interim financial statements as of June 30, 2018.

The cost of production of sold gas mainly includes operating expenses of the Tamar project, which comprise, inter alia, expenses of shipping and transportation, payroll, consulting, maintenance and insurance. The cost of gas production in the Reporting Period amounted to approximately \$ 9 million compared with approximately \$ 5.9 million in the corresponding period of last year. The main increase in cost of gas production of approximately \$ 2.9 million is a result of the acquisition of the Working Interests as above.

The cost of production of gas in Q2 2018 amounted to approximately \$ 5.3 million compared with approximately \$ 2.8 million in Q2 2017. The main increase in the cost of gas production of approximately \$ 2.4 million arises from the acquisition of the Working Interests.

Depreciation, depletion and amortization expenses in the Reporting Period amounted to approximately \$ 19.2 million, compared with approximately \$ 9.1 million in the corresponding period of last year. Depreciation expenses include depreciation and depletion in respect of the Tamar project. The main increase of approximately \$ 10.1 million in depreciation, depletion and amortization expenses arises from the acquisition of the Working Interests as above.

Depreciation, depletion and amortization expenses in Q2 2018 amounted to approximately \$ 13.8 million compared with approximately \$ 4.7 million in Q2 2017. The main increase in depreciation, depletion and amortization expenses amounting to approximately \$ 8.7 million arises from the acquisition of the Working Interests.

General and administrative expenses in the Reporting Period amounted to approximately \$ 1.3 million, consisting, inter alia, of expenses in respect of professional services, payroll, general expenses and expenses in connection with the acquisition of the Working Interests in the amount of approximately \$ 0.1 million. General and administrative expenses in the corresponding period of last year were included based on management's estimate in the amount attributable to the Tamar project out of total general and administrative expenses of Delek Drilling Limited Partnership ("**Delek Drilling**"), as described in Note 2a to the annual financial statements as of December 31, 2017.

Finance expenses in the Reporting Period amounted to approximately \$ 25.7 million, compared with approximately \$ 0.1 million in the corresponding period of last year. The main increase in finance expenses in the Reporting Period arises from finance expenses in respect of bonds (Series A) issued in July 2017 totaling approximately \$ 15.7 million and finance expenses in respect of bonds (Series B) issued in March 2018 totaling approximately \$ 9.6 million.

Finance expenses in Q2 2018 amounted to approximately \$ 16.2 million, compared with approximately \$ 0.1 million in Q2 2017. The main increase in finance expenses in Q2 2018 arises from finance expenses in respect of bonds (Series A) totaling approximately \$ 7.9 million and finance expenses in respect of bonds (Series B) totaling approximately \$ 8 million.

Taxes on income in the Reporting Period amounted to approximately \$ 18.7 million. Tax expenses in the Reporting Period consist of approximately \$ 5.4 million arising from the difference between the measurement basis of revenues as reported for tax purposes (in NIS) and the measurement basis as reported in the financial statements (in USD).

Taxes on income in Q2 2018 amounted to approximately \$ 12.2 million, consisting of tax expenses of approximately \$ 3.9 million arising from the difference between the measurement basis of revenues as reported for tax purposes (in NIS) and the measurement basis as reported in the financial statements (in USD).

In the corresponding periods of last year the Company did not recognize taxes on income - as explained in Note 2b to the annual financial statements as of December 31, 2017, the Company accounted for the acquisition of 9.25% of the Tamar and Dalit Leases using the as pooling method and therefore until June 30, 2017, the financial statements do not include taxes on income since the Company's activity through this date was performed by Delek Drilling and the latter does not include taxes on income in its financial statements since the tax applicable to its profits is paid by the holders of its membership units.

3. **Financial position, liquidity and financial resources**

a. **Financial position**

Following are details of the main changes in the items of the statement of financial position as of June 30, 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, 2017 amounted to approximately \$ 575 million compared with total assets which also include the acquired Working Interests in the amount of approximately \$ 1,320 million as of June 30, 2018.

Current assets increased from approximately \$ 48.1 million as of December 31, 2017 to approximately \$ 106.2 million as of June 30, 2018. The change is mainly attributable to the following factors:

- (1) **Cash and cash equivalents** increased from approximately \$ 28.4 million as of December 31, 2017 to approximately \$ 63.3 million as of June 30, 2018.
- (2) **Trade receivables** increased from approximately \$ 18.3 million as of December 31, 2017 to approximately \$ 38.4 million as of June 30, 2018. The increase is mainly a result of an increase of approximately \$ 17.3 million relating to the acquired Working Interests.
- (3) **Other accounts receivable** increased from approximately \$ 1.3 million as of December 31, 2017 to approximately \$ 4.5 million as of June 30, 2018.

Non-current assets increased from approximately \$ 527.3 million as of December 31, 2017 to approximately \$ 1,214.2 million as of June 30, 2018. The change is mainly attributable to the following factors:

- (1) **Investments in oil and gas assets** increased from approximately \$ 380.1 million as of December 31, 2017 to approximately \$ 1,061.3 million as of June 30, 2018. The main increase arises from the acquisition of oil and gas assets in the context of the acquisition of the Working Interests in the amount of approximately \$ 697.3 million and investments totaling approximately \$ 3.1 million, partly offset against depreciation, depletion and amortization expenses of approximately \$ 19.2 million recorded in the Tamar Project.

- (2) **Restricted deposits** increased from approximately \$ 10 million as of December 31, 2017 to approximately \$ 31.5 million as of June 30, 2018. These deposits serve as safety reserves for the payment of the principal and interest to the holders of bonds (Series A) and bonds (Series B) and are pledged in favor of the trustee of these bonds and also include deposits placed to secure bank guarantees provided by the Company to the Petroleum Commissioner in respect of the Company's interests in the Tamar and Dalit Leases. The increase in the Reporting Period is a result of an increase of approximately \$ 4 million in the safety reserve for the bonds (Series A), an increase of approximately \$ 15.3 million in the safety reserve for the bonds (Series B) and an increase of approximately \$ 2.2 million in the deposits placed in favor of guarantees provided to the Petroleum Commissioner.
- (3) **Deferred taxes** decreased from approximately \$ 134.7 million as of December 31, 2017 to approximately \$ 116.8 million as of June 30, 2018. The decrease of approximately \$ 17.9 million mainly arises from the tax expenses paid in the Reporting Period.

Current liabilities increased from approximately \$ 38.9 million as of December 31, 2017 to approximately \$ 103.7 million as of June 30, 2018. The change is mainly attributable to the following factors:

- (1) **Current maturities of bonds** increased from approximately \$ 11.4 million as of December 31, 2017 to approximately \$ 75.5 million as of June 30, 2018. The increase in current maturities of bonds (Series A) and bonds (Series B) amounts to approximately \$ 25.7 million and approximately \$ 38.4 million, respectively.
- (2) **Accounts payable** increased from approximately \$ 24 million as of December 31, 2017 to approximately \$ 28.2 million as of June 30, 2018. The increase is a result of accrued expenses in respect of interest to holders of bonds totaling approximately \$ 3.4 million and an increase of approximately \$ 3.6 million in connection with the acquired Working Interests, partly offset by the net decrease of approximately \$ 2.8 million in other payables.

Non-current liabilities increased from approximately \$ 639.6 million as of December 31, 2017 to approximately \$ 1,097.5 million as of June 30, 2018. The change is mainly attributable to the following factors:

- (1) **Bonds less current maturities** increased from approximately \$ 629.7 million as of December 31, 2017 to approximately \$ 1,079.4 million as of June 30, 2018. The increase is mainly a result of the issuance of bonds (Series B) in March 2018 which are presented less discount, issuance expenses and current maturities.
- (2) **Asset retirement obligation** increased from approximately \$ 9.9 million as of December 31, 2017 to approximately \$ 18.1 million as of June 30, 2018. The increase arises from the retirement liability in connection with the acquisition of the Working Interests.

The Company's equity as of December 31, 2017 amounted to a deficit of approximately \$ 103.1 million compared to equity of approximately \$ 119.2 million as of June 30, 2018. The increase in equity derives from the issuance of shares to Noble for financing the acquisition of the Working Interests in the amount of approximately \$ 215 million and the comprehensive income for the period of approximately \$ 39.3 million against the decrease of approximately \$ 32 million in retained earnings in respect of a dividend declared.

b. **Cash flows**

Cash flows provided by operating activities in the Reporting Period amounted to approximately \$ 72.6 million, compared with approximately \$ 61.6 million in the corresponding period of last year. The increase in H1 2018 is mainly a result of cash from operating activities provided by the acquisition of the Working Interests, partly offset by payment of income tax expenses of approximately \$ 5.3 million and the increase in the rate of overriding royalties as mentioned above.

Net cash flows used in investing activities in the Reporting Period amounted to approximately \$ 497.3 million, compared with approximately \$ 12.5 million in the corresponding period of last year. The increase is mainly a result of the Cash Consideration of approximately \$ 475.2 million paid in the Reporting Period for acquiring the Working Interests and the investment of approximately \$ 21.4 million in restricted deposits. The increase was offset by a decrease of approximately \$ 14.2 million in oil and gas assets compared to the corresponding period of 2017.

Net cash flows provided by financing activities in the Reporting Period amounted to approximately \$ 459.7 million, including, on the one hand, net proceeds of approximately \$ 512.2 million from the issuance of bonds (Series B) and on the other hand the payment of a dividend of approximately \$ 32 million, the payment of interest of approximately \$ 19.5 million and buyback of bonds (Series B) totaling approximately \$ 0.8 million. Cash flows used in financing activities in the corresponding period of 2017 amounted to approximately \$ 49.1 million as distributions to owners.

The balance of cash and cash equivalents as of June 30, 2018 amounted to approximately \$ 63.3 million.

c. **Proforma financial statements**

In keeping with the matters discussed in Note 3 to the attached condensed interim financial statements regarding the acquisition of 7.5% of the Working Interests in the Tamar and Dalit Leases, the Company prepared proforma condensed statements of comprehensive income hereby attached in accordance with the assumptions detailed in Note 3 to the proforma financial statements.

Proforma revenues less royalties in the Reporting Period amounted to approximately \$ 138 million, compared with approximately \$ 135.2 million in the corresponding period of last year. The increase in the Reporting Period stems from an increase of approximately \$ 7 million in proforma revenues (an increase of approximately \$ 5 million from the increased gas quantities sold and an increase of approximately \$ 2 million from the markup in the average price), partly offset by the increase in proforma royalty expenses totaling approximately \$ 4.2 million. The increase in proforma royalty expenses mainly arises from the increase in the rate of overriding royalties, as explained in paragraph 2a above.

Total proforma costs and expenses in the Reporting Period amounted to approximately \$ 36.4 million, compared with approximately \$ 34 million in the corresponding period of last year. The increase in the Reporting Period mainly arises from the increase in depreciation, depletion and amortization expenses totaling approximately \$ 1.4 million.

Taxes on income in the Reporting Period amounted to approximately \$ 21.5 million, compared with approximately \$ 16.5 million in the corresponding period of last year. The increase in the Reporting Period mainly arises from the difference between the measurement basis of revenues as reported for tax purposes (in NIS) and the measurement basis reported in the financial statements (in USD).

4. Extremely essential appraisal

The Company attached to its financial statements for the second quarter of 2018 a purchase price allocation study conducted for the cost allocation of the business combination in respect of the acquisition of the 7.5% Working Interests in the Tamar I/12 and Dalit I/13 Leases which represents an extremely essential appraisal (as defined in Section 8B to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970) ("**the PPA**") (see more details of the business combination transaction in Note 3 to the attached financial statements).

Following are details of the PPA:

PPA subject:	Allocation of the purchase price of 7.5% of the Working Interests in Tamar I/12 and Dalit I/13 Leases.
PPA timing:	August 2018.
Value of PPA subject shortly before the PPA date had the generally accepted accounting principles, including depreciation and amortization, not required the adjustment of the PPA subject value based on the PPA:	N/A.
PPA subject value as per the PPA:	The cost of business combination was estimated at approximately \$ 690.4 million. According to the PPA, the value of the gas and oil assets approximates \$ 697 million. No goodwill was identified in the transaction.
Details of the appraiser such as name, title, education, experience in performing appraisals for accounting purposes in reporting corporations and at similar scopes to the reported PPA or in excess of such scopes and dependence on the PPA commissioner, including reference to indemnification agreements signed with the appraiser:	The PPA was performed by GSE Financial Advisory Ltd., a subsidiary of Giza Singer Even Ltd. The PPA team was headed by CPA Eitan Cohen. See details of the appraiser's and the team's professional experience in paragraph 1.3 to the PPA. There is no dependence between the appraiser and the Company other than the payment of professional fees for the PPA which are not contingent on the PPA results. See details of the indemnification obligation in paragraph 1.1 to the PPA.
PPA model adopted by the appraiser:	Discounted cash flow (DCF).
The appraiser's assumptions underlying the PPA based on the PPA model:	The principal assumptions underlying the PPA pertain to the value of the consideration components, annual production quantities and ratios, forecasted natural gas prices, forecasted condensate prices and oil windfall profits tax, all as elaborated in paragraph 6 to the PPA.

Part Two – Exposure to and Management of Market Risks

In the Reporting Period there was no change in the Company's exposure to and management of market risks, as reported in the Board of Directors' Report for 2017, except for the following:

1. Linkage base report as of June 30, 2018 (U.S. Dollars in thousands)

	Monetary balances		Non-	
	In or linked	In	monetary	Total
	to USD	NIS	balances	
<u>Assets</u>				
Cash and cash equivalents	60,158	3,118	-	63,276
Trade receivables	38,427	-	-	38,427
Other accounts receivable	1,090	-	3,366	4,456
Investments in oil and gas assets	-	-	1,061,333	1,061,333
Deferred taxes	-	-	116,765	116,765
Restricted deposits	31,507	-	-	31,507
Other long-term assets	3,528	-	1,050	4,578
Total assets	134,710	3,118	1,182,514	1,320,342
<u>Liabilities</u>				
Accounts payable	24,368	365	3,453	28,186
Bonds	1,154,871	-	-	1,154,871
Asset retirement obligation	-	-	18,113	18,113
Total liabilities	1,179,239	365	21,566	1,201,170
Total net balance sheet balance	(1,044,529)	2,753	1,160,948	119,172

2. Sensitivity tests to changes in USD/NIS exchange rates (U.S. Dollars in thousands)

Sensitive instrument	Profit/(loss) from the change		Fair value	Profit/(loss) from the change	
	+10%	+5%		-5%	-10%
	4.015	3.833		3.468	3.285
Cash and cash equivalents	(312)	(156)	3,118	156	312
Accounts payable	37	18	(365)	(18)	(37)
Total	(275)	(138)	2,753	138	275

* The USD/NIS exchange rate as of June 30, 2018.

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

Events after the date of the interim statement of financial position

On August 14, 2018, the Company announced that an annual general meeting will be held on September 20, 2018, among others, with the agenda of approving the extension of tenure of directors in the Company (who are not external directors) and for reappointing the Company's auditors.

Part Four – Details of the Status of the Company's Liabilities

Simultaneously with the publication of this interim report, the Company publishes an immediate report on the status of its liabilities based on their amortization schedule.

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

<u>Bonds</u>	<u>Series A</u>	<u>Series B</u>
Is the series material?	Yes	Yes
Par value on issuance date	2,315,668	1,940,113
Issuance date	July 9, 2017	March 13, 2018
Par value as of June 30, 2018	2,289,300	1,937,040
Linked par value as of June 30, 2018	,2372,500	2,044,000
Carrying amount in the Company's books as of June 30, 2018	,2342,311	,1872,968
Quoted market price as of June 30, 2018	,2234,586	,1913,214
Amount of accrued interest as of June 30, 2018	37,192	28,628
Annual fixed interest rate	4.69%	4.69%
Principal payment dates	See <u>Annex A</u> to this report	See <u>Annex B</u> to this report
Interest payment dates	Semiannual payments, on February 28 and August 30 of each of the years 2018 to 2028, from February 28, 2018 to August 30, 2028 (inclusive)	Semiannual payments, on February 28 and August 30 of each of the years 2018 to 2028, from August 30, 2018 to August 30, 2028 (inclusive)
Linkage basis, base rate (principal and interest)	Linked to the USD; base rate – \$ 1=NIS 3.522	Linked to the USD; base rate – \$ 1=NIS 3.459
Conversion right	None	None

Bonds	Series A	Series B
Early repayment right	<ul style="list-style-type: none"> Regarding early redemption of the bonds initiated by the Stock Exchange, see Section 9.1 of the indenture attached as Annex A to the supplementary notice released on July 6, 2017 (TASE reference: 2017-01-057724) ("the Series A Indenture"). Regarding the right for full or partial early redemption of the bonds initiated by the Company, see Section 9.2 of the Series A Indenture. Regarding the obligation for early redemption of the bonds, see Section 9.3 of the Series A Indenture. 	<ul style="list-style-type: none"> Regarding early redemption of the bonds initiated by the Stock Exchange, see Section 9.1 of the indenture attached as Annex A to the shelf offering report dated March 12, 2018 (TASE reference: 2018-01-019125) ("the Series B Indenture"). Regarding the right for full or partial early redemption of the bonds initiated by the Company, see Section 9.2 of the Series B Indenture. Regarding the obligation for early redemption of the bonds, see Section 9.3 of the Series B Indenture.
Guarantee for payment of the liability	None	None
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 issuance date	A1.il	A1.il
Ratings from the issuance date and rating as of the report date ³	A1.il	A1.il

³ The bonds (Series A) were rated on June 25, 2017, July 2, 2017, July 5, 2017, July 12, 2017, February 20, 2018 and March 12, 2018; the bonds (Series B) were rated on February 20, 2018 and March 12, 2018. For details see the Company's immediate report dated March 12, 2018 (TASE reference: 2018-01-019119), the contents of which are included herein by reference.

<u>Bonds</u>	<u>Series A</u>	<u>Series B</u>
Has the Company complied with all the conditions and obligations under the Bond Indenture throughout the Reporting Period until June 30, 2018?	Yes	Yes
Have conditions establishing grounds for acceleration of the bonds or enforcement of collateral given to secure the payment to the bondholders been fulfilled?	No	No
Pledges for securing the bonds	See Part Six to the Board of Directors' Report as of December 31, 2017	See Part Six to the Board of Directors' Report as of December 31, 2017
Financial covenants as of June 30, 2018	<ul style="list-style-type: none"> • 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 A Indenture) – \$ 828 million⁴ • 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 October 1, 2018) – 1.44⁵ • Economic equity (as defined in Section 5.10.3 of the Series A Indenture) – \$ 972 million⁶ 	<ul style="list-style-type: none"> • 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) – \$ 828 million⁷ • 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 October 1, 2018) – 1.44⁸ • Economic equity (as defined in Section 5.10.3 of the Series B Indenture) – \$ 972 million⁹

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

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

⁶ According to the terms of the Series A Indenture, said economic equity may be no less than \$ 250 million during two consecutive quarters.

⁷ According to the terms of the Series B Indenture, said equity may be no less than \$ 350 million.

⁸ According to the terms of the Series B Indenture, said ratio may be no less than 1.05.

⁹ According to the terms of the Series B Indenture, said economic equity may be no less than \$ 350 million during two consecutive quarters.

Additional Information

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

Sincerely,

Yossi Abu
Chairman of the Board

Liami Vaisman
CEO

Tamar Petroleum Ltd.

Annex A
Amortization Schedule of Bonds (Series A)

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

Annex B
Amortization Schedule of Bonds (Series B)

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

TAMAR PETROLEUM LTD.

CONDENSED INTERIM FINANCIAL STATEMENTS

AS OF JUNE 30, 2018

UNAUDITED

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.

CONDENSED INTERIM FINANCIAL STATEMENTS

AS OF JUNE 30, 2018

UNAUDITED

IN U.S. DOLLARS IN THOUSANDS

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Auditors' review report to the shareholders of Tamar Petroleum Ltd.

Introduction

We have reviewed the accompanying financial information of Tamar Petroleum Ltd. ("**the Company**"), which comprises the condensed statement of financial position as of June 30, 2018 and the related condensed statements of comprehensive income, changes in equity and cash flows for the periods of six and three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for these periods in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

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

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

Tel-Aviv, August 19, 2018

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**In U.S. Dollars in thousands**

	June 30,		December 31,
	2018 **	2017 *	2017
	Unaudited		Audited
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	63,276	-	28,439
Trade receivables	38,427	18,240	18,296
Other accounts receivable	4,456	3,874	1,324
	106,159	22,114	48,059
NON-CURRENT ASSETS:			
Investments in oil and gas assets	1,061,333	386,600	380,065
Deferred taxes	116,765	-	134,698
Restricted deposits	31,507	-	9,969
Other long-term assets	4,578	2,027	2,521
	1,214,183	388,627	527,253
	1,320,342	410,741	575,312
LIABILITIES AND EQUITY (DEFICIT)			
CURRENT LIABILITIES:			
Current maturities of bonds	75,489	-	11,351
Accounts payable	28,186	7,453	23,992
Income taxes payable	-	-	3,543
	103,675	7,453	38,886
NON-CURRENT LIABILITIES:			
Bonds net of current maturities	1,079,382	-	629,691
Asset retirement obligation	18,113	9,351	9,871
	1,097,495	9,351	639,562
Total liabilities	1,201,170	16,804	678,448
EQUITY (DEFICIT):			
Ordinary share capital	2,517	***	1,399
Share premium	784,495	393,937	570,648
Retained earnings	39,324	-	32,023
	826,336	393,937	604,070
Capital reserves	(707,164)	-	(707,206)
	119,172	393,937	(103,136)
	1,320,342	410,741	575,312

* See Note 2 below regarding comparative figures (for the periods up to June 30, 2017).

** Including the assets and liabilities attributable to the additional 7.5% working interests in the Tamar and Dalit leases acquired from Noble Energy Mediterranean Ltd., see Notes 2 and 3 below.

*** Represents an amount lower than \$ 1 thousand.

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

August 19, 2018			
Date of approval of the financial statements	Yossi Abu Chairman of the Board	Liami Vaisman CEO	Yuval Raikin CFO

CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**In U.S. Dollars in thousands (except share and per share data)**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2018 **	2017 *	2018 **	2017 *	2017 *
	Unaudited				Audited
Revenues from sale of gas and condensate	135,105	85,003	84,569	42,674	172,334
Less - royalties	22,258	13,190	12,762	6,631	27,246
Net revenues	112,847	71,813	71,807	36,043	145,088
Costs and expenses:					
Cost of production of natural gas and condensate	9,029	5,887	5,308	2,787	12,234
Depreciation, depletion and amortization expenses	19,189	9,062	13,812	4,739	16,934
General and administrative expenses	1,295	600	565	300	1,698
Total costs and expenses	29,513	15,549	19,685	7,826	30,866
Operating income	83,334	56,264	52,122	28,217	114,222
Finance expenses	(25,714)	(149)	(16,199)	(79)	(15,859)
Finance income	415	88	236	83	332
Finance income (expenses), net	(25,299)	(61)	(15,963)	4	(15,527)
Income before taxes on income	58,035	56,203	36,159	28,221	98,695
Taxes on income	(18,711)	-	(12,249)	-	(10,469)
Total comprehensive income for the period	39,324	56,203	23,910	28,221	88,226
Basic and diluted net earnings per share (in USD)	0.54	1.12	0.27	0.56	1.76
Weighted number of shares used in the above computation	73,182,419	50,000,000	88,495,576	50,000,000	50,000,000

* See Note 2 below regarding comparative figures (for the periods up to June 30, 2017).

** Including the operating results attributable to the additional 7.5% working interests in the Tamar and Dalit leases acquired from Noble Energy Mediterranean Ltd., see Notes 2 and 3 below.

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

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

In U.S. Dollars in thousands

	Ordinary share capital	Share premium	Capital reserves Unaudited	Retained earnings	Total
For the period of six months ended June 30, 2018:					
Balance at January 1, 2018 (audited)	1,399	570,648	(707,206)	32,023	(103,106)
Comprehensive income for the period	-	-	-	39,324	39,324
Issuance of shares	1,118	213,847	-	-	214,965
Dividend	-	-	-	(32,023)	(32,023)
Share-based payment	-	-	42	-	42
Balance at June 30, 2018	<u>2,517</u>	<u>784,495</u>	<u>(707,164)</u>	<u>39,321</u>	<u>119,172</u>

	Ordinary share capital	Share premium	Capital reserve Unaudited	Retained earnings	Total
For the period of six months ended June 30, 2017 **::					
Balance at January 1, 2017 (audited)	*	386,825	-	-	386,825
Comprehensive income for the period	-	-	-	56,203	56,203
Owners' contributions (distributions to owners)	-	7,112	-	(56,203)	(49,091)
Balance at June 30, 2017	<u>-</u>	<u>393,937</u>	<u>-</u>	<u>-</u>	<u>393,937</u>

* Represents an amount lower than \$ 1 thousand.

** See Note 2 below regarding comparative figures (for the periods up to June 30, 2017).

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

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

In U.S. Dollars in thousands

	Ordinary share capital	Share premium	Capital reserves Unaudited	Retained earnings	Total
For the period of three months ended June 30, 2018:					
Balance at April 1, 2018	2,517	784,495	(707,189)	15,414	95,237
Comprehensive income for the period	-	-	-	23,910	23,910
Share-based payment	-	-	25	-	25
Balance at June 30, 2018	<u>2,517</u>	<u>784,495</u>	<u>(707,164)</u>	<u>39,324</u>	<u>119,172</u>

	Ordinary share capital	Share premium	Capital reserve Unaudited	Retained earnings	Total
For the period of three months ended June 30, 2017 **::					
Balance at April 1, 2017	*	395,569	-	-	395,569
Comprehensive income for the period	-	-	-	28,221	28,221
Owners' contributions (distributions to owners)	-	(1,632)	-	(28,221)	(29,853)
Balance at June 30, 2017	<u>-</u>	<u>393,937</u>	<u>-</u>	<u>-</u>	<u>393,937</u>

* Represents an amount lower than \$ 1 thousand.

** See Note 2 below regarding comparative figures (for the periods up to June 30, 2017).

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

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

In U.S. Dollars in thousands

	<u>Ordinary share capital</u>	<u>Share premium</u>	<u>Capital reserve Audited</u>	<u>Retained earnings</u>	<u>Total</u>
For the year ended December 31, 2017 **:					
Balance at January 1, 2017	*	386,825	-	-	386,825
Comprehensive income for the period	-	-	-	88,226	88,226
Owners' contributions (distributions to owners)	-	7,112	-	(56,203)	(49,091)
Transaction with former controlling shareholder	-	(17,050)	(707,206)	-	(724,256)
Issuance of shares	<u>1,399</u>	<u>193,761</u>	<u>-</u>	<u>-</u>	<u>195,160</u>
Balance at December 31, 2017	<u>1,399</u>	<u>570,648</u>	<u>(707,206)</u>	<u>32,023</u>	<u>(103,136)</u>

* Represents an amount lower than \$ 1 thousand.

** See Note 2 below regarding comparative figures (for the periods up to June 30, 2017).

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

CONDENSED INTERIM STATEMENTS OF CASH FLOWS**In U.S. Dollars in thousands**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2018	2017 *	2018	2017 *	2017 *
	Unaudited				Audited
Cash flows from operating activities:					
Net income for the period	39,324	56,203	23,910	28,221	88,226
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation, depletion and amortization	19,189	9,062	13,812	4,739	16,934
Taxes on income	13,394	-	8,986	-	6,937
Finance expenses (income), net	2,821	55	2,178	(6)	849
Share-based payment	42	-	25	-	-
Changes in asset and liability items:					
Increase in trade receivables	(20,131)	(2,548)	(15,448)	(3,953)	(20,844)
Increase in other accounts receivable	(2,403)	(925)	(1,835)	(1,239)	(2,307)
Change in balance with joint venture operator	(4,127)	-	(826)	-	-
Increase (decrease) in accounts payable	24,478	(281)	11,789	337	17,877
Net cash provided by operating activities	72,587	61,566	42,591	28,099	107,672
Cash flows from investing activities:					
Reduction of cost of acquisition of (acquisition of) additional working interests in Tamar and Dalit leases (see Appendix C and Note 3)	(475,199)	-	15,991	-	-
Investment in restricted deposits	(21,357)	-	(7,427)	-	(9,940)
Investments in oil and gas assets	(1,462)	(15,674)	(831)	(2,937)	(18,507)
Investment in other long-term assets	-	-	-	-	(1,666)
Change in balance with joint venture operator	-	3,199	-	4,691	9,545
Interest received	440	-	289	-	109
Receipts in connection with other long-term assets	322	-	235	-	130
Net cash provided by (used in) investing activities	(497,256)	(12,475)	8,257	1,754	(20,329)
Cash flows from financing activities:					
Payment to former controlling shareholder pursuant to agreement (see Note 1b)	-	-	-	-	(845,299)
Proceeds from (expenses from) issuance of bonds, net	512,239	-	(2,072)	-	647,955
Proceeds from (expenses from) issuance of shares, net	(204)	-	(204)	-	195,160
Buyback of bonds	(840)	-	-	-	(7,523)
Receipt of short-term credit from former controlling shareholder	-	-	-	-	34,000
Repayment of short-term credit from former controlling shareholder	-	-	-	-	(34,000)
Distributions to owners	-	(49,091)	-	(29,853)	(49,091)
Dividend paid	(32,023)	-	(32,023)	-	-
Interest paid	(19,461)	-	-	-	(106)
Net cash provided by (used in) financing activities	459,711	(49,091)	(34,299)	(29,853)	(58,904)
Exchange rate valuation losses for cash and cash equivalents	(205)	-	(205)	-	-
Increase in cash and cash equivalents	34,837	-	16,344	-	28,439
Cash and cash equivalents at beginning of period	28,439	-	46,932	-	-
Cash and cash equivalents at end of period	63,276	-	63,276	-	28,439

* See Note 2 below regarding comparative figures (for the periods up to June 30, 2017).

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

CONDENSED INTERIM STATEMENTS OF CASH FLOWS**In U.S. Dollars in thousands**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2018	2017 *	2018	2017 *	2017 *
	Unaudited				Audited
<u>Appendix A - non-cash investing and financing activities:</u>					
Investments in oil and gas assets against liabilities	<u>2,193</u>	<u>1,028</u>	<u>2,193</u>	<u>1,028</u>	<u>485</u>
Issuance of shares as consideration for purchase of oil and gas assets	<u>215,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Asset retirement obligation against oil and gas assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>197</u>
<u>Appendix B - additional cash flow information:</u>					
Income taxes paid	<u>5,317</u>	<u>-</u>	<u>3,263</u>	<u>-</u>	<u>3,530</u>
			Six months ended June 30, 2018	Three months ended June 30, 2018	
			Unaudited		

Appendix C - acquisition of additional working interests in Tamar and Dalit leases (see also Note 3):

Including the following identifiable assets and liabilities:

Cash flows from investing activities:

Working capital, net	(1,092)	15,991
Oil and gas assets	697,288	-
Other long-term assets	1,440	-
Deferred taxes	778	-
Asset retirement obligation	(8,046)	-
Share capital and premium	<u>(215,169)</u>	<u>-</u>
	<u>475,199</u>	<u>15,991</u>

* See Note 2 below regarding comparative figures (for the periods up to June 30, 2017).

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

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

In U.S. Dollars in thousands

NOTE 1:- GENERAL

- a. Tamar Petroleum Ltd. ("**the Company**") is engaged in the sale of natural gas produced from the Tamar reservoir, which is located on the Tamar I/12 lease ("**the Tamar Lease**" and "**the Tamar Project**", respectively), to various customers and mainly to the Israel Electric Corporation Ltd. ("**the IEC**") as well as to industrial customers (such as Oil Refineries Ltd. etc.), independent power producers and natural gas marketing companies. The Company also sells condensate produced in the Tamar project to Paz Ashdod Oil Refineries, in promoting the expansion of the Tamar project's production platform and in examining the geological potential of deep drilling targets in the Tamar lease.

The Company's articles of association provide that the Company shall only perform operations of exploration, development, production and transmission to the oil and gas target markets in connection with the Tamar I/12 and Dalit I/13 leases (jointly, "**the Leases**" or "**the Tamar and Dalit Leases**" and/or "**the Joint Venture**") in which the Company holds 16.75% of the working interests as of the financial statement date (see paragraph b below).

The Company is a publicly traded company incorporated and resident in Israel. The Company's securities have been traded on the Tel-Aviv Stock Exchange Ltd. ("**the TASE**") since July 2017.

The Company's head office is located on 11 Galgalei Haplada St., Herzliya, Israel.

- b. The Company began operating on July 1, 2017, following the fulfillment of the suspending conditions stipulated in the agreement signed with Delek Drilling Limited Partnership ("**Delek Drilling**") in which the Company acquired 9.25% (of 100%) of the working interests in the Tamar and Dalit leases by raising debt and capital from the public (see Note 4 to the Company's annual financial statements as of December 31, 2017 and the accompanying notes ("**the annual financial statements**"). The Company had previously been inactive and is wholly owned and controlled by Delek Drilling.
- c. On March 14, 2018, upon the fulfillment of the suspending conditions stipulated in the sale agreement signed with Noble Energy Mediterranean Ltd. ("**Noble**" or "**the Operator**") on January 29, 2018 (see Note 3 below), the Company acquired an additional 7.5% (of 100%) of the working interests in the Leases ("**the Working Interests**") in consideration of approximately \$ 690 million. The acquisition was made for a cash consideration of approximately \$ 475 million (financed through the issuance of bonds (Series B)) 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 the Company's issued and outstanding share capital) to Noble (see Notes 3 and 4 below).

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**In U.S. Dollars in thousands**

NOTE 1:- GENERAL (Cont.)

- d. As of the date of approval of the condensed interim financial statements, to the best of the Company's knowledge, the Company has no controlling shareholder (based on the definition of the term "control" in the Israeli Securities Law, 1968). Following the acquisition of the Working Interests as discussed above, Noble and Delek Drilling hold 43.5% and 22.6% of the Company's shares, respectively (as for the voting rights attached to the shares held by Noble and Delek Drilling, see Note 3d(b) below and Note 13 to the Company's annual financial statements, respectively).
- e. The Company's condensed interim financial statements should be read in conjunction with the Company's annual financial statements. Accordingly, these condensed interim financial statements do not include notes on any developments that are insignificant compared to the information disclosed in the notes to the annual financial statements.
- f. The condensed interim financial statements have been prepared in accordance with the provisions of IAS 34, "Interim Financial Reporting".
- g. The condensed interim financial statements have been prepared in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

As explained in Note 2 to the annual financial statements, the acquisition of the Working Interests from Delek Drilling in 2017 was accounted for using the as pooling method and was presented accordingly in effect retroactively for periods which preceded the acquisition date (July 1, 2017) with the necessary adjustments, as explained in said note. The comparative figures in these financial statements, including the data relating to the periods of six and three months ended June 30, 2017, have been prepared on said basis.

The acquisition of the Working Interests from Noble in the reporting period (see Note 3 below) was accounted for using the purchase method of accounting based on the principles of IFRS 3, "Business Combination". Accordingly, the statement of comprehensive income includes the operating results relating to the additional 7.5% of the Working Interests in Tamar and Dalit Leases from the purchase date (March 14, 2018).

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**In U.S. Dollars in thousands****NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The condensed interim financial statements have been prepared on the basis of the same accounting policies and calculation methods applied in the annual financial statements, except for the following:

a. 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 of the number of equity instruments that are expected to vest.

b. Diluted earnings per share:

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).

c. Adoption of new standards:

Effective from January 1, 2018, the Company adopts new IFRSs which became effective as of that date as follows:

1. IFRS 9, "Financial Instruments" ("the Standard"):

The Standard replaces IAS 39, "Financial Instruments: Recognition and Measurement" and addresses various aspects of financial instrument, including classification and measurement, impairment and hedge accounting.

According to the Standard, all financial assets are measured at fair value upon initial recognition and in certain cases with the addition of directly attributable transaction costs. In subsequent periods, debt instruments are measured at amortized cost only if both of the following conditions are met:

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**In U.S. Dollars in thousands****NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)****c. Adoption of new standards (Cont.):****1. IFRS 9, "Financial Instruments" ("the Standard") (Cont.):**

- The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets should be at fair value. The Standard establishes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income (loss), in accordance with the election by the Company on an instrument-by-instrument basis. If equity instruments are held for trading, they should be measured at fair value through profit or loss.

Impairment of financial debt instruments that are not measured at fair value through profit or loss is determined based on the expected credit loss model according to a three-stage model. Each stage determines the measurement method of expected credit losses and finance income based on changes in the debt instrument's credit risk profile. This model offers a relief for financial assets under short-term credit terms such as trade receivables.

The Standard does not introduce any modifications to the provisions that apply to derecognition of financial instruments and to financial liabilities for which the fair value option has not been elected. According to the Standard, changes in the fair value of financial liabilities measured at fair value which are attributable to the change in credit risk should be presented in other comprehensive income. All other changes in fair value should be presented in profit or loss.

The Company has chosen to adopt the Standard based on the alternative that allows recognizing the cumulative effect as of the initial adoption date. The initial adoption of the Standard has had no effect on the Company's financial statements.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

In U.S. Dollars in thousands

NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)**c. Adoption of new standards (Cont.):****2. IFRS 15, "Revenue from Contracts with Customers" ("the Standard"):**

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

According to the Standard, revenue from contracts with customers is recognized in profit or loss when the control over the asset or service is transferred to the customer. Revenue is measured and recognized at the fair value of the consideration that is expected to be received based on the contract terms, less the amounts collected in favor of third parties (such as taxes). Revenue is recognized in profit or loss to the extent that it is probable that the economic benefits associated with the contract will flow to the Company and that the costs incurred or to be incurred in respect of the contract can be measured reliably.

The Standard introduces a five-step model that applies to revenue earned from contracts with customers:

Step 1: Identify the contract with a customer, including reference to contract combination and accounting for contract modifications.

Step 2: Identify the distinct performance obligations in the contract

Step 3: Determine the transaction price, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: Allocate the transaction price to the distinct performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

Step 5: Recognize revenue when a performance obligation is satisfied, either at a point in time or over time.

The Company chose to adopt the provisions of the Standard using the modified retrospective approach with certain reliefs according to which the Standard will apply to existing contracts from the date of initial adoption and onwards while recognizing the cumulative effect of the initial adoption of the Standard as an adjustment to the opening balance of retained earnings (or another component of equity, as applicable). The initial adoption of the Standard has had no effect on the Company's financial statements.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

In U.S. Dollars in thousands

NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- d. **New Standards and Amendments to existing Standards which are not yet effective and which have not been adopted early by the Company:**

Note 3q to the Company's annual financial statements includes disclosure of the expected adoption of IFRS 16, "Leases" ("IFRS 16") from the first quarter of 2019. As discussed in said Note, upon its initial adoption, IFRS 16 will supersede IAS 17, "Leases", and the interpretations enacted on its behalf. IFRS 16 provides guidelines on the recognition, measurement, presentation and disclosure of leases and is expected to have significant implications, mainly on the accounting treatment adopted by lessees in lease transactions.

The Company continues to examine the implications of the adoption of IFRS 16 on its financial statements and presently estimates that it will not have a material impact on the financial statements.

NOTE 3:- ACQUISITION OF 7.5% WORKING INTERESTS IN TAMAR AND DALIT LEASES

On March 14, 2018, upon the fulfillment of the suspending conditions stipulated in the sale agreement signed on January 29, 2018 between Noble as the seller and the Company as the buyer ("**the Sale Agreement**"), the Company acquired an additional 7.5% (of 100%) of the working interests in the Tamar and Dalit Leases ("**the Working Interests**"). The Working Interests were recorded in the Oil Register and pledged in favor of the trustee of the holders of bonds (Series B), after having obtained the approval of the Petroleum Commissioner. Following are the main details of the acquisition and its terms:

- a. Noble sold and transferred to the Company the working interests in the Leases as well as a pro rata share (7.5%) in the operating approval for the system for production of natural gas from the Tamar Lease, in the shares of Tamar 10-Inch Pipeline Ltd. – holder of the transmission license under Section 10 of the Natural Gas Sector Law, 2002, in the rights and obligations under the Joint Operating Agreement ("**JOA**") signed in connection with the Leases, in the agreement for use of the Yam Tethys facilities, in the agreements for the sale of natural gas and condensate from the Tamar Lease, in the agreements for the export of natural gas (including the agreements relating to export agreements and approvals for export to Jordan and Egypt), and in the MOU regarding the supply of gas from the Tamar Reservoir to the Yam Tethys partners (all the above jointly, "**the Acquired Asset**");
- b. The settling of accounts between the parties for the transfer of the Acquired Asset was completed on January 1, 2018 ("**the Effective Date**"). The Acquired Asset rights are not subject to any royalties to third parties.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

In U.S. Dollars in thousands

NOTE 3:- ACQUISITION OF 7.5% WORKING INTERESTS IN TAMAR AND DALIT LEASES (Cont.)

- c. The Sale Agreement specifies that the Acquired Asset does not include the rights and obligations in reference to the following excluded matters: the arbitration and the dispute regarding the production component tariff; the appeal regarding the royalties in relation to the sale of gas from the Tamar Project to customers of the Yam Tethys project; the class action certification motion filed by an IEC consumer against the Tamar partners in relation to amounts received by Noble for natural gas supplied in the period before the Effective Date; taxes and royalties to the State in relation to the period before the Effective Date, or taxes and royalties in connection with any profit, income or 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 forward ("**the Excluded Matters**").
- d. The consideration for the Acquired Asset is as follows:
1. **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 approximately \$ 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 for 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.
 2. **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 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. Upon the sale or transfer of the Shares, in whole or in part, from Noble to a third party as discussed above, they shall be entitled to any and all rights attached to Ordinary shares of the Company (Noble's said consent to the waiver of voting rights has been established in the Company's articles). Noble has undertaken that so long as it does not sell the Shares, it shall not acquire additional shares of the Company. It is clarified, for this matter, that shares allocated to Noble in the framework of a bonus share issue and/or rights issue shall not be deemed as an acquisition for purposes of this undertaking.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**In U.S. Dollars in thousands****NOTE 3:- ACQUISITION OF 7.5% WORKING INTERESTS IN TAMAR AND DALIT LEASES (Cont.)**

- d. The consideration for the Acquired Asset is as follows (Cont.):

2. **Consideration in shares (Cont.):**

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 six months - fully restricted; in the 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.

- e. 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, 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, early commitment fee and 50% of the fees of the underwriters/distributors (regardless of the fulfillment of the suspending conditions underlying the closing of the transaction).
- f. 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 6f below).
- g. The purchase price of approximately \$ 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 (after adjustments in respect of the Shares' cap period as explained above). As of the financial statement approval date, the Company allocated the purchase price to the acquired assets and liabilities based on a purchase price allocation (PPA) study. As for the PPA, see Appendix C to the statement of cash flows for the reporting period. The transaction costs allocated to the bonds (Series B) and to the Shares amounted to approximately \$ 7.1 million and \$ 0.2 million, respectively, and the balance of approximately \$ 0.1 million was carried to expenses in the statement of comprehensive income for the reporting period.

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 (including finance expenses on bonds (Series B)), as included in the condensed interim statement of comprehensive income for the six months ended June 30, 2018, amounted to approximately \$ 39.8 million (for the three months ended June 30, 2018 - approximately \$ 33.6 million) and approximately \$ 17.1 million (for the three months ended June 30, 2018 - approximately \$ 14.5 million), respectively.

As for proforma data for the six months ended June 30, 2018 and for the year ended December 31, 2017 assuming that the acquisition from Noble had been completed on January 1, 2015, see the proforma condensed interim financial statements regarding the acquisition of 7.5% of the Working Interests in the Tamar and Dalit Leases hereby attached to these condensed interim financial statements.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

In U.S. Dollars in thousands

NOTE 4:- PUBLIC OFFERING OF BONDS (SERIES B)

In order to finance the acquisition of the Working Interests from Noble (see Note 3 above), the Company undertook in the Sale Agreement to offer bonds (Series B) to the public. According to the Sale Agreement, the bonds (Series B) shall have substantially the same terms as those of the Company's bonds (Series A) or other terms deemed acceptable by Noble, provided the following conditions are fulfilled: (1) the issuance of bonds (Series B) will not cause the lowering of the rating of the bonds (Series A) below their rating immediately before the issuance of bonds (Series B); (2) the issuance must be at a par value in NIS equivalent to \$ 560,000,000 according to the known U.S. Dollar representative exchange rate on the date of the institutional tender and at the same annual interest rate as the bonds (Series A) (4.69%).

According to the above undertaking, on March 12, 2018, the Company completed a capital raising round of approximately \$ 519.4 million (before issuance expenses of approximately \$ 7.1 million) through a public offering of NIS 1,940,113,000 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 at the rate 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 six months, starting from August 2018 until the final date of payment of the principal. Midroog Ltd. issued a rating of A1.il with a stable outlook for the bonds ("**the Base Rating**"). The effective annual interest rate of the bonds is about 6.37%.

In relation to the bonds (Series B), the Company assumed the following main undertakings:

- a. To secure the bonds (Series B), the Company recorded a single fixed senior encumbrance in favor of the trustee of the bonds (Series B) (the encumbrances in 1-6 below relate only to the rights that were acquired from Noble) on the following: (1) the Company's rights in the Tamar Reservoir; (2) the Company's rights in the operating approval of the Tamar Reservoir; (3) the Company's present and future rights in respect of property insurance policies of the Tamar Lease; (4) the Company's present and future rights in the Tamar agreements (with the exception of spot agreements and gas sale agreements for a period not exceeding 12 months, under which the quantity of gas to be sold does not exceed 0.1 BCM); (5) the Company's rights in the JOA, including present and future contractual rights in the common equipment and the production system of the Tamar Reservoir; (6) the Company's rights in the agreement that regulates the Tamar partners' use of the Yam Tethys facilities; (7) the Company's present and future rights in the Company's bank account for the project ("**the Operating Account**"); and (8) the Company's rights in the safety reserve account for payment of the principal and interest. It is noted that the aforesaid encumbrances are subject to the State's royalty rights. The realization of the encumbrances is also subject to the approval of the Petroleum Commissioner in accordance with Section 76 of the Petroleum Law and any other law. 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.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**In U.S. Dollars in thousands**

NOTE 4:- PUBLIC OFFERING OF BONDS (SERIES B) (Cont.)

- b. The interest rate on the bonds (Series B) shall be adjusted for changes in the rating of the bonds, such that if the rating of the bonds (Series B) is revised and the rating determined is lower than the Base Rating by two notches or more, 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%.
- c. In addition, the Company shall pay incremental interest at a rate of 0.25% insofar as the Company's equity (as defined in the trust deed) falls below \$ 450 million. In any event, for a rating downgrade according to both paragraph b above and c herein collectively, the Company shall not pay a rate exceeding 1.25% above the Base Interest.
- d. The assumption of additional debt by the Company through the expansion of the bonds (Series B) and/or the assumption of other debt, excluding the receipt of financing and/or the opening of a line of credit from a financial institution in a sum up to \$ 5 million to be used to take out bank guarantees which the Company will be required to deposit by law or pursuant to the Tamar agreements, shall be subject to the fulfillment of conditions set forth in the trust deed and, inter alia, that the assumption of the additional debt shall not cause the rating of the bonds to decrease compared with their rating prior to the assumption of the additional debt.
- e. The Company may carry out a dividend distribution upon the fulfillment of conditions determined in the trust deed, including that the "record date" for the dividend distribution shall be no later than 60 days from the date on which a principal and/or interest payment has been made to the Series B bondholders; the expected and historic debt service coverage ratio, as defined in the trust deed, shall be no less than 1:1.20 (the historic ratio shall be examined starting from the date of release of the Company's financial statements as of December 31, 2018, with reference to two consecutive examination dates); the full amount as required shall have been deposited in the debt service safety reserve (this condition shall apply to dividends paid after May 30, 2018).

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**In U.S. Dollars in thousands****NOTE 4:- PUBLIC OFFERING OF BONDS (SERIES B) (Cont.)**

- f. The Company undertook to irrevocably instruct all the parties to the gas sale agreements to pay the amounts due from them to the Company to the Operating Account. It was stipulated that all the amounts deposited in the Operating Account shall be used by the Company exclusively for making payments that were explicitly determined in the trust deed as permitted to be paid out of the Operating Account and according to the order of payments determined in the trust deed. The Company shall be entitled to withdraw funds from the Operating Account other than for the purpose of payments as aforesaid, only in the amount contained in the Operating Account one day after the date on which a principal and/or interest payment has been made to the bondholders out of the account (and after the other payments determined as aforesaid have been made). Regarding amounts that are withdrawn from the Operating Account, no limitation shall apply to the Company regarding the use thereof, including the making of "distributions," subject to the other conditions set forth in the trust deed.
- g. The trust deed defines events of default, the occurrence of which shall establish for the Series B bondholders grounds for acceleration of the bonds (Series B), which include, inter alia, the following main events: nonpayment of amounts due to the lenders; breach of the Company's undertaking to meet financial covenants including an undertaking to maintain equity (as defined in the trust deed) of no less than \$ 350 million (for two consecutive quarters), an expected debt service coverage ratio (as defined in the trust deed) of no less than 1:1.05 (during two consecutive quarters) (the expected debt service ratio for the 12-month period beginning on October 1, 2018 is 1.44), and minimum economic equity (as defined in the trust deed) of no less than \$ 350 million (during two consecutive quarters) (the economic equity as of June 30, 2018 is approximately \$ 972 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 position on the offering date and the existence of a real concern that the Company will be unable to timely repay the bonds; other debts of the Company are accelerated (cross-default) in the amount specified in the trust deed; there is a real concern that the Company will fail to meet its material obligations to the Series B bondholders; the bond rating being lower than Baa3; a "going concern" qualification is added to the Company's financial statements.

The Company undertook that the proceeds of the offering of the bonds (Series B) over and above an 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, on March 11, 2018, the Company's board of directors approved a buyback plan as aforesaid for the bonds (Series B). In the course of March 2018, the Company completed the buyback of the aforesaid bonds in consideration for approximately \$ 0.8 million.

Trading in the bonds (Series B) on the TASE commenced on March 14, 2018.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

In U.S. Dollars in thousands

NOTE 5:- AGREEMENT BETWEEN DELEK DRILLING AND NOBLE FOR THE EXPORT OF NATURAL GAS TO EGYPT

In February 2018, Delek Drilling and Noble (jointly, "**the Sellers**") entered into an agreement for the export of natural gas from the Tamar Project to Dolphinus Holdings Limited in Egypt ("**the Buyer**" and "**the Export Agreement**", respectively), and approached the other partners in the Tamar Project, including the Company, for the purpose of assigning the Export Agreement to the other Tamar partners or entering into an agreement with them for the purchase of natural gas from the Tamar Project, in accordance with the terms of the Export Agreement, for the sale thereof to the Buyer. As of the date of approval of the financial statements, the Export Agreement has not yet been assigned and no engagement has been signed with the Company and the other partners in the Tamar Project as above.

Under the terms of the Export Agreement, the maximum contractual quantity of gas is 32 BCM. Supply under the Export Agreement is expected to begin after formal arrangements have been made for the use of the required infrastructure for the transmission of natural gas to Egypt and is to continue up to the supply of the total contractual quantity specified in the Export Agreement or December 2030, whichever is earlier.

The Export Agreement includes several suspending conditions, mainly obtaining regulatory approvals in Israel and in Egypt (including export and import approvals), signing agreements that will enable the use of the transmission infrastructure, including a transmission agreement between the Sellers and INGL (if necessary), receiving a guarantee in favor of the Sellers as stipulated in the Export Agreement, and obtaining approvals from the tax authorities in Israel.

The transaction described above is subject to the signing of a binding agreement between the Tamar partners (including the Company) and to fulfillment of all the suspending conditions in the Export Agreement, and there is no certainty that such an agreement will be signed and that the suspending conditions will be fulfilled. See more information of the Export Agreement in Note 23c to the annual financial statements.

NOTE 6:- ADDITIONAL INFORMATION**a. Dividend:**

On March 20, 2018, the Company's Board approved the distribution of a dividend of approximately \$ 32,023 thousand (\$ 0.36 per share) to the Company's shareholders. The dividend was distributed on April 11, 2018.

b. Share-based payment:

In the reporting period, 112,771 and 95,855 share options were allocated to the Company's CEO and to two officers, respectively, as described in Note 23d to the annual financial statements.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**In U.S. Dollars in thousands**

NOTE 6:- ADDITIONAL INFORMATION (Cont.)**c. Information of certain financial covenants underlying the bonds (Series A):**

Following are details of certain financial covenants determined in the trust deed of the bonds (Series A):

1. Expected debt service coverage ratio (as defined in the trust deed) of no less than 1:1.05 (during two consecutive quarters) - the expected debt service ratio for the 12-month period beginning on October 1, 2018 is 1.44.
2. Minimum economic equity (as defined in the trust deed) of no less than \$ 350 million (during two consecutive quarters) - the economic equity as of June 30, 2018 is approximately \$ 972 million.

As of the date of the condensed statement of financial position, the Company is in compliance with the financial covenants determined in the trust deed of the bonds (Series A).

d. Fair value of financial instruments:

The fair value of the financial instruments presented in the financial statements matches or approximates their carrying amount, except for issued bonds whose fair value as of June 30, 2018 is approximately \$ 1,136 million (Level 1) (December 31, 2017 - bonds (Series A) only - approximately \$ 663 million) and whose carrying amount, including accrued interest, as of that date approximates \$ 1,173 million (December 31, 2017 - bonds (Series A) only - approximately \$ 656 million)

e. Employment terms of the Company's CEO:

On March 15, 2018 and on March 20, 2018, the Company's Remuneration Committee and the Company's Board, respectively, approved the grant of a bonus to the Company's CEO for 2017 totaling NIS 48 thousand and another an amount of NIS 192 thousand which is subject to the approval of the Company's general meeting. On May 28, 2018, the Company's general meeting approved a bonus to the Company's CEO for 2017 totaling NIS 72 thousand. The overall bonus to the Company's CEO for 2017 amounted to NIS 120 thousand and was recorded in the statement of comprehensive income in the reporting period.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**In U.S. Dollars in thousands**

NOTE 6:- ADDITIONAL INFORMATION (Cont.)**f. Bank guarantees:**

In June 2018, the Company provided bank guarantees to the Petroleum Commissioner for its 7.5% working interests in the Tamar and Dalit Leases acquired from Noble in a total of approximately \$ 2.6 million and \$ 0.6 million, respectively. To secure these guarantees, the Company pledged deposits totaling approximately \$ 2.2 million included in the statement of financial position as of June 30, 2018 under restricted deposits.

g. Royalties:

Further to Note 15d to the annual financial statements, in the reporting period, the Company paid Delek Group Ltd. and Delek Energy Systems Ltd./Delek Royalties (2012) Ltd. royalties based on the increased rate applicable after the date of return of the investment (6.5%) to the Company's revenues from its 9.25% interests in the Tamar Lease. Assuming that the date of return of the investment was in December 2017 based on a draft calculation prepared by Delek Drilling (from which the Company acquired said interests subject to committing to pay royalties as discussed above). As the Company had been informed by Delek Drilling, the draft calculation of the return of the investment had been updated as a result of which the royalty expenses were reduced by approximately \$ 0.8 million and recognized in operating results in the reporting period. It is hereby clarified that as of the date of approval of the financial statements, the audit of the draft calculation performed by Delek Drilling's auditors has not yet been completed and the Company, the supervisor in Delek Drilling and the royalty owners have been conducting tests for determining the date of return of the investment which, when completed, may have ramifications on the date of return of the investment.

TAMAR PETROLEUM LTD.

PROFORMA CONDENSED INTERIM FINANCIAL STATEMENTS

ON THE TRANSACTION FOR ACQUISITION OF

7.5% WORKING INTERESTS IN TAMAR AND DALIT LEASES

AS OF JUNE 30, 2018

UNAUDITED

IN U.S. DOLLARS IN THOUSANDS

This report is a translation of Tamar Petroleum Ltd.'s Hebrew-language Proforma 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.

PROFORMA CONDENSED INTERIM FINANCIAL STATEMENTS

ON THE TRANSACTION FOR ACQUISITION OF

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Auditors' review report to the shareholders of Tamar Petroleum Ltd.

Introduction

We have reviewed the accompanying financial information of Tamar Petroleum Ltd. ("**the Company**"), which comprises the proforma condensed statement of comprehensive income for the period of six months ended June 30, 2018. The Company's board of directors and management are responsible for the preparation and presentation of proforma interim financial information for this period in conformity with the accounting policies described in Note 1 and the assumptions described in Note 3 to the proforma financial information and are responsible for the preparation of this proforma interim financial information in accordance with Regulation 38B of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this proforma interim financial information based on our review.

Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying proforma interim financial information is not prepared, in all material respects, in conformity with the accounting policies described in Note 1 and the assumptions described in Note 3 to the proforma financial information.

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

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

Tel-Aviv, August 19, 2018

PROFORMA CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**In U.S. Dollars in thousands (except share and per share data)**

	For the six months ended June 30,					
	2018			2017		
	Data before proforma adjustments	Proforma adjustments	Proforma data	Data before proforma adjustments *	Proforma adjustments	Proforma data
	Unaudited					
Revenues:						
From sale of gas and condensate	135,105	28,365	163,470	86,381	70,039	156,420
Less - royalties	22,258	3,164	25,422	13,404	7,796	21,200
Net revenues	112,847	25,201	138,048	72,977	62,243	135,220
Costs and expenses:						
Cost of production of natural gas and condensate	9,029	2,054	11,083	5,887	4,773	10,660
Depreciation, depletion and amortization expenses	19,189	4,863	24,052	9,062	13,636	22,698
General and administrative expenses	1,295	(76)	1,219	600	33	633
Total costs and expenses	29,513	6,841	36,354	15,549	18,442	33,991
Operating income	83,334	18,360	101,694	57,428	43,801	101,229
Finance expenses	(25,714)	(6,418)	(32,132)	(15,391)	(16,190)	(31,581)
Finance income	415	116	531	88	71	159
Finance expenses, net	(25,299)	(6,302)	(31,601)	(15,303)	(16,119)	(31,422)
Income before taxes on income	58,035	12,058	70,093	42,125	27,682	69,807
Taxes on income	(18,711)	(2,773)	(21,484)	(10,110)	(6,367)	(16,477)
Total comprehensive income for the period	39,324	9,285	48,609	32,015	21,315	53,330
Basic and diluted net earnings per share (in USD)	0.54		0.55	0.64		0.60
Weighted number of shares used in the above computation (in thousands)	73,182	15,313	88,496	50,000	38,496	88,496

* Based on the Company's proforma condensed interim financial statements as of June 30, 2017, after the proforma adjustments described in Note 5 to said proforma financial statements.

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

August 19, 2018			
Date of approval of the proforma financial statements	Yossi Abu Chairman of the Board	Liami Vaisman CEO	Yuval Raikin CFO

PROFORMA CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (Cont.)**In U.S. Dollars in thousands (except share and per share data)**

	For the three months ended June 30, 2017		
	Data before proforma adjustments *	Proforma adjustments Unaudited	Proforma data
Revenues:			
From sale of gas and condensate	43,390	35,181	78,571
Less - royalties	6,742	3,921	10,663
Net revenues	36,648	31,260	67,908
Costs and expenses:			
Cost of production of natural gas and condensate	2,787	2,260	5,047
Depreciation, depletion and amortization expenses	4,739	6,818	11,557
General and administrative expenses	300	16	316
Total costs and expenses	7,826	9,094	16,920
Operating income	28,822	22,166	50,988
Finance expenses	(7,700)	(8,099)	(15,799)
Finance income	83	67	150
Finance expenses, net	(7,617)	(8,032)	(15,649)
Income before taxes on income	21,205	14,134	35,339
Taxes on income	(5,090)	(3,392)	(8,482)
Total comprehensive income for the period	16,115	10,742	26,857
Basic and diluted net earnings per share (in USD)	0.32		0.30
Weighted number of shares used in the above computation (in thousands)	50,000	38,496	88,496

* Based on the Company's proforma condensed interim financial statements as of June 30, 2017, after the proforma adjustments described in Note 5 to said proforma financial statements.

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

PROFORMA CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (Cont.)**In U.S. Dollars in thousands (except share and per share data)**

	Year ended December 31, 2017		
	Data before proforma adjustments *	Proforma adjustments Audited	Proforma data
Revenues:			
From sale of gas and condensate	173,712	140,848	314,560
Less - royalties	27,460	15,743	43,203
Net revenues	146,252	125,105	271,357
Costs and expenses:			
Cost of production of natural gas and condensate	12,234	9,919	22,153
Depreciation, depletion and amortization expenses	16,934	27,272	44,206
General and administrative expenses	1,698	65	1,763
Total costs and expenses	30,866	37,256	68,122
Operating income	115,386	87,849	203,235
Finance expenses	(31,769)	(33,091)	(64,860)
Finance income	332	269	601
Finance expenses, net	(31,437)	(32,822)	(64,259)
Income before taxes on income	83,949	55,027	138,976
Taxes on income	(20,412)	(13,207)	(33,619)
Total comprehensive income for the year	63,537	41,820	105,357
Basic and diluted net earnings per share (in USD)	1.27		1.19
Weighted number of shares used in the above computation (in thousands)	50,000	38,496	88,496

* Based on the Company's financial statements as of December 31, 2017, after the proforma adjustments described in Note 22 to said financial statements.

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

NOTES TO PROFORMA CONDENSED INTERIM FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. These proforma condensed interim financial statements ("**the proforma financial statements**") have been prepared in accordance with Regulation 38B of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 relating to the acquisition of 7.5% (of 100%) of the working interests in the Tamar I/12 and Dalit I/13 leases ("**the Leases**") from Noble Energy Mediterranean Ltd. ("**Noble**"), pursuant to a sale agreement signed on January 29, 2018, as described in Note 2 below ("**the proforma event**").
- b. The proforma condensed interim statements of comprehensive income are intended to retroactively reflect the proforma event, assuming that it was completed on January 1, 2015, under the assumptions described in Note 3 below.
- c. The significant accounting policies applied in the proforma financial statements, subject to the principal assumptions and adjustments included therein, as described in Note 3 below, are consistent with those applied in the preparation of the financial statements on which the proforma financial statements are based as above. Accordingly, the proforma financial statements should be read in conjunction with the Company's financial statements for the relevant periods.

Proforma financial statements are inherently based on assumptions, estimates and assessments, and therefore the proforma data are not necessarily an indication of the representative and/or future results of the Company's operations after the acquisition of the above working interests.

NOTE 2:- THE PROFORMA EVENT

On March 14, 2018, upon the fulfillment of the suspending conditions stipulated in the sale agreement signed on January 29, 2018 between Noble as the seller and the Company as the buyer ("**the Sale Agreement**"), the Company acquired an additional 7.5% (of 100%) of the working interests in the Tamar and Dalit Leases ("**the Working Interests**"). The Working Interests were recorded in the Oil Register and pledged in favor of the trustee of the holders of bonds (Series B), after having obtained the approval of the Petroleum Commissioner. Following are the main details of the acquisition and its terms:

- a. Noble sold and transferred to the Company the working interests in the Leases as well as a pro rata share (7.5%) in the operating approval for the system for production of natural gas from the Tamar Lease, in the shares of Tamar 10-Inch Pipeline Ltd. – holder of the transmission license under Section 10 of the Natural Gas Sector Law, 2002, in the rights and obligations under the Joint Operating Agreement ("**JOA**") signed in connection with the Leases, in the agreement for use of the Yam Tethys facilities, in the agreements for the sale of natural gas and condensate from the Tamar Lease, in the agreements for the export of natural gas (including the agreements relating to export agreements and approvals for export to Jordan and Egypt), and in the MOU regarding the supply of gas from the Tamar Reservoir to the Yam Tethys partners (all the above jointly, "**the Acquired Asset**");

NOTES TO PROFORMA CONDENSED INTERIM FINANCIAL STATEMENTS

NOTE 2:- THE PROFORMA EVENT (Cont.)

- b. The settling of accounts between the parties for the transfer of the Acquired Asset was completed on January 1, 2018 ("**the Effective Date**"). The Acquired Asset rights are not subject to any royalties to third parties.
- c. The Sale Agreement specifies that the Acquired Asset does not include the rights and obligations in reference to the following excluded matters: the arbitration and the dispute regarding the production component tariff; the appeal regarding the royalties in relation to the sale of gas from the Tamar Project to customers of the Yam Tethys project; the class action certification motion filed by an IEC consumer against the Tamar partners in relation to amounts received by Noble for natural gas supplied in the period before the Effective Date; taxes and royalties to the State in relation to the period before the Effective Date, or taxes and royalties in connection with any profit, income or 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 forward ("**the Excluded Matters**").
- d. The consideration for the Acquired Asset is as follows (subject to adjustments):
 - 1. **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 (see details of the bonds (Series B) in Note 4 to the Company's condensed interim financial statements as of June 30, 2018), after reduction of a net sum of approximately \$ 43 million arising from the following adjustments: (a) reduction of the issuance expenses borne by Noble; (b) reduction of amounts received for the Acquired Asset for the period between the Effective Date and March 14, 2018 ("**the Interim Period**"); (c) 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); (d) addition in the amount of payments for royalties and cash calls under the JOA in respect of the Acquired Asset during the Interim Period.

NOTES TO PROFORMA CONDENSED INTERIM FINANCIAL STATEMENTS

NOTE 2:- THE PROFORMA EVENT (Cont.)

2. **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 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. Upon the sale or transfer of the Shares, in whole or in part, from Noble to a third party as discussed above, they shall be entitled to any and all rights attached to Ordinary shares of the Company (Noble's said consent to the waiver of voting rights has been established in the Company's articles). Noble has undertaken that so long as it does not sell the Shares, it shall not acquire additional shares of the Company. It is clarified, for this matter, that shares allocated to Noble in the framework of a bonus share issue and/or rights issue shall not be deemed as an acquisition for purposes of this undertaking.

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 six months - fully restricted; in the 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.

- e. 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, 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, early commitment fee and 50% of the fees of the underwriters/distributors (regardless of the fulfillment of the suspending conditions underlying the closing of the transaction). These amounts were taken into account in determining the Cash Consideration as above and the purchase price.
- f. The Company shall provide the guarantees required to replace the guarantees provided by Noble in connection with the Acquired Asset (approximately \$ 3.2 million). See details of the above guarantees provided by the Company in Note 6f to the Company's condensed interim financial statements as of June 30, 2018.

NOTES TO PROFORMA CONDENSED INTERIM FINANCIAL STATEMENTS

NOTE 3:- PRINCIPAL ASSUMPTIONS USED IN THE PREPARATION OF THE PROFORMA FINANCIAL STATEMENTS

The proforma financial statements have been prepared in order to reflect the operating results for the periods of six months ended June 30, 2018 and 2017, for the period of three months ended June 30, 2017 and for the year ended December 31, 2017, assuming that the proforma event and the transfer of the operation underlying the acquisition of the Working Interests had been completed on January 1, 2015.

The acquisition and transfer of operation were accounted for in accordance with the provisions of IFRS 3, "Business Combinations." The consideration for the transfer of the Working Interests and the operation in the amount of approximately \$ 690 million was calculated on the basis of the transfer of the proceeds from the issuance of bonds (Series B) in an amount of approximately \$ 519 million (before deducting issuance expenses) and subject to the required adjustments as stated in Note 2d(1) above, and the value of the shares allocated by the Company (43.5%) as determined according to their quoted market price on the TASE and the U.S. Dollar exchange rate as of March 13, 2018 prior to the transaction closing date and after making the adjustments regarding the shares' cap period as detailed in Note 2d(2) above.

As of the date of approval of the proforma financial statements, the Company allocated the purchase price of the acquired assets and liabilities based on a purchase price allocation (PPA) study. The purchase price was attributed to excess assets over liabilities, net, in an amount of \$ 0.3 million, to a deferred tax asset in an amount of \$ 0.8 million, to an asset retirement obligation in an amount of approximately \$ 8 million, and the balance of approximately \$ 697 million was attributed to oil and gas assets and rights thereto, as follows: producing oil and gas assets - approximately \$ 636 million, non-producing oil and gas assets, including Tamar SW and the Dalit Lease - approximately \$ 57 million and \$ 4 million, respectively.

Accordingly, the proforma adjustments to the results of operations include the following matters:

- a. The Company's additional share (7.5%) in revenues from the sale of natural gas and condensate, royalties to the State and the cost of producing natural gas and condensate of the Company for the reporting periods.
- b. The amount of the consideration attributed to the producing oil and gas assets was amortized for the purpose of the proforma financial statements using the depletion method, and accordingly these proforma financial statements include additional amortization expenses of \$ 4.9 million and \$ 13.6 million for the periods of six months ended June 30, 2018 and 2017, respectively, \$ 6.8 million for the period of three months ended June 30, 2017 and \$ 27.3 million for the year ended December 31, 2017.
- c. In determining the finance expenses for the reporting periods, the Company took into account an annual interest rate of 6.37% on the bonds issued for financing the acquisition as described in the Sale Agreement and in Note 2 above, as well as changes in the time value of asset retirement obligations.

NOTES TO PROFORMA CONDENSED INTERIM FINANCIAL STATEMENTS

NOTE 3:- PRINCIPAL ASSUMPTIONS USED IN THE PREPARATION OF THE PROFORMA FINANCIAL STATEMENTS (Cont.)

- d. The related taxes were calculated according to the statutory tax rates for those years (23% in 2018 and 24% in 2017).
- e. The shares allocated to Noble in the framework of the transaction, accounting for 43.5% of the Company's shares after the allocation, were taken into account retroactively for the purpose of calculating earnings per share for all the reporting periods.



August 19, 2018

To
The Board of Directors of
Tamar Petroleum Ltd. ("the Company")
11 Galgalei Haplada St.
Herzliya Pituach 4672211, Israel

Dear Sirs/Mesdames,

**Re: Consent Letter Given Simultaneously with the Publication of a Periodic Report on a Shelf
Prospectus of the Company ("the Offering Document")**

This is to notify you that we consent to the inclusion (including by reference) in the above-referenced Offering Document of our reports listed below:

1. Independent auditor's review report dated August 19, 2018 on the Company's condensed financial information as of June 30, 2018 and for the periods of six and three months then ended.
2. Independent auditor's special review report dated August 19, 2018 on the proforma condensed financial information of the Company for the period of six months ended June 30, 2018, pursuant to Regulation 38B of the Securities Regulations (Periodic and Immediate Reports) 1970.

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants



GIZA SINGER EVEN

Tamar Petroleum Ltd.

**Purchase Price Allocation of Business
Combination
In Acquisition of 7.5% of the Working Interests
In Tamar I/12 and Dalit I/13 Leases**

This report is a translation of Tamar Petroleum Ltd.'s Hebrew-language PPA Valuation, 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.

August 2018



GIZA SINGER EVEN

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1. Introduction and Restriction of Liability

1.1 General

This valuation ("**the Valuation**" and/or "**the Opinion**") was prepared by GSE Economic Consulting Ltd. ("**GSE**") for Tamar Petroleum Ltd. ("**Tamar Petroleum**" and/or "**the Company**") for allocating the purchase price of the business combination in the acquisition of 7.5% of the working interests in Tamar I/12 and Dalit I/13 Leases ("**the Leases**" and/or "**the Reservoirs**") from Noble Energy Mediterranean Ltd. ("**Noble**") as of March 14, 2018.

We are aware that the Valuation is designed to serve the Company, among others, for the purposes of its interim and periodic financial statements and therefore we consent to mentioning and/or including this fact in any report to be issued by the Company, in conformity with the Israeli Securities Law, 1968 and the regulations published thereunder, including reports to be included in a shelf prospectus and/or shelf offering report published by the Company, all as set forth in the statement of work of January 10, 2018.

In the preparation of the Valuation we relied, among others, on information and/or explanations and/or forecasts and/or presentations (collectively: "**the information**") received from the Company and/or anyone on its behalf. GSE presupposes that the information is reliable and therefore has not independently verified the information. Moreover, nothing has come to our attention which might indicate that the information is unreasonable. The information has not been independently tested and accordingly the Valuation presented to you does not represent confirmation of its correctness, completeness or accuracy. An economic valuation is designed to reasonably and fairly reflect a given situation at a point in time based on known data and with reference to basic assumptions and estimated projections.

This Opinion includes a description of the methodology and principal assumptions and analyses used in the purchase price allocation ("**PPA**") of the business combination. However, the description does not purport to exhaust or specify the entire procedures applied by us in formulating this Opinion.

The Valuation does not constitute a due diligence study nor does it aim to replace one. Moreover, the Valuation is not meant to determine the Company's enterprise value for a specific investor and does not offer any legal opinion or advice.

The Valuation does not include an audit of the reconciliation to generally accepted accounting principles. GSE does not assume any responsibility for the accounting presentation format of the Company's financial statements or for the accuracy and completeness of the data disclosed therein or for the implications of the accounting presentation, if any.

In the event that the information and data on which GSE relied in preparing the Valuation are incomplete, inaccurate or unreliable, the results of the Valuation might no longer apply. We retain the right to reexamine and update the Valuation in view of new or amended data previously unknown to us. For the avoidance of doubt, the Valuation solely applies as of the date of its signing.

Please note that the information specified herein regarding assumptions of quantities, production rates, price projections, investments and natural gas and condensate production costs all represents forward-looking information, as this term is defined in the Israeli Securities Law, 1968 and there is no certainty that it will materialize, in whole or in part, in the manner described herein or in any other manner. The information may be construed in a materially different manner due to various factors such as changes in estimated quantities and costs, enhanced competition, regulation, operative malfunctions etc.

We hereby represent that we have no personal interest in and/or dependency on the Company, other than the fact that we are entitled to professional fees for the Valuation. We also represent that our professional fees are not contingent on the results of the Valuation.

GSE and any entity controlled by it directly and/or indirectly as well as any controlling shareholder, senior officer and employee thereof will not be liable for any damage, loss or expense of any kind, including direct and/or indirect, caused to anyone who relies on the contents of this Valuation, in whole or in part.

The Company will not be entitled to receive from us, whether by contract or tort, pursuant to applicable law or otherwise, any amount for loss of earnings, data or goodwill, or for any consequential damage, accidental or indirect, or as punitive or special compensation, in connection with claims arising from services rendered in the context of the Valuation or otherwise relating to the services provided by us in the context of this Valuation, whether the likelihood of the said loss or damage had been anticipated or not, provided that we have not acted in negligence and/or malice.

In addition, and without derogating from the general nature of the aforesaid, insofar as we are obligated by a preemptory rule to pay any amount to a third party in connection with the performance of the services detailed herein, or in a legal or other legally binding procedure, the Company warrants to compensate us for any amount paid by us in excess of the amount of the professional fees paid to us multiplied by three immediately upon receiving our initial written demand and in any event within 14 days from the date of receipt of such demand letter via registered mail. This compensation warranty will not apply if it is ruled that we had acted in malice or negligence in connection with the performance of the Valuation, and is subject and pursuant to the statement of work signed on January 10, 2018.

1.2 Data sources

The principal data sources used by us in preparing the Opinion are as follows:

- The Company's periodic and immediate reports.
- Immediate reports of traded companies and public information issued on websites, news articles or other public sources.
- Internal sources and GSE's databases.
- Meetings and/or telephone conversations with process owners in the Company.

1.1 Details of valuer

GSE Economic Consulting Ltd. is a subsidiary of Giza Singer Even Ltd., a leading Israeli financial advisory and investment banking firm. In its thirty years of operation, the firm has accumulated vast experience in accompanying some of the most prominent and leading corporations, IPOs and transactions in Israel. Giza Singer Even Ltd. operates through independent corporate divisions, focusing on three business sectors: (1) Financial Advisory Services; (2) Financial and Investment Banking; and (3) Analytical Research and Corporate Governance.

The Valuation was conducted by a team headed by CPA Eitan Cohen, Partner and Deputy CEO, who is in charge of Giza Singer Even's Economic Department, with over ten years of experience in economic and business consulting, corporate valuations and financial instruments. CPA Cohen previously served as head of the economic department of an infrastructure development company and as head of the economic department of KPMG (Somech Chaikin). Eitan is a CPA (Bar Ilan University) and holds a B.A in Economics from Ben Gurion University and an M.Sc in Financial Mathematics from Bar Ilan University.

Yours truly,
GSE Economic Consulting Ltd.
August 19, 2018

2. Executive Summary

2.1 Background

Tamar Petroleum Ltd. ("**Tamar Petroleum**" and/or "**the Company**") is a public company traded on the Tel-Aviv Stock Exchange ("**the TASE**"). The Company is engaged in producing and marketing natural gas from the Tamar Reservoir in Tamar I/12 Lease ("**the Tamar Project**" and "**Tamar Lease**", respectively) to various customers, including the Israel Electric Corporation Ltd. ("**the IEC**"), independent power producers ("**IPPs**"), industrial enterprises in Israel and Jordan and natural gas resellers. The Company also sells condensate produced from the Tamar Project to Paz Ashdod Refinery Ltd. and promotes the expansion of the Tamar Project's production network.

As a result of Israeli Government resolutions passed as part of its outline for enhancing the natural gas reserves produced from the Tamar natural gas field and for rapidly developing the Leviathan, Karish and Tanin natural gas fields as well as other natural gas fields ("**the Gas Outline**"), Delek Drilling - Limited Partnership ("**Delek Drilling**") and Noble were forced to sell their working interests in the Tamar Lease and in the Dalit I/13 Lease (collectively: "**the Leases**" or "**the Tamar and Dalit Leases**"). Tamar Petroleum completed two acquisitions of working interests in the Tamar Project and in the Leases as follows:

- On July 20, 2017, in effect from July 1, 2017, Tamar Petroleum acquired from Delek Drilling 9.25% (of 100%) of the working interests in the Tamar and Dalit Leases and a relative portion of the related rights, liabilities and underlying approvals in consideration of a cash payment of approximately US\$ 845 million (of which US\$ 650 million was financed using proceeds from the issue of bonds (Series A) and the balance of US\$ 195 million was financed using proceeds from public offering of shares) and the allocation of 19,900,000 ordinary shares of the Company to Delek Drilling.
- On March 14, 2018, in effect from January 1, 2018, the Company acquired from Noble 7.5% (of 100%) of the working interests in the Tamar and Dalit Leases and a relative share of the related rights, liabilities and underlying approvals ("**the business combination**"). The acquisition consideration consisted of a cash payment of approximately US\$ 475.2 million after certain adjustments (financed using proceeds from the issue of bonds (Series B)) and the private placement of 38,495,576 ordinary shares of the Company, accounting for 43.5% of the Company's issued share capital after the placement, to Noble.

2.2 The Tamar Project

The Tamar oil and gas asset which is comprised of the Tamar and Tamar South West (SW) natural gas fields is an offshore oil and gas asset located in the Tamar Lease (covering an area of some 250 sq. km.), about 90 km west of the Haifa coastline. The Tamar and Tamar SW natural gas fields were first discovered in 2009 and 2013, respectively. The reservoir is a high quality reservoir on a global scale containing dry gas that consists of approx. 99% methane, high porosity and permeability level and high connectivity between the sections of the reservoir. March 30, 2013 marked the commencement date of natural gas piping to consumers with a current maximum daily production capacity of 1.1 BCF (about 11.5 BCM a year).

The following table presents the gas and condensate reserves in the Tamar Reservoir as published by the Company in a TASE report on February 14, 2018 (addressing 100% of the Reservoir) as of December 31, 2017:

Reserve category	Tamar Reservoir		Tamar SW Reservoir		Total (Tamar and Tamar SW Reservoirs)	
	Natural gas	Condensate	Natural gas	Condensate	Natural gas	Condensate
	BCF	Million barrels	BCF	Million barrels	BCF	Million barrels
1P Proved Reserves	7,040.2	9.2	796.4	1.0	7,836.6	10.2
1P Probable Reserves	3,018.0	3.9	203.5	0.3	3,221.5	4.2
2P Proved + Probable Reserves	10,058.2	13.1	999.9	1.3	11,058.1	14.4
2P Possible Reserves	1,851.7	2.4	217.6	0.3	2,069.2	2.7
3P Proved + Probable + Possible Reserves	11,909.9	15.5	1,217.5	1.6	13,127.3	17.1

2.3 The total consideration and PPA of the business combination

The following table presents the total consideration and PPA of the business combination:

US\$ Million	Note
Consideration for the business combination:	
Cash consideration net of transaction costs and adjustments as per acquisition agreement	475.2
Consideration in shares:	
Value of 43.5% shares issued to Noble	226.9 (1)
Amortization of restricted shares	(11.7)
Total consideration in shares	215.2
Total business combination cost	690.4
PPA of business combination:	
Long-term receivables and other assets less payables, attributable to 7.5% working interests	0.3
Asset retirement obligation in connection with 7.5% working interests	(8.0)
Deferred taxes	0.8
Oil and gas assets:	
Tamar's active production platform	635.7 (2)
Tamar SW	57.4
Dalit	4.2 (3)
Total oil and gas assets	697.3
Goodwill	- (4)

Notes to the table

- (1) Based on the closing price and USD exchange rate on March 13, 2018 (NIS 20.30 per share and NIS 3.444 per US\$ 1).
- (2) The bifurcation of the gas asset value between Tamar's active production reservoir and Tamar SW was based on quantity ratios. See more details in paragraph 6.3.3 below.
- (3) Based on specific costs thus far invested in Dalit Lease.
- (4) In view of the nature of the transaction and the analysis of the value of the oil assets included in the transaction, we concluded in the Valuation that the PPA does not include payment for goodwill or bargain purchase gain (negative goodwill). See more details in paragraph 6.3.2 below.

3. Description of Operations

3.1 Company information

Tamar Petroleum Ltd. was incorporated on November 4, 2015 and is a public company whose shares are traded on the TASE. The Company sells natural gas produced from the Tamar Reservoir in the Tamar Lease to various Israeli customers, including the IEC, IPPs, industrial enterprises and natural gas resellers. The Company also sells condensate produced from the Tamar Project to Paz Ashdod Refinery Ltd. and promotes the expansion of the Tamar Project's production network.

As a result of Israeli Government resolutions passed as part of its outline for enhancing the natural gas reserves produced from the Tamar natural gas field and for rapidly developing the Leviathan, Karish and Tanin natural gas fields as well as other natural gas fields ("**the Gas Outline**"), on July 20, 2017 (in effect from July 1, 2017), the Company entered into an agreement with Delek Drilling according to which it acquired from Delek Drilling 9.25% (of 100%) of the working interests in the Tamar and Dalit Leases, subject to assuming the existing obligations for payment of overriding royalties to related parties and third parties, and the relative portion (9.25%) of the related rights and liabilities based on the JOA, gas sale agreements relating to the Tamar Lease, the Yam Tethys installation license agreement, the shares of Tamar 10-Inch Pipe Ltd., the operation permit of the Tamar platform and the Tamar export permits, all in consideration of approximately US\$ 845 million (of which US\$ 650 million was financed using proceeds from the issue of bonds (Series A) and the balance of US\$ 195 million was financed using proceeds from public offering of shares) and the allocation of 19,900,000 ordinary shares of the Company to Delek Drilling.

On March 14, 2018, the Company reported to the TASE the fulfillment of the suspending conditions stipulated in the sale agreement signed between the Company and Noble on January 29, 2018 according to which the Company acquired from Noble 7.5% (of 100%) of the working interests in the Tamar and Dalit Leases and a relative portion (7.5%) of the related rights, liabilities and underlying approvals. After certain adjustments, the cash consideration for the acquisition totaled approximately US\$ 475.2 million (financed using proceeds from the issue of bonds (Series B)) and included the private placement of 38,495,576 ordinary shares of the Company, accounting for 43.5% of the Company's issued share capital after the placement, to Noble.

3.2 The Tamar Project

The Tamar oil and gas asset which is comprised of the Tamar and Tamar SW natural gas fields is an offshore oil and gas asset located in the Tamar Lease (covering an area of some 250 sq. km.), about 90 km west of the Haifa coastline. The Tamar and Tamar SW natural gas fields were first discovered in 2009 and 2013, respectively. The reservoir is a high quality reservoir on a global scale containing dry gas that consists of approx. 99% methane, high porosity and permeability level and high connectivity between the sections of the reservoir. March 30, 2013 marked the commencement date of natural gas piping to consumers with a current maximum daily production capacity of 1.1 BCF (about 11.5 BCM a year).



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The following table presents the gas and condensate reserves in the Tamar Reservoir as published by the Company in a TASE report on February 14, 2018 (addressing 100% of the Reservoir) as of December 31, 2017:

Reserve category	Tamar Reservoir		Tamar SW Reservoir		Total (Tamar and Tamar SW Reservoirs)	
	Natural gas	Condensate	Natural gas	Condensate	Natural gas	Condensate
	BCF	Million barrels	BCF	Million barrels	BCF	Million barrels
1P Proved Reserves	7,040.2	9.2	796.4	1.0	7,836.6	10.2
1P Probable Reserves	3,018.0	3.9	203.5	0.3	3,221.5	4.2
2P Proved + Probable Reserves	10,058.2	13.1	999.9	1.3	11,058.1	14.4
2P Possible Reserves	1,851.7	2.4	217.6	0.3	2,069.2	2.7
3P Proved + Probable + Possible Reserves	11,909.9	15.5	1,217.5	1.6	13,127.3	17.1

The holding structure in Tamar Lease is as follows:

Partner	Pre-acquisition interests	Post-acquisition interests
Noble Energy Mediterranean Ltd.	32.50%	25.00%
Isramco Negev 2 Limited Partnership	28.75%	28.75%
Delek Drilling - Limited Partnership	22.00%	22.00%
Tamar Petroleum	9.25%	16.75%
Dor Gas Exploration - Limited Partnership	4.00%	4.00%
Everest Infrastructures - Limited Partnership	3.50%	3.50%

3.3 Description of the operating segment

3.3.1 General

The Company is engaged in oil, natural gas and condensate exploration, development, production and transportation to target markets from the Tamar and Dalit Leases. The exploration, development and production of natural resources in Israel are governed by the Petroleum Law of 1952 ("the **Petroleum Law**") and regulated by different types of permits that are issued to predetermined sites subject to approved exploration and production plans and methodologies, as detailed below:

- "Preliminary permit" - designed to allow its holder a specific timeframe which is sufficient for performing preliminary surveys within the permit area, based on field characteristics and potential (excluding exploratory drillings). This right is limited to 18 months.
- "License" - confers its holder the right to perform oil and natural gas exploration on the license area and the right to conduct exploration and development drillings. The license is granted for a maximum period of seven years.
- "Lease" - confers its holder an oil and natural gas exploration and production right for a period of 30 years with a possible extension for another 20 years.

The Israel Natural Gas Sector Law, 2000 also regulates the issues of natural gas transmission, distribution and marketing within Israel.



3.3.2 Natural gas reservoir exploration and development

The development of the Israeli natural gas sector first began with the discovery of the Noa and Mari-B natural gas reserves in 1999-2000. These discoveries allowed several industrial enterprises in the local market, headed by the IEC, to transition to wider use of natural gas instead of using more expensive and polluting fuels such as coal, diesel oil and fuel oil. The development of this sector was accelerated with the discovery of the Tamar and Leviathan reserves in 2009 and 2010, respectively. These discoveries materially affect the State's energy independence and the development and expansion of the use of natural gas in domestic industries.

The natural gas reserve exploration and development process is time consuming and complicated, is subject to significant uncertainty and requires major capital investments throughout the different stages. There are material differences between onshore natural gas reserve exploration and development, which are considered relatively straightforward, as opposed to offshore exploration and development which require investing numerous inputs and funds and utilizing unique technologies under more complex and risky conditions.

The typical natural gas exploration, development and production process in any area is likely to include the following stages: preliminary analysis of available geological and geophysical data for selecting area with exploration potential; conducting seismic surveys; performing exploratory drillings and additional tests (this stage consists of the possible discovery of dry reserves and subsequent drilling termination); final analysis of drilling results and in the event of natural gas findings, analysis of economic data and initial evaluation of development methodologies and costs; formulating a development plan and economic plan for the project; final analysis of data and deciding whether the discovery has commercial potential (this stage may also lead to discontinuing the reservoir development if the surveys suggest that the gas discoveries are not commercial); performing reservoir development work, including production drilling, piping, building treatment installations etc.; current operation and maintenance.

The natural gas market in Israel is relatively young compared to international gas markets and its optimal and efficient development requires collaborating with multinational corporations that can offer the local market players the necessary resources, knowledge and experience. In this context it should be noted that multinational corporations have the ability to invest and operate globally and naturally weigh in their potential profits and actual profits in various locations around the world based on their cost-efficiency calculations and considerations of the restrictions and risks underlying each location's specific geopolitical backdrop and regulations.

3.3.3 Benefits

The use of natural gas has numerous commercial and industrial benefits on a national scale, as follows:

- **Energy cost saving for industrial outputs and electricity production** - the low price of natural gas compared to currently used alternative fuels such as fuel oil and diesel oil significantly contributes to production cost saving and consequently to price markdowns of end products whose production mainly relies on power. The majority of power stations built in Israel in recent years operate using natural gas turbines whose construction is highly cost efficient¹, less time consuming, reduces the exploitation of land spaces² and has many more operative advantages. In addition to its relatively low price, natural gas is a more efficient source of energy than other fuels and affords power stations and plants high energy conversion efficiency levels which are ultimately also reflected in cost savings³. As per the Israel Gas Authority's estimates⁴, the overall saving achieved by the domestic market from the transition to natural gas use between 2004 and 2016⁵ approximates NIS 48.4 billion. The main saving was experienced by the electricity sector, which reached some NIS 36.3 billion between 2004 and 2016. The remaining overall cost saving accomplished from the transition to natural gas is attributed to the local industries.
- **Clean energy** - the principal emissions of natural gas combustion consist of carbon dioxide and steam. Since coal and oil are highly complex fuels with higher carbon, nitrogen and sulfur ratios, during combustion, high levels of pollutants are emitted into the air, including ash particles of noncombustible substances that are in the atmosphere and add to the air pollution. In contrast, natural gas combustion releases fewer pollutants, which minimizes air pollution and allows protecting the environment and keeping it cleaner and healthier.
- **Energy independence** - Israel's geopolitical circumstances turn it into an isolated energetic island that cannot import fuels from neighboring countries and over the years have forced it to import fuels from Europe at extensive costs. Israel's energetic isolation was slightly relived between 2008 and 2012 with the beginning of supply of natural gas from Egypt, but the sudden interruption of this supply demonstrated the great significance of developing local energy sources. The development of the Israeli natural gas sector will provide local industries and enterprises long-term energetic security and reduce the market's dependence on international energy tariffs.

¹ About half of the cost of construction of a coal-operated power station, about a third of the construction cost of a nuclear power plant and about 15% of the construction cost of a wind farm.

² Natural gas is transported through underground pipelines and, as opposed to other fuels, does not require storage spaces.

³ Coal-operated or fuel oil-operated power stations only use about 40% of the initial energy converted to electricity generation. A cogeneration power station operating using both a gas turbine and a steam turbine is more efficient and uses 55% of the energy. Cogeneration stations that utilize the thermal energy produced in the cogeneration process reach an energy conversion efficiency of about 80%.

⁴ Source: Ministry of National Infrastructures, Energy and Water Resources - the Natural Gas Authority - Review of Developments in the Natural Gas Sector in 2015.

⁵ <http://archive.energy.gov.il/Subjects/NG/Documents/Publication/NGPublication2016.pdf>.



- **Natural gas as a source of tax based government income** - the Israeli natural gas industry is expected to benefit the State's economy directly through government income from sales to end consumers that are subject to corporate tax and indirect taxes such as VAT. Moreover, the Israeli tax regime has introduced specific tax systems that apply to the natural gas sector and, similarly to all other fuel products, natural gas is also subject to excise duty. In addition, according to the Petroleum Law, the State may charge royalties of about 12.5% on natural gas wellhead prices. Furthermore, following the conclusions of the Sheshinsky Committee, and in accordance with the ensuing enactment of the oil and gas windfall profits tax, the State is entitled to receipts ranging between 20% and 50% (depending also on the corporate tax rate) from revenues produced by owners of oil rights less royalties, operating costs and development costs.

3.3.4 Customers

The Israeli natural gas sector services several tiers of consumers that differ in operation and consumption patterns as follows:

- **The IEC** - the IEC is a critical anchor customer for the Tamar Project partners, among others for obtaining the financial resources needed for the construction of the natural gas production network and reservoir development. In fact, without the proceeds received from the natural gas sale transaction signed with the IEC, the necessary funds for the Tamar Project development might not have been secured. The IEC is a government company that is supervised, among others, by the Public Utilities Authority regarding prices of electricity production inputs and specifically natural gas costs.

In 2016, the natural gas used for electricity production accounted for about 83%⁶ of total natural gas consumption in Israel, as opposed to about 80% of total consumption in 2015. The IEC's share accounted for nearly 61% of total natural gas consumption for electricity production compared with about 66% in 2015 and about 75% in 2014. Other consumers include IPPs, whose increased demands for natural gas backed electricity in recent years represent a trend which is expected to continue in the coming years.

- **Independent power producers ("IPPs")** - this tier represents the second most important category of consumers from a natural gas consumption perspective after the IEC. In 2016, IPPs (including cogeneration facilities) consumed some 3.1 BCM⁷, representing about 32% of total natural gas consumption in that year.

IPPs can be divided into several categories based on their production technology: conventional IPPs, cogeneration facilities, pumped-storage hydroelectricity, renewable energy and large enterprises with their own in-house power stations under an independent power production license. Article 93 to the Natural Gas Sector Law defines natural gas sold to IPPs as a controlled product under the Law for Price Control of Commodities and Services, 1996.

⁶ <http://archive.energy.gov.il/Subjects/NG/Documents/Publication/NGPublication2016.pdf>.

⁷ Including gas consumption by industrial enterprises for electricity production.

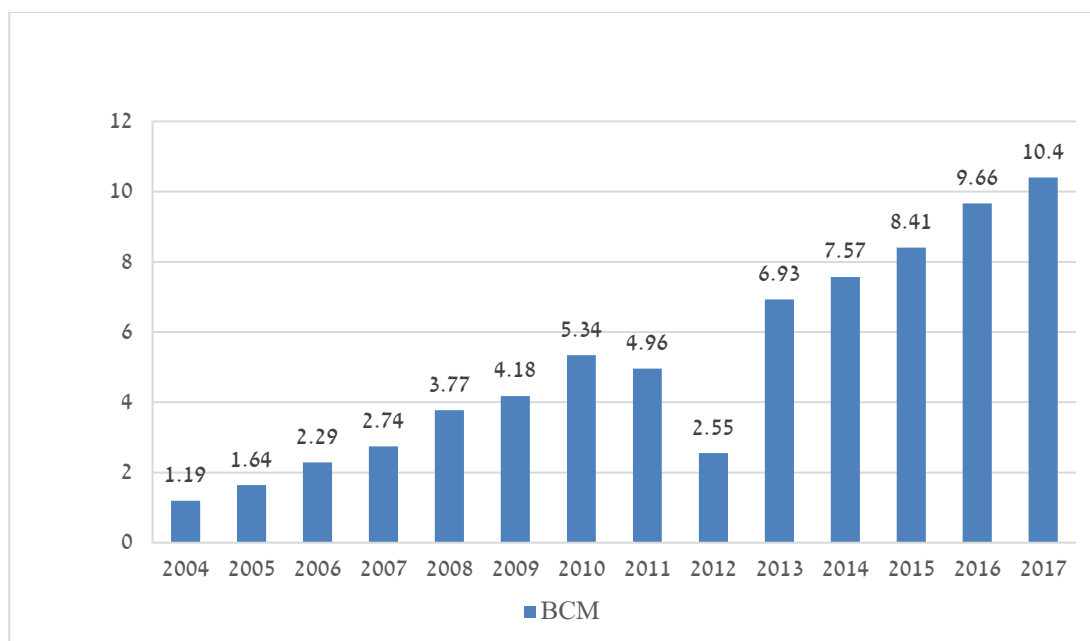


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- **Large industrial consumers** - this tier of consumers includes several large consumers that are critical to the development of the Israeli natural gas sector. The majority of the country's largest and most prominent enterprises have signed agreements for the purchase of natural gas through the construction of self-owned in-house power facilities for supplying the plants' power needs, which solely represents a fraction of the power facility's production capacity and the sale of the produced outputs to external customers or to the IEC. Accordingly, the natural gas procurement agreements signed by the majority of leading industrial enterprises in Israel to date are characteristic of contracts signed with independent power stations. The total natural gas consumption in the industrial sector in 2016 approximated 1.62 BCM⁸.
- **Medium and small consumers** - the segment of distribution network consumers which mainly consists of medium sized and small enterprises and businesses such as laundries and bakeries is a relatively new segment in the domestic natural gas sector which have recently begun signing agreements for gas purchase and infrastructure conversion. These consumers are characterized by low gas pressures and relatively small and interrupted daily consumption quantities and most of which are yet to be connected to the onshore transmission or distribution grid and therefore consume condensed natural gas (CNG) which is a temporary and non-optimal solution given that the cost of consumption is liable to reach twice the cost of LPG.

3.3.5 Demand projections

The following chart presents the natural gas consumption in Israel between 2004 and 2017 (source: the Natural Gas Authority)⁹:



⁸ Excluding gas consumption by industrial enterprises for electricity production.

⁹ Natural gas consumption for 2017 based on an estimate by Delek Drilling, as published in its financial statements as of December 31, 2017.

The main factors which are expected to drive growth in natural gas demands are:

- **Enhanced demands in the electricity sector** - in recent years the IEC has been implementing a plan for conversion of its power stations from use of coal and oil distillates to natural gas (in December 2015, the Minister of Energy decided to implement a 15% reduction in use of coal in power stations in 2016 compared with 2015). Since 2017, there has been an additional reduction of 5%, bringing the total reduction in coal use achieved from 2015 to date to 20%.
- **Transition to use of natural gas by IPPs and industrial enterprises** - in 2013, IPPs began relying on natural gas for energy production simultaneously with enhanced demands experienced in the industrial sector. In recent years there has been a significant trend of conversion from industrial use of oil distillates to natural gas consumption. There has also been a growing trend of connecting more industrial enterprises to the natural gas distribution grid. According to data published by the Ministry of Energy in March 2018, 36 consumers were connected to the transmission grid, 53 to the distribution grid and 8 are CNG consumers.

In August 2016, the Minister of Energy announced a resolution reached to shut down four coal-operated power stations following the connection of three offshore gas reservoirs to the shoreline. In keeping with said resolution, in September 2016, the IEC obtained emission permits for its coal-operated power stations pursuant to the Clean Air Act, 2008 which obligate it to continue installing emission control systems and discontinue units 1-4 at the Orot Rabin coal-operated power station by January 1, 2022. On May 28, 2017, the Ministry of Energy issued a notice of the Minister of Energy's decision to assign the construction of the natural gas operated power stations that will replace units 1-4 at the Orot Rabin coal-operated power station to the private sector, among others to secure compliance with the Ministry's deadlines for the discontinuance of the use of coal in these units.

In November 2017, the Minister of Energy issued a government policy on the minimum operation of coal-operated production units according to which natural gas operated power production will receive precedence over coal operated power production at all times and the coal operated production units will continue to function on minimum load capacity to enable flexible and reliable supply of power to the Israeli market.

In January 2018, the Minister of Energy decided to instruct the IEC to reduce the use of coal for producing electricity by 30% compared to 2015. According to the announcement of the Ministry of Energy and Ministry of Environmental Protection, this decision will lead to a significant reduction of air pollution in the coal-operated power stations and is expected to enhance demands for natural gas in the market. As per the Ministries' announcement, as a result of the steps approved by the Minister of Energy, which will encompass the power stations pursuant to the Clean Air Act, by the end of 2018, over 70% of electricity production in the market will rely on natural gas and renewable energies.

In March 2018, the Israeli Parliament's Finance Committee followed by the Parliament Plenum both approved decrees according to which, among others, effective from March 15, 2019, the excise duty on coal will be raised by about 125% in the backdrop of the Government's policy to internalize externalities such as fuel costs and encourage extensive use of natural gas.

The above mentioned policy has several major benefits, including electricity production cost reduction since natural gas is a much more efficient source of energy compared to the main sources of energy currently used by the IEC (coal, diesel oil and fuel oil). Moreover, natural gas is a much cleaner source of energy compared to the abovementioned fuels, which enhances and perpetuates the demand for natural gas at the expense of more polluting energy sources.



- **Improving diplomatic relationships with neighboring countries** - recently, there has been noted improvement in Israel's diplomatic and business relationships with its neighbors which are of the utmost strategic importance to the country in general and all the more so to the gas companies. In this context we should mention the export agreement signed on September 26, 2016 between the Leviathan Partnership and NEPCO, Jordan's National Electric Power Company, for the supply of natural gas in an aggregate of approximately US\$ 10 billion¹⁰ and the agreements signed on February 19, 2018 between some of the Tamar and Leviathan partners and the Egyptian Dolphinus for the supply of natural gas totaling some US\$ 15 billion. This trend of improved business relations between the countries has a positive influence on the State's gas export potential and the demand for natural gas produced in Israeli gas reservoirs.

According to the Natural Gas Authority's publications of May 2017, the quantity of natural gas consumed by the Israeli market in 2016 totaled some 9.7 BCM, an increase of about 15% compared to 2015. The total natural gas used in electricity production in that year was estimated at about 8.0 BCM¹¹, accounting for about 83% of total natural gas consumed. Moreover, the consumption of natural gas for industrial enterprises was estimated at about 1.6 BCM. According to Delek Drilling's financial statements for 2017, the quantity of natural gas consumed by the Israeli market in 2017 totaled approximately 10.4 BCM, an increase of about 8% compared to 2016.

The projected demand for natural gas as published by the Natural Gas Authority¹² relies, among others, on an average multiannual continued growth in electricity consumption of about 3% (per annum), based on minimal use of fuel oil and diesel oil, relying on coal-operated power stations at a similar scope to the current scope but enhanced by the construction of new power stations (assuming that the coal-operated units at the Orot Rabin power plant are not converted to natural gas usage), the transition to natural gas as the main fuel for generating power which began in 2014 and the gradual integration of renewable energies. The projection also takes into account the gradual conversion to use of natural gas in transportation and the local production of methanol and ammonia in petrochemical industries.

Based on projections published by different market factors, including forecasts that were disclosed in the Tamar Reservoir Partnership's reports to the TASE, the level of demand for natural gas in 2020 and 2025 will be about 14 BCM and about 20.3 BCM, respectively.

3.3.6 Regulatory environment

The production of natural gas from reserves located in Israel's territorial waters and its sale are both governed by certain regulatory restrictions regarding produced gas quotas, gas exports and gas prices. The production and sale of natural gas from the Tamar, Leviathan, Tanin and Karish Reservoirs and/or from any other reservoir are subject to other regulatory restrictions by virtue of the Gas Outline, as specified below:

- **Restrictive trade practices and exemption from the Israeli Restrictive Trade Practices Law** - in 2012, the Director General of the Israeli Antitrust Authority declared the partners in the Tamar Project as owners of a natural gas supply monopoly in Israel. Due to said declaration, various restrictions can be imposed on the activities of the partners in the Tamar Project in accordance with the Israeli Restrictive Trade Practices Law. Moreover, in 2011-2014, the Director General of the Israeli Antitrust Authority considered declaring the partners in the Leviathan Project as partners in restrictive trade practices in connection with marketing natural gas from the Leviathan Reservoir.

¹⁰ The suspending conditions underlying the agreement were met and the gas pipeline is currently under construction.

¹¹ The supply of gas for electricity production includes the supply of gas to the IEC, IPPs and industrial enterprises that partially produce electricity.

¹² Source: <http://energy.gov.il/Subjects/NG/Pages/GxmsMniNGEconomy.aspx>.



The Gas Outline grants Delek Drilling, Noble and Ratio exemption pursuant to the Restrictive Trade Practices Law for the Leviathan Reservoir. The Gas Outline also grants Delek Drilling and Noble exemption from owning a monopoly in the Tamar and Leviathan Reservoirs ("**the exemption**"). The grant of the exemption is contingent on meeting the following requisites:

- The sale of working interests held by Delek Drilling and Noble in the Karish and Tanin Reservoirs to unrelated third parties within the later of 14 months from the date of grant of the exemption or from the date of issue of a new draft regulatory arrangement by the Commissioner of Petroleum regarding the operator's qualifications. This requisite defines a minimum price for the Karish and Tanin Reservoirs which is the lower of US\$ 40 million or the total consideration paid for the entire working interests in the Karish and Tanin Reservoirs.
 - The sale of Delek Drilling's entire working interests in Tamar Reservoir to an unrelated third party or to any of the holders of working interests in the Leviathan, Karish and Tanin Reservoirs and restriction of Noble's rights in Tamar Reservoir to a maximum of 25% within 72 months from the date of publication of the Gas Outline.
 - The imposition of limitations on any new agreements to be signed for the supply of gas from the Tamar and Leviathan Reservoirs such as proscribing levying limitations on purchases from other suppliers, grant of right to consumers to unilaterally determine the engagement period under certain circumstances and grant of unilateral option to consumers to change the agreement supply scope.
- **Stable regulatory environment** - in the original gas outline, the Israeli Government undertook to maintain "regulatory stability" in connection with the exploration and production of natural gas for a period of 10 years. In March 2016, the Israeli High Court of Justice ruled that the regulatory stability mandate prescribed in the existing gas outline is illegal. In May 2016, the Government readopted its resolution on the gas outline while establishing an alternative arrangement for sustaining a "stable regulatory environment" in order to encourage investments in natural gas exploration and production in the sector.
 - **Royalties to the State** - according to the Petroleum Law, a natural gas or oil lease holder is required to pay the State royalties of 12.5% of the natural gas or oil produced in the lease at the natural gas or oil wellhead price. The calculation of the wellhead price for the Tamar Reservoir is still under negotiation between the Commissioner of Petroleum and the Tamar Reservoir partners and has yet to be determined as of the date of this Valuation. To date, the Tamar Reservoir partners pay advances on account of royalties at a rate of 11.65% on Tamar Project's proceeds. The calculation of royalties for the Leviathan, Karish and Tanin Reservoirs has not yet been determined.
 - **Windfall profits tax levied on natural resources** - the oil and gas windfall profits tax imposes the taxation of oil and gas profits based on the ratio of the net retained earnings from the oil or gas production project to the total net cumulative investments in the oil or gas production project and to the total cumulative investments in the initial reservoir exploration and development ("**the investment coverage ratio**"). The minimum levy of 20% will be collected when the investment coverage ratio is 1.5 (the ratio for Tamar is 2) and will be gradually increased up to 50% (depending also on the Israeli corporate tax rate. The current maximum corporate tax rate is 46.8%). When the investment coverage ratio reaches 2.3 (2.8 for Tamar), the levy will be calculated and levied on each reservoir separately.



- **Price control** - during the interim period after the Gas Outline becomes effective and until the entire exemption requisites are met, the natural gas price control in the sector will be governed by the Israeli Restrictive Trade Practices Law but limited to "light supervision" only (imposing profit reporting and gas price requirements), provided that during this period the holders of rights in Tamar and Leviathan Reservoirs offer potential consumers a price that is based on weighted average prices in existing agreements in the Reservoirs or on prices established in export agreements. Following is a condensed description of the price alternatives and linkage thereon as published in Government Resolution 476 of August 16, 2015:
 - **Alternative 1** - a price determined and updated based on this formula: $P(T) = R(T-2)/Q(T-2)$ whereby $P(T)$ is the base price; $R(T-2)$ is the total income from all natural gas sales in the quarter before the date of signing the agreement by anyone who is a lease holder; and $Q(T-2)$ is the cumulative quantity of natural gas supplied to consumers in the quarter before the date of signing the agreement by anyone who is a lease holder. The base price will be updated based on the product of the calculation according to said formula.
 - **Alternative 2** - the price is determined based on the price per Brent oil barrel pursuant to the optimal formula for consumers as of the determination date in agreements signed by lease holders for supply of gas from the Tamar field.
 - **Alternative 3** - the holders of lease rights will offer potential consumers that are IPPs and hold a license for minimum output of 20 KWP the price alternative that includes linkage to the weighted production tariff issued by the Public Utilities Authority-Electricity as follows:
 - **Conventional IPPs** - a simple average of prices set forth in contracts signed by the three largest IPPs based on the linkage determined in said contracts;
 - **Cogeneration IPPs** - a simple average of the prices set forth as of the date of the Government's resolution in cogeneration contracts linked to the weighted production tariff based on the linkage determined in said contracts.

The above averages will be calculated by the Natural Gas Authority based on data provided to it by the holders of lease rights. The following linkage formulas will be set forth for IPPs in the first quarter of 2018:

Conventional IPPs

$$CP\$ = 5.71 * (53.3\% * Pt/Pt0 + 46.7\% * Pt/Pt0 * Ns0/Ns)$$

Cogeneration IPPs

$$CP\$ = 5.81 * (90\% * Pt/Pt0 + 10\% * Pt/Pt0 * Ns0/Ns)$$

Whereby:

CP\$	-	CPI-linked monthly price in \$ per MMBTU
Pt	-	Known component tariff on last day of the month before the price calculation month
Pt0	-	Base production component tariff = NIS 0.3463 per kilowatt per hour
Ns	-	Monthly average of NIS-USD exchange rate as of the month of calculation of the price
Ns0	-	Base USD exchange rate - NIS 3.65 = US\$ 1



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The lease holders will offer the consumer a floor price according to the offering in the existing agreements according to increments of US\$ 5.2 per MMBTU, US\$ 5 per MMBTU and US\$ 4.7 per MMBTU and the update mechanism will begin according to the last change which occurred in the production component. As of January 2018, the floor price is US\$ 4.7 per MMBTU.

- The option to choose among the price alternatives specified above will be made available to the purchaser only just before the engagement in a contract. Furthermore, the holders of rights in the leases will be entitled to offer the potential consumers a discount on prices deriving from the alternatives specified above. In addition, the parties to the agreement will be entitled to elect any method of updating the base price, provided that it will be reasonable and accepted in the natural gas agreements in Israel or worldwide. In such case, the base price will be updated according to the linkage method selected.

3.3.7 Uncertainty and risk factors

The exploration and development of oil and natural gas discoveries involve significant monetary expenses under conditions of uncertainty resulting in a very high financial risk level. Following are details of the uncertainty and risk factors which have a material impact on the Company's operations:

- **Changes in the electricity production tariff, price indices, alternative energy sources prices** - the prices paid by the consumers for natural gas derive, inter alia, from the electricity production tariff, the US consumer price index and the prices of fuels alternative to gas such as fuel oil, diesel oil and Brent. Furthermore, a significant change in alternative energy sources could lead to a change in the model used by the IEC such that priority shall be granted to power plants operated by energy sources alternative to gas. A decline in tariffs can adversely affect also the prices which will be obtained from the Tamar Reservoir.
- **Competition in the gas supply market** - in recent years, several significant gas reserves were discovered in Israel in scopes which significantly exceed the estimates of the Ministry of Energy regarding the needs of the local market. In addition, in 2015, a material natural gas reserve was discovered in Egypt ("Zohar") and in 2018, a natural gas reserve was discovered in Block 6 in Cyprus. These reserves could have a negative effect on the potential export of natural gas from Israel on the one hand, and could lead to an increase in competition in the natural gas market in Israel by increasing the supply (through import) on the other. Also, further future gas discoveries, both in Israel and in other countries in the eastern Mediterranean Basin, whose development could lead to the entry of other competitors to the natural gas market in Israel and in neighboring countries, and thus increase the scope of competition in the sector.
- **Restrictions on export** - limitation of the amount of gas that can be exported could lead to surplus supply in the local market and to a consequent decrease in tariffs which could also adversely affect the prices which will be obtained from the Tamar Reservoir.
- **Dependence on the proper working order of the national transmission system** - the ability to supply gas which will be produced from the reservoirs to the potential consumers is dependent, inter alia, on the proper working order of the national transmission system for the supply of gas and of the regional distribution networks.



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- **Operational risks and lack of sufficient insurance coverage** - oil and gas exploration and production activities are exposed to a variety of risks, such as uncontrolled eruption of liquids and gas from the well, explosion, collapse of the well and other events which could affect the functioning of the production and transmission system, each of which could cause destruction or damage to oil or gas wells, the transmission and production facilities, exploration equipment etc. There is also a risk of liability for damage deriving from contamination due to the eruption and/or leakage of liquids and/or a gas leak. Despite the insurance existing in the market, not all of the possible risks are covered or are coverable.
- **Estimation of costs and timetables and potential shortage of resources** - the estimated costs for the performance of other exploration and development activities and the estimated timetables for the performance thereof are based solely on general estimates and could deviate significantly. The exploration plans could significantly change, inter alia, following failures and/or findings which will be obtained during the performance of such actions and lead to significant gaps in the timetables and the estimated costs of such activities.
- **Regulatory changes** - the operations in the sector require obtaining numerous regulatory approvals, mainly from the entities authorized under the Petroleum Law and the Natural Gas Sector Law, as well as related approvals from the State's authorities (including the Ministry of Defense, the Ministry of Environmental Protection, the tax authorities and the various planning authorities). In recent years several proposals were made for amendments of laws and/or regulations and/or directives relevant to the field of activity and several resolutions, laws and directives were issued, the implementation of which could have a negative effect on the reservoirs' operations.
- **Further risk factors** - there are other factors which contribute to the uncertainty prevailing in the field of activity including dependence on subcontractors, difficulties in obtaining financing, dependence on weather and sea conditions, cancellation or expiration of oil assets and rights, national security risks and more.

3.3.8 Developments in the Israeli natural gas market

- Leviathan Lease - on February 23, 2017, the Leviathan Reservoir partners made a final investment decision (FID) for the development of phase 1A in the Leviathan Reservoir development plan with an output of some 12 BCM a year and a budget of approximately US\$ 3.75 billion in order to begin the transmission of natural gas from the reservoir by the end of 2019.

On February 19, 2018, the Leviathan Reservoir partners reported an agreement signed between Noble and Dolphinus for the supply of natural gas from the Leviathan Reservoir at a scope of 3.5 BCM a year based on a minimum annual take or pay mechanism. Supply according to the agreement is expected to begin once production from the Leviathan Reservoir commences. As per the estimates of the Leviathan Reservoir partners, the aggregate proceeds from the agreement are expected to reach some US\$ 7.5 billion.

- Karish and Tanin Leases - as part of the adoption of the Gas Outline decisions, on August 16, 2016, an agreement was signed between Delek Drilling, Avner Oil Exploration - Limited Partnership ("Avner") and Energean Israel Limited ("Energean") for the sale of the entire interests of Delek Drilling, Avner and Noble in the Karish and Tanin Leases.

In December 2017, an agreement was signed for the sale of natural gas between Energean and three companies (Israel Chemicals Ltd. (ICL), Oil Refineries Ltd. (ORL) and OPC Energy Ltd. (OPC)), all held by Israel Corporation Ltd., the second largest consumer of natural gas in Israel after the IEC, at an annual scope of 39 BCM for a period of 15 years.



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On March 2, 2018, an agreement was signed between Energean Oil & Gas plc (Energean's parent company) and a consortium of local and international lenders for raising senior debt totaling approximately US\$ 1.275 billion for financing the Karish Reservoir development. On March 15, 2018, Energean's parent company completed the capital raising of approximately US\$ 460 million in an IPO on the London Stock Exchange and on March 27, 2018, Energean announced an FID of approximately US\$ 1.6 billion for the development of the Karish Reservoir. As per Energean's evaluations, natural gas production from the Karish Reservoir is expected to begin in the first quarter of 2021.

4. Description of the Transaction

4.1 The acquired interests

On March 14, 2018, based on an immediate report issued by the Company, the suspending conditions underlying the sale transaction signed between the Company and Noble on January 29, 2018 were met. According to the transaction, the Company acquired from Noble 7.5% (of 100%) of the working interests in the Tamar and Dalit Leases and a relative portion (7.5%) of the operation permit for Tamar Lease's natural gas production system, the shares of Tamar 10-Inch Pipe Ltd. which owns the transmission license according to Article 10 to the Natural Gas Sector Law, the rights and obligations pursuant to the JOA signed in connection with the leases, the license agreement for the Yam Tethys facilities, the natural gas and condensate sale agreements for the Tamar Lease, the natural gas export agreements (including the agreements relating to the export agreements and the Jordan and Egypt export permits) and the MOU signed regarding the supply of gas from the Tamar Reservoir to the Yam Tethys partners (collectively: "**the sold property**"), all in effect from January 1, 2018. The agreement also states that the sold property will not include rights and obligations underlying certain excluded issues as specified in the immediate report issued by the Company¹³. In this context it should be noted that Noble's working interests are not subject to royalties payable to third parties.

4.2 The consideration

The consideration for the sold property includes a cash component of approximately US\$ 475.2 million (financed by proceeds from the issue of bonds (Series B)) and the private placement of 38,495,576 ordinary shares of the Company to Noble (accounting for 43.5% of the Company's issued share capital after the allocation).

The shares allocated to Noble are restricted for resale as per the Israeli Securities Law and the Israeli Securities Regulations (Clarification of Articles 15A to 15C to the Law), 2000. Noble also waived the voting rights attached to the shares allocated to it.

¹³ See more information in an immediate report of January 30, 2018 (TASE reference: 2018-01-008823).

5. Methodology

5.1 Generally accepted accounting principles - general

According to IFRS 11, "Joint Arrangements" ("**IFRS 11**"), when an entity acquires rights in a joint operation whose activity represents a business, as defined in IFRS 3, "Business Combinations" ("**IFRS 3**"), it must adopt all the accounting treatment rules governing business combinations as detailed in IFRS 3 and in other IFRSs which do not contradict the guidance in IFRS 11 and provide the disclosures required by these standards for business combinations. The accounting treatment rules of business combinations which do not contradict the guidance in IFRS 11 are as follows:

- a. Measuring identifiable assets and liabilities at fair value, other than items excluded in IFRS 3 and in other IFRSs.
- b. Recognizing direct acquisition costs as expenditures in the period in which they are incurred and the underlying services are received, other than costs of issuing debt or equity securities which are accounted for according to IAS 32, "Financial Instruments: Presentation", and IFRS 9, "Financial Instruments".
- c. Recognizing deferred tax assets and liabilities arising from the initial recognition of assets or liabilities, other than deferred tax liabilities arising from the initial recognition of goodwill, as required in IFRS 3, and in IAS 12, "Taxes on Income", for business combinations.
- d. Recognizing excess consideration transferred over the net amount of any identifiable assets and liabilities assumed as of the acquisition date as goodwill; and
- e. Testing cash-generating units to which goodwill is allocated for impairment at least annually and whenever there are indications of impairment of the CGUs, as required in IAS 36, "Impairment of Assets", for goodwill acquired in a business combination.

5.2 Identifying business combinations

According to IFRS 3, the first step of accounting for business combinations is determining whether a transaction or other event represents a business combination and requires recognizing the assets acquired and liabilities assumed as a business. This involves examining the transaction based on the definition of a business combination and the guidance in IFRS 3.B5-B12.

According to IFRS 3.B7, "a business consists of inputs and processes applied to those inputs that have the ability to create outputs".

According to the above definition, the acquisition of the sold property represents the acquisition of a business given that all three criteria are met as follows:

- i. Inputs - gas and condensate reserves and the employees operating the production facilities
- ii. Processes applied to the inputs - the asset is in the gas and condensate production and operation stage
- iii. Outputs - the revenues from the sale of gas and condensate

IFRS 3.B5 defines a business combination as "a transaction or other event in which an acquirer obtains control of one or more businesses. An acquirer might obtain control of an acquiree in a variety of ways, for example:

- (a) by transferring cash, cash equivalents or other assets (including net assets that constitute a business);
- (b) by incurring liabilities;
- (c) by issuing equity interests;
- (d) by providing more than one type of consideration; or
- (e) without transferring consideration, including by contract alone".

The acquisition of the sold property is a business combination since the Company obtained control of the working interests in consideration for cash and the issue of equity rights in the Company.

5.3 The acquisition method

The acquisition method is applied to each business combination based on the following steps:

5.3.1 Identifying the acquirer and determining the acquisition date

According to the guidance of IFRS 10, "Consolidated Financial Statements", "the acquirer is the entity that obtains control of another entity, i.e. the acquiree".

According to IFRS 3.9, "the date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree - the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date".

On January 29, 2018, the Company and Noble signed a contingent sale agreement regarding the sold property, in effect retroactively as of January 1, 2018. The suspending conditions underlying the agreement were met in full on March 14, 2018, which is the date on which legal ownership and control of the sold property passed to the Company. Accordingly, the date of acquisition for the purpose of allocation of the business combination is March 14, 2018. It should be noted that the acquisition agreement included adjustments to the cash consideration for the period between January 1, 2018 and March 13, 2018.

5.3.2 Measuring the transferred consideration

Pursuant to IFRS 3.9, "the consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer".

The consideration transferred to Noble for the sold property included a cash component and an equity component (shares) with an aggregate value of approximately US\$ 690.4 million, as detailed in paragraph 6.1 below.

5.3.3 Allocating the business combination cost to the acquired assets and liabilities

According to IFRS 3, all identifiable assets and liabilities (including contingent liabilities) are measured at fair value, including assets and liabilities which might not have been recognized by the acquiree at fair value prior to the acquisition. Moreover, according to IFRS 3, intangible assets must be recognized separately when they derive from contractual or legal rights, or can be separated from the business. The Standard provides a list of items that meet the recognition criteria such as: trademarks, trade names, documented technical expertise, customer lists, contracts with customers and suppliers, license rights (such as drilling, water and minerals) and patents.

The assets and liabilities that are characteristic of the oil and gas sector and which should be examined in the business combination in addition to inventories or fixed assets include:

- Exploration, development and production licenses;
- Oil and gas assets;
- Acquisition and sale contracts;
- Environmental/abandonment arrangements.

In view of the characteristics of the local gas market and mainly the fact that as of the acquisition date the Tamar Reservoir serves as the only substantial natural gas producing reservoir in Israel (given that the supply of gas through the LNG ship off the coast of Hadera is negligible), we estimate that it cannot be established that any existing contracts include any conditions that are not at arm's length and therefore the excess cost estimated in the Valuation was fully allocated to the oil and gas assets.

This conclusion is also supported by the practices adopted in similar purchase price allocations in oil and gas markets in Israel and around the world whereby the excess cost was allocated to oil and gas assets and not split to other intangible assets (excluding goodwill in certain cases).

5.3.4 Tax amortization benefit

According to the AICPA Practice Aid Series¹⁴, the fair value of an asset in a business combination should reflect the price to be paid for the asset if it is acquired separately. Therefore, any tax amortization benefit (TAB) that can be utilized if the asset is acquired separately must be included in the fair value of the asset.

In numerous business combinations, including business combinations relating to acquisitions of oil and gas ventures, the fair value of the acquired assets is based on the post-tax discounted cash flow (DCF) method according to which the tax benefit for the amortization of the asset purchase price is included in the cash flows as reflected in higher amortization expenses that also include the amortization of the carrying amount of the asset.

The TAB increases the value of tangible and intangible assets and consequently reduces the positive goodwill/increases the negative goodwill, if any. Assets valued according to the market approach rather than using the DCF model already reflect the TAB attributable to the asset. Accordingly, when the fair value is determined using the DCF model, the TAB is incorporated in the model.

Accordingly, in evaluating the fair value of the oil and gas assets, we included in the forecasted cash flows the amortization expenses in respect of the assets for tax purposes.

¹⁴ AICPA Practice Aid Series - Assets Acquired in a Business Combination to Be Used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries.

5.3.5 Goodwill/gain from bargain purchase

As a rule, goodwill is an asset that reflects the future economic benefits deriving from other assets acquired in the business combination which cannot be separately identified and recognized. Goodwill is measured as the difference between the consideration transferred and the fair value of the identifiable assets acquired and liabilities assumed.

The acquirer's management is required to conduct a comprehensive analysis and fair value valuation of all the identifiable tangible and intangible assets of the acquired business. After completing this analysis, any residual value is recognized as goodwill. Goodwill can also be created technically as a result of the requirement to recognize deferred tax in the business combination.

Goodwill can arise from various sources, for example, when a specific acquirer is capable of benefiting from the synergies of joint infrastructure assets (such as oil pipelines) or production techniques that are not available to others. Goodwill can also arise from access to new markets, government relations, asset management, technology, expertise, skilled workforce and deferred tax liabilities. An entity can also pay a premium to protect the value of other activities already owned by it and this payment represents goodwill.

Goodwill can also arise from the requirements to recognize deferred tax on the difference between the fair value and the tax value of the assets acquired in the business combination. The revaluation of leases and assets during the exploration phase sometimes cannot be deducted for tax purposes and therefore creates a deferred tax liability.

There may be situations where the consideration paid by the acquirer is lower than the net asset value of the identifiable assets. This type of situation represents a bargain purchase and can occur under circumstances of forced buyouts, problem market terms and/or when certain items in the business combination are not measured at fair value. In the case of a bargain purchase, the gain is recognized immediately in profit or loss. The acquirer must carefully examine all the indicators of a bargain purchase, including whether the business can be immediately resold in an ordinary transaction for a higher price than the consideration paid.

Based on the aforementioned, we first tested the transaction for indicators of positive goodwill or a bargain purchase as follows:

According to the transaction, the acquirer increased its interests in an asset already held by it (9.25% before the transaction) but not in a manner that materially modifies its commercial position from the perspective of control, potential business synergies, production techniques, access to new markets and other indicators mentioned above.

Moreover, according to the Gas Outline, Noble is obligated to sell its share of the Tamar Reservoir down to 25% by the end of 2021. This affords Noble a rather extended period of time and therefore we concluded that in this context no forced buyout occurred.

To supplement our examination we analyzed whether the value derived for the oil and gas assets reflects fair value given that the entire excess cost is allocated to these assets. Our findings suggested that the value of the oil and gas assets reflects fair market value (see more information in paragraph 6.3 below), which reinforces our conclusion that no positive goodwill is associated with the transaction and no bargain purchase had been executed.

6. Purchase Price Allocation of the Business Combination

6.1 The acquisition consideration

The consideration for the sold property consists of the following components:

6.1.1 Cash consideration

As per the Company's data, the cash consideration paid to Noble, after the adjustments specified in the acquisition agreement and less transaction costs, approximates US\$ 475.2 million.

6.1.2 Contingent consideration

According to the transaction, Noble was allocated in a private placement shares of the Company accounting for 43.5% of the Company's shares after the allocation. The shares allocated to Noble are restricted for resale as determined in the Israeli Securities Law, 1968 and the regulations published thereunder. Noble also waived all voting rights attached to the allocated shares.

The Israeli Securities Law imposes restrictions on the sale of securities on the TASE by optionees that purchased the securities in a private placement or from anyone who had purchased the securities in a private placement. According to Article 15C to the Israeli Securities Law and the Israeli Securities Regulations (Clarification of Articles 15A to 15C to the Law), 2000 ("**the Clarification Regulations**"), any public offering of securities during trade on the stock exchange requires issuing a prospectus unless the offering is not performed in accordance with the Clarification Regulations. According to the Clarification Regulations, the shares allocated to Noble cannot be offered during trade on the TASE for a period of six months from the allocation date (the complete restriction period) and in the next 18 months can be offered on the TASE based on the following limitations:

- (a) The number of shares that can be offered during each trading day on the TASE will not exceed the daily average of the Company's share trading turnover in the period of eight weeks before the offering date;
- (b) The offered shares will not account for more than 1% of the Company's issued and outstanding share capital in each quarter.

Based on the aforementioned and the analysis of the trading data, we assumed that the effective limitation is the sale of 1% of the Company's issued and outstanding share capital in the quarter after the end of the complete restriction period.

The value of the restricted shares was estimated based on their market value and the USD exchange rate on the transaction date using the Finnerty Average-Strike Put Option Model ("**the Finnerty Model**"), a standard model for computing the discount for lack of marketability (DLOM). See more information on the Finnerty Model applied in **Exhibit A** hereby attached.

Following is a concentration of the results of the DLOM computation for the restricted shares:

Percentage of equity	Restriction period (years)	Volatility	Amortization during restriction
1.0%	0.50	30.6%	4.7%
1.0%	0.75	27.0%	4.9%
1.0%	1.00	25.1%	5.1%
1.0%	1.25	22.8%	5.1%
1.0%	1.50	21.3%	5.1%
38.5%	1.75	20.8%	5.2%
Weighted average			5.2%

The value of the consideration in shares was estimated at approximately US\$ 215.2 million based on the market value of the Company's shares and the USD exchange rate as of March 14, 2018 (approximately US\$ 521.6 million), the number of shares allocated to Noble (43.5% of the Company's issued share capital after the allocation) and the IRR explained above.

6.2 Net identifiable assets (excluding oil and gas assets)

Following are details of the net identifiable assets as of the transaction date:

- i. Excess receivables and other long-term assets less payables attributable to the sold property totaling approximately US\$ 0.3 million.
- ii. Asset retirement obligation in connection with the sold property totaling approximately US\$ 8.0 million.
- iii. Deferred taxes of approximately US\$ 0.8 million. The deferred taxes were recognized in respect of the difference between: (1) a fair value of approximately US\$ 215.2 million of the shares recognized in the books and (2) a purchase cost for tax purposes in respect of the share consideration in the amount of approximately US\$ 218.6 million (based on the average closing price of the Company's share in the seven trading days following the allocation date), all multiplied by the tax rate.

6.3 Allocation of excess cost to oil and gas assets

The excess cost estimated at approximately US\$ 697.3 million based on the difference between the purchase price (cash and shares) and the net identifiable assets was fully allocated to oil and gas assets (in this paragraph - "**the acquired assets**"). As discussed in paragraph 5.3.5 above, in order to substantiate the assumption that the transaction does not include payment for goodwill or a bargain purchase, we examined whether the value allocated to the acquired assets reflects fair value. Our examination consisted of the following steps:



6.3.1 Measuring the internal rate of return (IRR)

Measuring the IRR was performed by calculating the IRR of the projected cash flows associated with the sold property. The projected cash flows used in the calculation are mainly based on the anticipated cash flows published by the Company on February 14, 2018 and on our assumptions regarding price developments as follows:

- The current customer mix of the Tamar Reservoir is comprised of the IEC, conventional IPPs, cogeneration IPPs, industrial enterprises and others. We assumed that this customer mix will not sustain a material change except for the IEC's share which will be moderately reduced as opposed to the share of IPPs and other consumers which is expected to rise based on the assessment that the increased demand for electricity will be supplied by the IPPs.
- According to the terms of the agreement signed between the IEC and the Company, the price per MMBTU is linked to the US consumer price index plus 1% by 2021 and less 1% from (July) 2021 through 2028. The parties also have the option of updating the price (by mutual consent or based on the arbitration mechanism set forth in the agreement¹⁵) in two pulses in 2021 and 2024 to up to about 25% and 10% (upwards or downwards), respectively. Consequently, we assumed that the price payable by the IEC will be updated downwards by about 50% of the maximum update rates (in each pulse) based on the weighted terms which we estimate will prevail on the update dates and affect the negotiations between the parties (including material contract prices to be signed in the future and prices of alternative fuels, the difference between the price charged by the IEC from IPPs and each party's alternatives). At the end of the contract between the IEC and the Company, we assumed the price payable by the IEC will be the price payable by the IPPs.
- For the other agreements we assumed that the prices will be adjusted using the relevant linkage formulas for each customer type based on the following assumptions:
 - i. The expected NIS-USD exchange rates as of the Valuation date.
 - ii. A (nominal) annual increase in the production component tariff of about 2% until 2027 except for the years in which the price will be updated by the IEC, and an annual increase rate of 1.5% from 2028 onwards.
 - iii. Prices per Brent oil barrel (see below).
- The condensate price projections were estimated based on an average long-term forecast of oil prices issued by the World Bank¹⁶ and the EIA¹⁷ and based on the Company's assumption that the condensate price will derive from the Brent price adjusted to the differences in oil quality.

Based on the above assumptions, the IRR used for the acquired assets is about 10.94%.

¹⁵ The main condition for repricing based on the agreement is the existence of "anchor contracts in the Israeli market" in the relevant period.

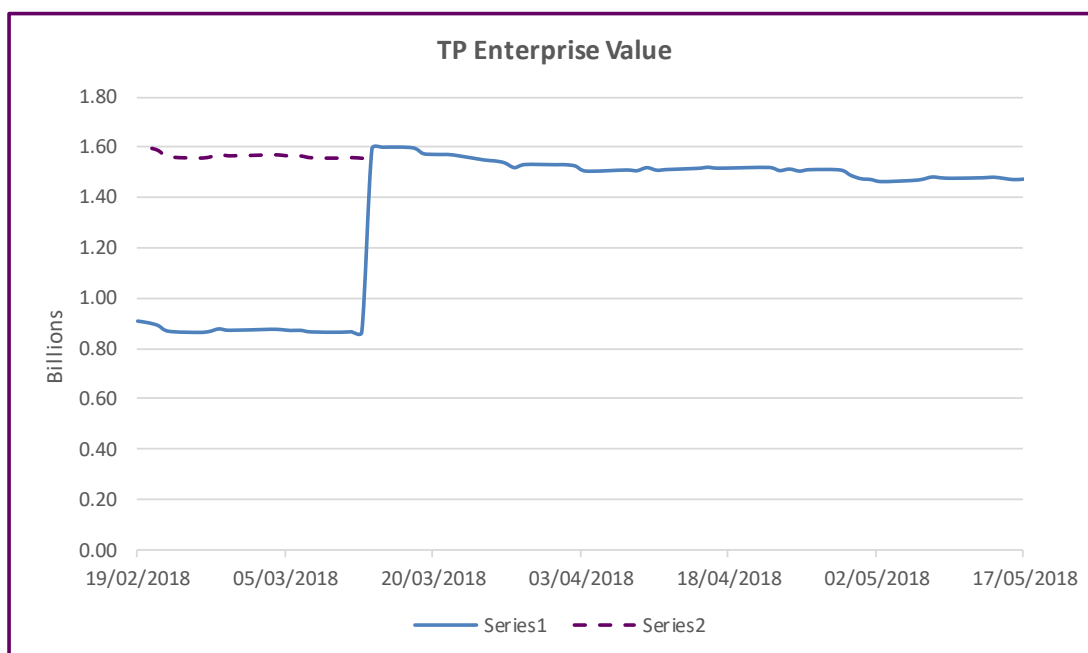
¹⁶ A World Bank Quarterly Report: Commodity Markets Outlook, April 2017.

¹⁷ US Energy Information Administration: Annual Energy Outlook, 2017.

6.3.2 Testing the fair value of the acquired assets and the existence of goodwill

In order to test the reasonableness of the IRR for the acquired assets, we tested the IRR of Tamar Petroleum's enterprise value (EV) in relation to the cash flows attributed to its interests in the reservoirs in the period before the transaction date (9.25% interests in the reservoirs) and in the period after the transaction date. Since the assets are identical (the Company's assets before the transaction and the acquired assets¹⁸) and given the marketability of the Company's securities, we believe the IRRs before and after the transaction are a good indication for comparison purposes and for measuring the fair value.

The measurement period was determined for the trading days in the three months that had elapsed from February 19, 2018, the date of reporting the natural gas export agreement with Egypt which is a crucial event for the Company's business. The projected cash flows were estimated based on the assumptions detailed in paragraph 6.3.1 above and the required adjustments on the calculation dates throughout the measurement period (adjustment of projected cash flows for 2018 from the calculation date and relevant balance sheet balances on the basis of daily calculation). The following chart describes the development in Tamar Petroleum's enterprise value in the measurement period¹⁹ (see the calculation method in **Exhibit B** hereby attached):



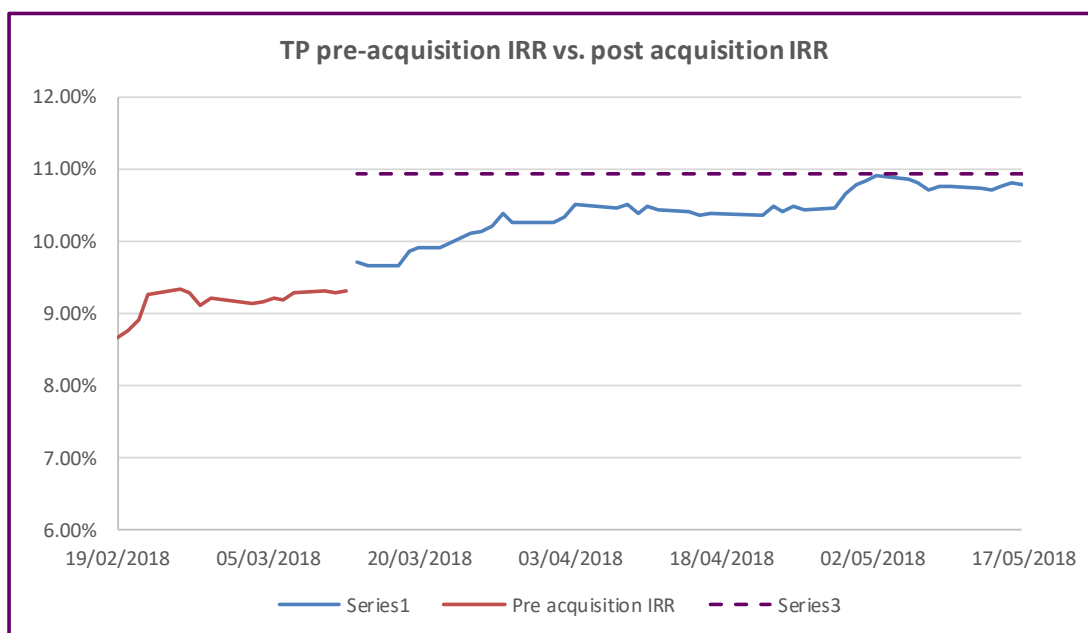
¹⁸ The assets acquired from Noble do not include a liability for payment of overriding royalties to third parties but the effect of such royalties on the cash flow risk level is negligible.

¹⁹ The enterprise value attributable to 16.75% of the reservoirs was calculated based on the Company's enterprise value with the addition of the value of the acquired assets (including cash flow adjustments based on a daily calculation).



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The following chart describes the IRR of the acquired assets compared to the IRR of Tamar Petroleum's enterprise value in the measurement period:



The analysis of the above charts indicates that the IRR derived from the pre-acquisition EV ranges between 8.67% and 9.32% (average of about 9.23%) whereby the IRR of the acquired assets was estimated on the transaction date at about 10.94%. Therefore, the transaction consideration does not include positive goodwill since indications of positive goodwill can only arise when the IRR of the acquired asset is lower than the IRR of the entity's enterprise value before the acquisition (higher price).

The analysis of the developments in the EV and the IRR of the Company's EV in the measurement period post-acquisition indicates that the Company's EV remained materially unchanged post-acquisition and even declined in the subsequent period and that the IRR gradually converged into the IRR of the acquired assets. Accordingly, the consideration paid does not represent a bargain purchase since the increase in return (decrease in EV) and the convergence to the IRR in the transaction support the transaction price. In this context we wish to note that the Company's shares and bonds are traded on an active market and therefore the EV is mostly classified at Level 1 in the fair value hierarchy.

We also wish to state that after examining the nature of the transaction and market environment on the acquisition date, the asset is similarly held by several parties. From Noble's perspective no forced sale was necessary since the timeframe granted to it for selling the sold property in the context of the Gas Outline was sufficiently long. Moreover, the Company had information about the sold property given that it already held 9.25% of the reservoirs before the acquisition and no material business synergies that might have derived to the Company to justify excess payment (goodwill) could be identified.



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6.3.3 Allocation of the value of the oil and gas assets

The aggregate value of the oil and gas assets acquired includes the value of the gas producing platform in the Tamar Reservoir, the Tamar SW Reservoir and the Dalit Reservoir. The aggregate value was split as follows:

- Dalit Reservoir - in view of the uncertainty regarding the date of development of the reservoir²⁰, we estimated the value of the reservoir based on the specific costs invested thus far (approximately US\$ 4.2 million in 7.5% of the interests in the reservoir).
- The split between the gas producing platform in the Tamar Reservoir and the Tamar SW Reservoir which has yet to produce gas was based on the ratios of gas reserves per reservoir as of January 1, 2018 as follows:

	Gas producing platform	SW	Total
Total 2P natural gas reserves (BCM)	313.1	28.3	341.4
Relative share	91.7%	8.3%	100.0%
Asset value (US\$ Million)	635.7	57.4	693.1

6.4 Findings

Following is a summary of the PPA of the business combination:

US\$ Million	
Consideration for the business combination:	
Cash consideration net of transaction costs and adjustments as per acquisition agreement	475.2
Consideration in shares:	
Value of 43.5% shares issued to Noble	226.9
Amortization of restricted shares	(11.7)
Total consideration in shares	215.2
Total business combination cost	690.4
PPA of business combination:	
Long-term receivables and other assets less payables, attributable to 7.5% working interests	0.3
Asset retirement obligation in connection with 7.5% working interests	(8.0)
Deferred taxes	0.8
Oil and gas assets:	
Tamar's active production platform	635.7
Tamar SW	57.4
Dalit	4.2
Total oil and gas assets	697.3
Goodwill	-

²⁰ The partners in the Tamar and Dalit Leases submitted to the Commissioner of Petroleum a development plan for the Dalit Lease which is integrated in the development plan of the Tamar Reservoir.

Exhibits

Exhibit A - Finnerty Model used in calculating the discount for lack of marketability (DLOM)

The Finnerty Model ("the Model") is a commonly practiced model for calculating the discount for lack of marketability (DLOM). The Model is fundamentally based on the financial theory that holding restricted shares is equivalent to holding ordinary shares and a put option with an average exercise price (based on the share price in the period before the exercise dates). The value of the put option reflects the loss of share resale flexibility in relation to the average price of unrestricted shares during the restriction period.

According to the Model, the DLOM is described as follows:

$$DLOM = V_0 e^{-qT} \left[N\left(\frac{v\sqrt{T}}{2}\right) - N\left(-\frac{v\sqrt{T}}{2}\right) \right]$$

Whereby:

$$v\sqrt{T} = \sqrt{\sigma^2 T + \ln[2(e^{T\sigma^2} - \sigma^2 T - 1)] - 2 \ln(e^{T\sigma^2} - 1)}$$

Whereby:

- N - Standard normal cumulative distribution function
- q - Annual dividend return on the share
- T - Marketability restriction period
- σ - Annual share volatility
- V₀ - Value of (unrestricted) ordinary share

Following are details of the assumptions used in the DLOM valuation:

- Volatility - since the marketability of the Company's shares is too short for the purpose of calculation, the share volatility was estimated based on the share volatility of Isramco Negev 2, Limited Partnership, judged by us as comparable. The following table presents share volatility during the restriction period:

Restriction period (years)	0.50	0.75	1.00	1.25	1.50	1.75
Share volatility	30.6%	27.0%	25.1%	22.8%	21.3%	20.8%

- Dividend yield - the dividend yield rate was estimated at about 11% based on the dividend distributed by the Company in April 2018 and the period that had elapsed from the date of the Company's IPO on the TASE. Although this involves a single observation, based on inquiries held with the Company's management, we believe that this yield rate reflects the best estimate for calculating the DLOM.



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Exhibit B - calculation of enterprise value and internal rate of return

Following are the results of the calculation of the Company's EV and IRR in the measurement period:

Date	Market value of shares	Market value of bonds (Series A)	Cash and other balances, net	Enterprise value	IRR	
17/05/2018	413	610	(71)	1,474	10.80%	
16/05/2018	413	609	(71)	1,472	10.82%	
15/05/2018	416	610	(70)	1,477	10.77%	
14/04/2018	417	611	(70)	1,482	10.72%	
13/05/2018	419	609	(69)	1,479	10.75%	
10/05/2018	415	609	(67)	1,477	10.77%	
09/05/2018	417	608	(67)	1,479	10.76%	
08/05/2018	417	610	(66)	1,482	10.72%	
07/05/2018	409	609	(65)	1,473	10.82%	
06/05/2018	408	607	(65)	1,468	10.87%	
03/05/2018	403	606	(63)	1,464	10.91%	
02/05/2018	407	608	(63)	1,472	10.83%	
01/05/2018	412	607	(62)	1,476	10.80%	
30/04/2018	420	610	(61)	1,489	10.66%	
29/04/2018	435	612	(61)	1,510	10.45%	
26/04/2018	435	612	(59)	1,511	10.44%	
25/04/2018	433	610	(58)	1,506	10.50%	
24/04/2018	437	611	(58)	1,514	10.42%	
23/04/2018	425	614	(57)	1,508	10.48%	
22/04/2018	423	623	(57)	1,520	10.36%	
17/04/2018	421	621	(54)	1,517	10.39%	
16/04/2018	422	621	(53)	1,521	10.36%	
15/04/2018	424	617	(53)	1,517	10.40%	
12/04/2018	422	615	(51)	1,512	10.45%	
11/04/2018	418	616	(50)	1,509	10.48%	Dividend paid
10/04/2018	424	618	(50)	1,519	10.38%	
09/04/2018	416	615	(49)	1,507	10.50%	
08/04/2018	419	614	(48)	1,510	10.47%	
04/04/2018	414	613	(46)	1,506	10.52%	
03/04/2018	430	615	(45)	1,525	10.33%	
02/04/2018	438	613	(45)	1,531	10.27%	
01/04/2018	437	613	(44)	1,531	10.27%	
29/03/2018	437	613	(43)	1,532	10.27%	FS for Q1 2018 Dividend-record date
28/03/2018	421	614	(42)	1,519	10.39%	
27/03/2018	472	614	(73)	1,539	10.21%	
26/03/2018	478	615	(73)	1,546	10.14%	
25/03/2018	480	615	(72)	1,550	10.10%	
22/03/2018	494	618	(70)	1,570	9.92%	
21/03/2018	499	615	(70)	1,572	9.91%	
20/03/2018	495	618	(69)	1,572	9.91%	
19/03/2018	496	619	(69)	1,576	9.87%	Acquisition date
18/03/2018	510	624	(68)	1,598	9.67%	
15/03/2018	511	623	(66)	1,600	9.66%	
14/03/2018	514	617	(66)	1,594	9.72%	
Average	442	614		1,523	10.41%	



GIZA SINGER EVEN

Exhibit B - calculation of enterprise value and internal rate of return (Cont.)

Date	Market value of shares	Market value of bonds (Series A)	Cash and other balances, net	Enterprise value	IRR	
13/03/2018	295	606	(36)	865	9.32%	
12/03/2018	296	607	(36)	868	9.28%	
11/03/2018	297	604	(35)	866	9.31%	
08/03/2018	294	608	(34)	867	9.30%	
07/03/2018	296	611	(34)	873	9.20%	
06/03/2018	291	615	(34)	873	9.21%	
05/03/2018	292	617	(33)	876	9.15%	
04/03/2018	293	617	(33)	877	9.14%	
28/02/2018	299	626	(51)	873	9.21%	Interest paid on bonds (Series A)
27/02/2018	301	629	(51)	879	9.12%	
26/02/2018	292	627	(51)	868	9.29%	
25/02/2018	291	624	(51)	865	9.35%	
22/02/2018	295	625	(50)	870	9.27%	
21/02/2018	295	647	(49)	893	8.93%	
20/02/2018	302	650	(49)	904	8.77%	
19/02/2018	309	650	(49)	910	8.67%	Reporting the Egypt agreement*
Average	295	615		871	9.23%	

* The agreement signed by Delek Drilling and Noble.



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Exhibit C - definitions

BCM	Billion cubic meters
CNG	Condensed natural gas
Condensate	Hydrocarbon liquid created in the process of natural gas production used as raw material for manufacturing fuels and is an alternative to oil
DCF	Discounted cash flows
Delek Drilling	Delek Drilling - Limited Partnership
DLOM	Discount for lack of marketability
Energean	Energean E&P Holdings Ltd. through Energean Israel Limited (formerly: Ocean Energean Oil and Gas Ltd.)
EV	Enterprise value
FID	Final investment decision
Gas Outline	Israeli Government resolution to increase natural gas production from the Tamar natural gas field and achieve rapid development of the Leviathan, Karish and Tanin natural gas fields as well as other natural gas fields
IPP	Independent power producer
IRR	Internal rate of return
Leases	Tamar I/12 and Dalit I/13 Leases
LNG	Liquefied natural gas
MMBTU	Million BTUs - energy measurement unit used for pricing natural gas
Natural gas	Naturally occurring hydrocarbon gas mixture consisting mainly of methane primarily used for producing electricity and as an industrial source of energy
Noble	Noble Energy Mediterranean Ltd.
Oil asset	Asset held under preliminary permit, license or lease by virtue of the Israeli Petroleum Law or similar equivalent right granted by a qualified entity outside of Israel
Petroleum Law	Israeli Petroleum Law, 1952
Ratio	Ratio Oil Exploration (1992) Limited Partnership
Sold property	7.5% (of 100%) of the working interests in the Tamar and Dalit Leases and a relative portion (7.5%) of the operation permit for Tamar Lease's natural gas production system, the shares of Tamar 10-Inch Pipe Ltd. which owns the transmission license according to Article 10 to the Natural Gas Sector Law, 2002, the rights and obligations pursuant to the JOA signed in connection with the Leases, the license agreement for the Yam Tethys facilities, the natural gas and condensate sale agreements for the Tamar Lease, the natural gas export agreements (including the agreements relating to the export agreements and the Jordan and Egypt export permits) and the MOU signed regarding the supply of gas from the Tamar Reservoir to the Yam Tethys partners
Tamar Petroleum/the Company	Tamar Petroleum Ltd.

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