



**Tamar Petroleum Ltd.**

**Interim Report  
As of September 30, 2019**

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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")<sup>1</sup> Update to Chapter A - Description of the Company's Business To the 2018 Annual Report

### 1. Section 4 to the Annual Report – distribution of profits

On October 10, 2019, the Company's Board decided to distribute a dividend of \$ 10 million (about \$ 0.113 per share). The distribution was made on November 7, 2019. See more information of the distribution in an immediate report of October 10, 2019 (TASE reference: 2019-01-103351).

### 2. Section 7.2.15(a) to the Annual Report - production reserves in the Tamar project

The following table presents the Tamar project's natural gas and condensate production inputs in Q1, Q2 and Q3 2019<sup>2</sup>:

		Natural gas			Condensate		
		Q1	Q2	Q3	Q1	Q2	Q3
Total production (attributed to equity holders of the Company) in the period (in MMCF of natural gas and thousands of barrels of condensate)		15,608	14,359	16,341	20.12	18.73	21.34
Average price per production unit (attributed to equity holders of the Company) (in USD per MCF and per barrel)		5.61	5.58	5.59	58.24	58.59	52.02
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	0.62	0.61	0.63	6.44	6.37	5.85
	Third parties	0.05	0.05	0.06	0.57	0.56	0.51
	Interested parties	0.22	0.20	0.22	2.26	2.11	2.05
Average production costs per production unit (attributed to equity holders of the Company) (in USD per MCF and per barrel)		0.48	0.54	0.40	2.66	2.96	2.19
Average net receipts per production unit (attributed to equity holders of the Company) (in USD per MCF and per barrel)		4.24	4.18	4.28	46.31	46.59	41.42

<sup>1</sup> The update includes material changes or developments which occurred in the Company's business affairs from the date of publication of the interim report for the second quarter of 2019 on August 15, 2019 (TASE reference: 2019-01-070878) ("**the Q2 Report**") through the date of this Report regarding all matters that require disclosure in an annual report. The update refers to the numbers of the items as they are presented in Chapter A (Description of the Company's Business) in the Annual Report for 2018 published on March 22, 2019 (TASE reference: 2019-01-023940) ("**the Annual Report**").

<sup>2</sup> 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. **Section 7.4.4(d) to the Annual Report - natural gas supply agreements - natural gas supply agreement between Tamar partners and the IEC**

In keeping with the matters discussed in paragraph 5 to the update to Chapter A – Description of the Company's Business for the Annual Report for 2018 included in the Q2 Report regarding the Tel-Aviv District Court's verdict which dismissed the administrative petition filed by some of the Tamar partners, including the Company ("**the petitioners**") against the Israel Electric Corp. Ltd. ("**IEC**") and the Leviathan project partners (collectively – "**the respondents**") in connection with an RFP for natural gas supply to the IEC ("**the petition**"), on August 19, 2019, the petitioners appealed the verdict to the Supreme Court and asked the Supreme Court to order the reversal of the verdict and rule as sought in the petition. In the proceeding it was decided that the petitioners (the appellants) will submit a summation of their arguments by December 1, 2019, the respondents will submit their summations by February 2, 2020 and the appellants will be able to respond to the respondents' summations by February 27, 2020. A hearing of the appeal has been scheduled for May 4, 2020.

See Note 3c to the condensed interim financial statements hereby attached for the possible amendment of the IEC agreement.

4. **Section 7.4.5(b) to the Annual Report – additional information of natural gas export agreements – Tamar project natural gas supply agreement with Dolphinus Holding Limited ("the Dolphinus agreement" and "Dolphinus", respectively)**

See details of an amendment to the Dolphinus agreement signed between Tamar partners and Dolphinus ("**the amended export agreement**") and the signing of a capacity allocation agreement regarding the Israel-Egypt gas pipeline between Delek Drilling and Noble and the Leviathan project partners ("**the Leviathan partners**") and the Tamar partners ("**the capacity allocation agreement**") in an immediate report of October 2, 2019 (TASE reference: 2019-01-100333). It should be noted that on November 6, 2019, the prerequisite underlying the amended export agreement regarding the consummation of the share purchase transaction with East Mediterranean Gas Limited ("**EMG**") and the purchase of EMG's pipeline interests by EMED Pipeline BV was met.

5. **Section 7.10 to the Annual Report - human capital and regulation 26 to chapter 4 to the Annual Report**

See details of the appointment of Mr. Eitan Meir as director in the Company effective from September 2, 2019 and his appointment as active Chairman of the Board effective from January 1, 2020 and details of his terms of service as director and as active COB in immediate reports of September 3, 2019 (TASE references: 2019-01-077004 and 2019-01-0077013), a revised immediate report of holding a general meeting of October 29, 2019 (TASE reference: 2019-01-105832) and an immediate report of the general meeting results of November 10, 2019 (TASE reference: 2019-01-109438).

On November 7, 2019, a special annual meeting of the Company was held which, among others, consisted of extending the tenure of all non-external directors. See more information in an immediate report of November 10, 2019 (TASE reference: 2019-01-109438).

6. **Section 7.13.5 to the Annual Report - financing - financial covenants**

For details of the financial covenants which the Company has undertaken to meet in the context of the issue of bonds (Series A and B), see Part Five to the Board of Directors' Report for the period of nine months ended September 30, 2019 hereby attached.

7. **Section 7.19.2(d)-(e) to the Annual Report - royalties to interested parties and third parties in respect of the interests transferred to the Company by Delek Drilling - the Delek Group royalties**

7.1 See details of a mediation proceeding being held between the Company and Delek Group Ltd. ("**the Delek Group**"), Delek Energy Systems Ltd. ("**Delek Energy**") and Delek Royalties (2012) Ltd. ("**Delek Royalties**") (collectively – "**the royalty owners**") in Note 4b to the condensed interim financial statements hereby attached.

7.2 In keeping with the matters discussed in section 7.19.2(e) to the Annual Report, as updated in the Q2 Report, regarding the legal proceedings being held by Delek Drilling with respect to the determination of the date of return of the investment in Tamar project, it should be noted that on September 24, 2019, the Tel-Aviv District Court rendered its verdict which dismisses in limine the motion for derivative action certification filed against Delek Drilling, the general partner of Delek Drilling, the Delek Group royalty owners, officers in Delek Drilling and Delek Drilling's auditors in connection with the date of return of the investment.

8. **Section 7.21 to the Annual Report - legal proceedings**

8.1 In keeping with the matters discussed in section 7.21.1 to the Annual Report regarding a claim and a motion for class action certification filed with the Tel-Aviv District Court by an IEC consumer against the Tamar partners on June 18, 2014, it should be noted that on August 20, 2019, the Company submitted its summations and on September 5, 2019, the Attorney submitted his summations. The petitioner is expected to submit its response summations by December 15, 2019.

8.2 See Note 4c to the condensed interim financial statements hereby attached for the developments in a petition submitted in accordance with Article 198A to the Companies Law, 5759-1999 for disclosure and review of documents in connection with the payment of royalties to the royalty owners.

8.3 See Note 4a to the condensed interim financial statements hereby attached for the developments in a claim and motion for class action certification filed with the Tel-Aviv District Court (the Economic Department) by a shareholder in the Company and the Public Representatives Association ("**the petitioners**") against the Company, Delek Drilling, the CEO of the general partner in Delek Drilling (the former Chairman of the Company's Board), the Company's CEO, the Company's CFO and Leader Issues (1993) Ltd. (collectively - "**the respondents**") in connection with a share offering of the Company in July 2017.

8.4 See Note 4e to the condensed interim financial statements hereby attached for the developments in a petition filed with the Tel-Aviv District Court (the Economic Department) against the Company, Isramco Negev 2 Limited Partnership, Alon Natural Gas Exploration Ltd. and Dor Gas Limited Partnership (collectively – "**the respondents**") for disclosure and review of documents in accordance with Article 198A to the Companies Law, 5759-1999, in connection with an RFP process.

9. **Section 7.22.5 to the Annual Report – business strategy and targets**

In keeping with the matters discussed in section 7.22.5 to the Annual Report, on November 17, 2019, the Company presented to the members of the board of Alon Natural Gas Exploration Ltd. ("**Alon**") a nonbinding proposal for negotiating Alon's merger with the Company. See more information in Note 4l to the condensed interim financial statements hereby attached.

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

# Tamar Petroleum Ltd.

## Board of Directors' Report For the period ended September 30, 2019

The Board of Directors of Tamar Petroleum Ltd. ("**the Company**") is hereby pleased to present the Board of Directors' Report for the periods of nine and three months ended September 30, 2019 ("**the Reporting Period**").

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

#### **1. General**

The Company is engaged in the sale of natural gas produced from the Tamar reservoir, which is located in the area of the I/12 Tamar Lease ("**Tamar Lease**" and "**Tamar project**," respectively) to various customers, primarily to the Israel Electric Corporation Ltd. ("**the IEC**"), as well as to industrial customers, IPPs and natural gas marketing companies. The Company is also engaged in the sale of condensate produced from the Tamar project and in the promotion of the expansion of the Tamar project production system.

As of the reporting date, the Company holds 16.75% of the rights in the Tamar Lease and the I/13 Dalit Lease (collectively - "**the Leases**").

## 2. Operating results

### Analysis of statements of comprehensive income

Below are main figures from the Company's statements of comprehensive income, in U.S. Dollars in thousands:

	<u>Nine months ended</u> <u>September 30,</u>		<u>Three months ended</u> <u>September 30,</u>		<u>Year ended</u> <u>December 31,</u>
	<u>2019</u>	<u>2018 *</u>	<u>2019</u>	<u>2018</u>	<u>2018 *</u>
	<u>Unaudited</u>				<u>Audited</u>
Revenues from sale of gas and condensate	262,459	227,462	92,407	92,357	311,273
Less - royalties	41,597	37,189	14,930	14,931	49,691
<b>Net revenues</b>	<b>220,862</b>	<b>190,273</b>	<b>77,477</b>	<b>77,426</b>	<b>261,582</b>
<b>Costs and expenses:</b>					
Cost of production of natural gas and condensate	22,040	14,610	6,586	5,581	21,897
Depreciation, depletion and amortization expenses	37,208	33,128	13,238	13,939	44,466
General and administrative expenses	2,441	1,861	675	566	2,661
Total costs and expenses	61,689	49,599	20,499	20,086	69,024
<b>Operating income</b>	<b>159,173</b>	<b>140,674</b>	<b>56,978</b>	<b>57,340</b>	<b>192,558</b>
Finance expenses	(45,788)	(41,622)	(15,152)	(16,024)	(58,293)
Finance income	2,608	934	891	635	1,832
Finance expenses, net	(43,180)	(40,688)	(14,261)	(15,389)	(56,461)
Income before taxes on income	<b>115,993</b>	<b>99,986</b>	<b>42,717</b>	<b>41,951</b>	<b>136,097</b>
Taxes on income	(19,934)	(27,689)	(7,596)	(8,978)	(37,279)
<b>Total comprehensive income for the period</b>	<b>96,059</b>	<b>72,297</b>	<b>35,121</b>	<b>32,973</b>	<b>98,818</b>
<b>Gas sales in BCM<sup>1</sup></b>	<b>7.8</b>	<b>7.7</b>	<b>2.8</b>	<b>2.8</b>	<b>10.3</b>
<b>Condensate sales in thousands of barrels<sup>2</sup></b>	<b>359</b>	<b>360</b>	<b>127</b>	<b>133</b>	<b>477</b>

\* The annual results of 2018 and the results of the nine months ended September 30, 2018 include the operating results attributed to the 7.5% (of 100%) working interests of the Leases acquired by the Company from Noble ("**the rights acquired from Noble**") effective from March 14, 2018.

<sup>1</sup> The data relate to natural gas sales (100%) from the Tamar project, rounded up to the nearest BCM tenth.

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

**Net revenues** in the Reporting Period amounted to approximately \$ 220.9 million, compared with approximately \$ 190.3 million in the corresponding period of last year, an increase of about 16.1%. The increase in net revenues in the Reporting Period compared to the corresponding period of last year mainly arises from an increase of approximately \$ 28.3 million in revenues less royalties originating from the increase in working interests owing to the rights acquired from Noble in effect from March 14, 2018.

Revenues net of royalties in Q3 2019 amounted to approximately \$ 77.5 million, compared with approximately \$ 77.4 million in Q3 2018.

**The cost of production of natural gas and condensate** mainly includes management and operating expenses of the Tamar project, which comprise, inter alia, expenses of shipping and transportation, payroll, consulting, maintenance and insurance. The cost of natural gas and condensate production in the Reporting Period amounted to approximately \$ 22 million compared with approximately \$ 14.6 million in the corresponding period of last year. The growth is mainly a result of an increase of approximately \$ 2.7 million owing to the rights acquired from Noble and an increase of approximately \$ 4.7 million, which is mainly a result of increased maintenance expenses.

The cost of natural gas and condensate production in Q3 2019 amounted to approximately \$ 6.6 million compared with approximately \$ 5.6 million in Q3 2018. The main increase derives from the increase in maintenance expenses.

**Depreciation, depletion and amortization expenses** in the Reporting Period amounted to approximately \$ 37.2 million, compared with approximately \$ 33.1 million in the corresponding period of 2018. The main change arises from an increase of approximately \$ 6.4 million in depreciation expenses on the rights acquired from Noble, which was partly offset by the amortizations in the corresponding period of last year.

Depreciation, depletion and amortization expenses in Q3 2019 amounted to approximately \$ 13.2 million, compared with approximately \$ 13.9 million in Q3 2018. The decrease is mainly a result of the amortizations in the corresponding period of last year.

**General and administrative expenses** in the Reporting Period amounted to approximately \$ 2.4 million, compared with approximately \$ 1.9 million in the corresponding period of 2018, consisting mainly of expenses in respect of professional services, payroll and general expenses. The increase is mainly a result of the increase in expenses in respect of professional services.

General and administrative expenses in Q3 2019 amounted to approximately \$ 0.7 million, compared with approximately \$ 0.6 million in Q3 2018.

**Net finance expenses** in the Reporting Period amounted to approximately \$ 43.2 million, compared with approximately \$ 40.7 million in the corresponding period of last year. The increase in net finance expenses in the Reporting Period mainly arises from an increase of approximately \$ 4.7 million in finance expenses in respect of bonds (Series B) issued in March 2018, partly offset by the decrease of approximately \$ 1.2 million in finance expenses in respect of bonds (Series A) and an increase in interest income in a total of approximately \$ 1.3 million.

Net finance expenses in Q3 2019 amounted to approximately \$ 14.3 million, compared with approximately \$ 15.4 million in Q3 2018. The decrease of approximately \$ 1.1 million in net finance expenses in Q3 2019 mainly arises from a decrease in finance expenses in respect of bonds (Series A and B).



**Taxes on income** in the Reporting Period amounted to approximately \$ 19.9 million, compared with approximately \$ 27.7 million in the corresponding period of 2018. The tax expenses in the Reporting Period are net of the offsetting effect of a decrease in tax expenses of approximately \$ 7.6 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 period of last year, the difference between the measurement basis of revenues as reported for tax purposes and the measurement basis as reported in the financial statements increased tax expenses by approximately \$ 4.7 million.

Taxes on income in Q3 2019 amounted to approximately \$ 7.6 million, compared with approximately \$ 9 million in Q3 2018. The tax expenses in Q3 2019 are net of the offsetting effect of a decrease in tax expenses of approximately \$ 3.3 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 Q3 2018, the difference between the measurement basis of revenues as reported for tax purposes and the measurement basis as reported in the financial statements reduced tax expenses by approximately \$ 0.7 million.

### **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 September 30, 2019 compared with the statement of financial position as of December 31, 2018:

**Total statement of financial position** as of September 30, 2019 amounted to approximately \$ 1,287 million compared with a total of approximately \$ 1,317 million as of December 31, 2018.

**Current assets** as of September 30, 2019 amounted to approximately \$ 98 million compared with approximately \$ 130.1 million as of December 31, 2018. The change is mainly attributable to the following factors:

- (1) **Cash and cash equivalents** as of September 30, 2019 amounted to approximately \$ 31.5 million compared with approximately \$ 86.9 million as of December 31, 2018. The decrease is mainly a result of the payment of principal and interest on bonds (Series A and B) totaling approximately \$ 156 million, the payment of a dividend of approximately \$ 30 million, the investment of approximately \$ 20 million in a restricted deposit, as explained in paragraph (2) below, and investments in oil and gas assets and in other long-lived assets totaling approximately \$ 16.5 million, which were partly offset by cash flows from operating activities in the Reporting Period totaling approximately \$ 164.1 million.
- (2) **Restricted deposits** as of September 30, 2019 amounted to approximately \$ 20.2 million, arising from the Company's Board's decision of April 2019 to earmark funds totaling approximately \$ 20 million that are expected to be expensed as construction or operation costs of the Tamar project and place them in a special purpose restricted expense account, as defined in Section 5.10.2 to the indentures of bonds (Series A and B).
- (3) **Trade receivables** as of September 30, 2019 amounted to approximately \$ 38.8 million compared with approximately \$ 33.4 million as of December 31, 2018.
- (4) **Other accounts receivable** as of September 30, 2019 amounted to approximately \$ 7.5 million compared with approximately \$ 9.8 million as of December 31, 2018. The decrease is mainly due to the decrease in a debit balance with the Israeli income tax authorities in a total of approximately \$ 7.1 million, partly offset by an increase of approximately \$ 3.3 million in a balance with a joint venture operator as well as an increase of approximately \$ 1.5 million in prepaid expenses and other receivables.

**Non-current assets** amounted to approximately \$ 1,189.2 million as of September 30, 2019, compared to approximately \$ 1,186.6 million as of December 31, 2018. The change is mainly attributable to the following factors:

- (1) **Investments in oil and gas assets** as of September 30, 2019 amounted to approximately \$ 1,018.2 million compared with approximately \$ 1,040.6 million as of December 31, 2018. The decrease mainly arises from depreciation, depletion and amortization expenses from the Tamar project totaling approximately \$ 37.2 million, partly offset by the increase of approximately \$ 14.8 million in oil and gas assets.
- (2) **Deferred taxes** as of September 30, 2019 amounted to approximately \$ 113.3 million compared with approximately \$ 98.4 million as of December 31, 2018. The increase is a result of deferred tax income in the Reporting Period totaling approximately \$ 14.9 million, mainly caused by the effect of the exchange rate on the difference between the measurement basis of oil and gas assets in the books (USD) and their measurement basis for tax purposes (NIS).
- (3) **Other long-lived assets** as of September 30, 2019 amounted to approximately \$ 14.5 million compared with approximately \$ 5.4 million as of December 31, 2018. The increase is mainly a result of the payment of approximately \$ 8.4 million in the Reporting Period in connection with the Egypt export agreement (see Note 3d to the condensed interim financial statements hereby attached).

**Current liabilities** as of September 30, 2019 amounted to approximately \$ 111.2 million compared with approximately \$ 124.4 million as of December 31, 2018. The change is mainly attributable to the following factors:

- (1) **Other accounts payable** amounted to approximately \$ 15 million as of September 30, 2019 compared with approximately \$ 29.2 million as of December 31, 2018. The decrease is mainly a result of a decrease in accrued interest payable to holders of bonds (Series A and B) totaling approximately \$ 14.3 million.
- (2) **Income taxes payable** - as of September 30, 2019 totaled approximately \$ 8.7 million. As of December 31, 2018, the Company had no income taxes payable.
- (3) **Current maturities of bonds** amounted to approximately \$ 87.5 million as of September 30, 2019 compared with approximately \$ 95.2 million as of December 31, 2018.

**Non-current liabilities** as of September 30, 2019 amounted to approximately \$ 970.4 million compared with approximately \$ 1,052.9 million as of December 31, 2018. The change is mainly attributable to the following factors:

**Bonds less current maturities** amounted to approximately \$ 943.3 million as of September 30, 2019 compared with approximately \$ 1,032.3 million as of December 31, 2018. The decrease stems from the repayment of bond principal (Series A and B) in a total of approximately \$ 101.8 million, partly offset by a decrease of approximately \$ 7.8 million in current maturities and reduction of discount and issue expenses in the amount of approximately \$ 5 million.

**Other long-term liabilities** amounted to approximately \$ 27.1 million as of September 30, 2019 compared with approximately \$ 20.6 million as of December 31, 2018. The increase is mainly due to the increase in an asset retirement obligation resulting from the update in discount rate.

**The Company's equity** as of September 30, 2019 amounted to approximately \$ 205.5 million compared to approximately \$ 139.4 million as of December 31, 2018. The increase derives from the comprehensive income in the Reporting Period totaling approximately \$ 96.1 million, offset by a dividend of approximately \$ 30 million paid in the Reporting Period.

b. **Cash flows**

**Net cash flows provided by operating activities** in the Reporting Period amounted to approximately \$ 164.1 million, compared with approximately \$ 137.5 million in the corresponding period of last year. The increase is mainly a result of operating activities originating from the rights acquired from Noble.

**Net cash flows used in investing activities** in the Reporting Period amounted to approximately \$ 33.4 million, compared with approximately \$ 508.6 million in the corresponding period of last year. The decrease is mainly a result of the cost of the rights acquired from Noble in a total of approximately \$ 475.2 million paid in cash and an investment made in the Reporting Period in restricted deposits to secure bonds (Series A and B) in a total of approximately \$ 31.6 million, partly offset by a payment of \$ 8.4 million in connection with the Egypt export agreement and an investment of approximately \$ 20 million in a restricted deposit (see paragraph 3a2 above).

**Net cash flows used in financing activities** in the Reporting Period amounted to approximately \$ 186 million, including approximately \$ 101.8 million in repayment of bonds (Series A and B), approximately \$ 54.2 million in payment of interest on bonds (Series A and B) and approximately \$ 30 million in payment of a dividend. Net cash flows provided by financing activities in the corresponding period of 2018 amounted to approximately \$ 401.4 million and mostly consisted of net proceeds of approximately \$ 512.2 million in issue of bonds against approximately \$ 32 million in payment of a dividend, approximately \$ 30.8 million in repayment of bond principal (Series A and B) and approximately \$ 47 million in payment of interest.

The balance of cash and cash equivalents as of September 30, 2019 amounted to approximately \$ 31.5 million.

c. **Working capital deficiency**

As of September 30, 2019, the Company has a working capital deficiency of approximately \$ 13.2 million. Based on the Company's Board's examination of the facts underlying the deficiency, the above deficiency is not indicative of any liquidity difficulty in view of the Company's estimated cash flow forecast for the period of 12 months from October 1, 2019, which consists of data of the Company's free cash flows, outstanding liabilities and amortization schedules and future cash flows for the period in question, all based on various assumptions regarding the Company's expected resources and uses.

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

### **Events after the date of the condensed interim statement of financial position**

- a. See details of amendments to gas supply agreements signed by Tamar partners with OPC Rotem Ltd. and OPC Hadera Ltd. in Note 3h to the condensed interim financial statements hereby attached.
- b. See details of the distribution of a dividend of approximately \$ 10,000 thousand in Note 4g to the condensed interim financial statements hereby attached.
- c. See details of the decisions of the general meeting of the Company's shareholders which was held on November 7, 2019 in paragraph 5 to the update to Chapter A – Description of the Company's Business for the Annual Report for 2018 hereby attached.
- d. See details of the approval of the Company's Board of November 17, 2019 of a nonbinding proposal delivered to the board of Alon Natural Gas Exploration Ltd. for negotiating a merger transaction with the Company in in Note 4l to the condensed interim financial statements hereby attached.

## **Part Three – Corporate Governance Aspects**

In furtherance to the engagement with Entropy Corporate Governance Consulting Ltd. ("**Entropy**"), as discussed in the Board of Directors' Report for the year ended December 31, 2018, Entropy performed an analysis of the current mix and composition of the Company's Board of Directors and its adequacy in responding to the Company's various needs, occupations and risk profile and submitted its recommendations report to the Company. On June 24, 2019, the Board appointed a committee consisting of three members (two external directors and one independent director) that will offer recommendations to the Board on policies to be adopted regarding the composition and mix of the Company's Board and will identify candidates for serving as directors on the Board, with emphasis on including a gas and oil expert among the candidates. On August 12, 2019, the committee submitted its recommendations to the Board in a summary report. Based on said report, on August 14, 2019, the Board adopted a special policy regarding the mix of directors on the Board aimed at incorporating and reinforcing professional considerations while retaining the level of the public of investors' trust in the Company, also addressing, among others, the directors' required expertise, their availability and the skills, experience and availability required from the COB.

In keeping with the aforesaid, on September 2, 2019, the Company's Board appointed Mr. Eitan Meir as director in the Company effective immediately and as active COB in effect from January 1, 2020 and also approved the terms of his service as director and active COB, after having obtained the approval of the Remuneration Committee, and subject to the general meeting's approval, as detailed in Note 4k to the condensed interim financial statements hereby attached. The general meeting held on November 7, 2019 approved the reappointment of Mr. Meir as director in the Company and the terms of his service as director and active COB as discussed above.

## **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 of Bonds Issued by the Company (NIS in thousands)**

<b>Details</b>	<b>Series A</b>	<b>Series B</b>
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 September 30, 2019	2,063,163	1,700,450
Linked par value as of September 30, 2019	2,039,731	1,711,757
Carrying amount in the Company's books as of September 30, 2019	2,016,026	1,572,955
Quoted market price as of September 30, 2019	1,747,705	1,447,933
Amount of accrued interest as of September 30, 2019	8,125	6,818
Annual fixed interest rate	4.69%	4.69%
Principal payment dates	See <b>Annex A</b> to this Report	See <b>Annex B</b> to this Report
Interest payment dates	Semiannual payments, on February 28 and August 30 of each of the years 2018 to 2028, from February 28, 2018 to August 30, 2028 (inclusive)	Semiannual payments, on February 28 and August 30 of each of the years 2018 to 2028, from 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
Early repayment right	<ul style="list-style-type: none"> <li>• Regarding early redemption of the bonds initiated by the Stock Exchange, see Section 9.1 of the indenture attached as Annex A to the supplementary notice released on July 6, 2017 (TASE reference: 2017-01-057724) ("<b>the Series A Indenture</b>").</li> <li>• Regarding the right for full or partial early redemption of the bonds initiated by the Company, see Section 9.2 of the Series A Indenture.</li> <li>• Regarding the obligation for early redemption of the bonds, see Section 9.3 of the Series A Indenture.</li> </ul>	<ul style="list-style-type: none"> <li>• Regarding early redemption of the bonds initiated by the Stock Exchange, see Section 9.1 of the indenture attached as Annex A to the shelf offering report dated March 12, 2018 (TASE reference: 2018-01-019125) ("<b>the Series B Indenture</b>").</li> <li>• Regarding the right for full or partial early redemption of the bonds initiated by the Company, see Section 9.2 of the Series B Indenture.</li> <li>• Regarding the obligation for early redemption of the bonds, see Section 9.3 of the Series B Indenture.</li> </ul>

<b>Details</b>	<b>Series A</b>	<b>Series B</b>
Guarantee for payment of the liability	None	None
Name of trustee	Strauss Lazer, Trust Company (1992) Ltd. <sup>3</sup>	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 <sup>4</sup>	A1.il	A1.il
Has the Company complied with all the conditions and obligations under the Indenture throughout the Reporting Period until September 30, 2019	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

<sup>3</sup> On July 18, 2019, the meeting of holders of bonds (Series A) decided to ratify the appointment of the trustee as the trustee of the holders of bonds until the final and full repayment of the bonds.

<sup>4</sup> The bonds (Series A) were rated on June 25, 2017, July 2, 2017, July 5, 2017, July 12, 2017, February 20, 2018, March 12, 2018 and March 13, 2019; the bonds (Series B) were rated on February 20, 2018, March 12, 2018 and March 13, 2019. For details see the Company's immediate report dated March 13, 2019 (TASE reference: 2019-01-020919), the contents of which are included herein by reference.

<b>Details</b>	<b>Series A</b>	<b>Series B</b>
Pledges for securing the bonds	See Part Five to the Board of Directors' Report as of December 31, 2018	See Part Five to the Board of Directors' Report as of December 31, 2018
Financial covenants as of September 30, 2019	<ul style="list-style-type: none"> <li>• Equity (including minority interests) net of capital reserve and with the addition of loans subordinated to the rights of the bondholders (as specified in Section 5.10.1 of the Series A Indenture) – about \$ 914 million<sup>5</sup></li> <li>• Expected debt service coverage ratio for the examination period (as defined in Section 5.10.2 of the Series A Indenture) (for the 12 months beginning January 1, 2020) – 1.51<sup>6</sup></li> <li>• Economic equity (as defined in Section 5.10.3 of the Series A Indenture) – about \$ 934 million<sup>7</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Equity (including minority interests) net of capital reserve and with the addition of loans subordinated to the rights of the bondholders (as specified in Section 5.10.1 of the Series B Indenture) – about \$ 914 million<sup>8</sup></li> <li>• Expected debt service coverage ratio for the examination period (as defined in Section 5.10.2 of the Series B Indenture) (for the 12 months beginning January 1, 2020) – 1.51<sup>9</sup></li> <li>• Economic equity (as defined in Section 5.10.3 of the Series B Indenture) – about \$ 934 million<sup>10</sup></li> </ul>

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

<sup>6</sup> According to the terms of the Series A Indenture, said ratio will be not lower than 1.05 and not lower than 1.2 for a dividend distribution. See details in Note 4i(1) to the condensed interim financial statements hereby attached.

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

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

<sup>9</sup> According to the terms of the Series B Indenture, said ratio will be not lower than 1.05 and not lower than 1.2 for a dividend distribution. See details in Note 4i(1) to the condensed interim financial statements hereby attached.

<sup>10</sup> 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,

---

**Ran Efrati**  
Chairman of the Board

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**Liami Vaisman**  
CEO

**Tamar Petroleum Ltd.**



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

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

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

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

**TAMAR PETROLEUM LTD.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2019**

**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 SEPTEMBER 30, 2019**

**UNAUDITED**

**IN U.S. DOLLARS IN THOUSANDS**

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## **Auditor's 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 September 30, 2019 and the related condensed statements of comprehensive income, changes in equity and cash flows for the periods of nine 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.

The Company's financial statements as of December 31, 2018 and for the year then ended, and the interim condensed financial information as of September 30, 2018 and for the periods of nine and three months then ended were respectively audited and reviewed by us jointly with another auditor who has ceased serving as the Company's auditor.

### **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.

**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**

In U.S. Dollars in thousands

	<u>September 30,</u>		<u>December 31,</u>
	<u>2019</u>	<u>2018</u>	<u>2018</u>
	<u>Unaudited</u>		<u>Audited</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	31,468	58,554	86,928
Restricted deposits, see Note 4h	20,190	-	-
Trade receivables	38,821	41,588	33,429
Other accounts receivable	7,504	6,926	9,774
	<u>97,983</u>	<u>107,068</u>	<u>130,131</u>
<b>NON-CURRENT ASSETS:</b>			
Investments in oil and gas assets	1,018,246	1,046,897	1,040,550
Deferred taxes	113,335	109,381	98,389
Restricted deposits	43,087	41,935	42,228
Other long-term assets	14,493	4,962	5,406
	<u>1,189,161</u>	<u>1,203,175</u>	<u>1,186,573</u>
	<u>1,287,144</u>	<u>1,310,243</u>	<u>1,316,704</u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Dividend payable	-	39,324	-
Current maturities of bonds	87,473	95,110	95,246
Other accounts payable	15,033	14,004	29,163
Income taxes payable	8,720	-	-
	<u>111,226</u>	<u>148,438</u>	<u>124,409</u>
<b>NON-CURRENT LIABILITIES:</b>			
Bonds net of current maturities	943,251	1,030,724	1,032,323
Other long-term liabilities	27,139	18,234	20,580
	<u>970,390</u>	<u>1,048,958</u>	<u>1,052,903</u>
<b>Total liabilities</b>	<u>1,081,616</u>	<u>1,197,396</u>	<u>1,177,312</u>
<b>EQUITY:</b>			
Ordinary share capital	2,517	2,517	2,517
Share premium	784,495	784,495	784,495
Retained earnings	125,553	32,973	59,494
	<u>912,565</u>	<u>819,985</u>	<u>846,506</u>
Capital reserves	<u>(707,037)</u>	<u>(707,138)</u>	<u>(707,114)</u>
	<u>205,528</u>	<u>112,847</u>	<u>139,392</u>
	<u>1,287,144</u>	<u>1,310,243</u>	<u>1,316,704</u>

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

November 17, 2019			
Date of approval of the financial statements	Ran Efrati Chairman of the Board	Liami Vaisman CEO	Yuval Raikin CFO

**CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

In U.S. Dollars in thousands

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2019	2018 *	2019	2018	2018 *
	Unaudited			Audited	
Revenues from sale of gas and condensate	262,459	227,462	92,407	92,357	311,273
Less - royalties	41,597	37,189	14,930	14,931	49,691
Net revenues	220,862	190,273	77,477	77,426	261,582
<b>Costs and expenses:</b>					
Cost of production of natural gas and condensate	22,040	14,610	6,586	5,581	21,897
Depreciation, depletion and amortization expenses	37,208	33,128	13,238	13,939	44,466
General and administrative expenses	2,441	1,861	675	566	2,661
Total costs and expenses	61,689	49,599	20,499	20,086	69,024
<b>Operating income</b>	159,173	140,674	56,978	57,340	192,558
Finance expenses	(45,788)	(41,622)	(15,152)	(16,024)	(58,293)
Finance income	2,608	934	891	635	1,832
Finance expenses, net	(43,180)	(40,688)	(14,261)	(15,389)	(56,461)
<b>Income before taxes on income</b>	115,993	99,986	42,717	41,951	136,097
Taxes on income	(19,934)	(27,689)	(7,596)	(8,978)	(37,279)
<b>Total comprehensive income</b>	96,059	72,297	35,121	32,973	98,818
Basic and diluted net earnings per share (in USD)	1.09	0.92	0.40	0.37	1.22
Weighted number of shares used in the above computation	88,495,576	78,342,897	88,495,576	88,495,576	80,901,928

\* The annual results for 2018 and the results for the nine months ended September 30, 2018 include the results attributable to 7.5% (of 100%) of the working interests in Tamar and Dalit Leases acquired by the Company from Noble Energy Mediterranean Ltd. from March 14, 2018 (see Note 1c below).

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

**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**

In U.S. Dollars in thousands

	<b>Ordinary share capital</b>	<b>Share premium</b>	<b>Capital reserves</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>Unaudited</b>				
<b>For the period of nine months ended September 30, 2019:</b>					
<b>Balance at January 1, 2019</b>					
(audited)	2,517	784,495	(707,114)	59,494	139,392
Total comprehensive income	-	-	-	96,059	96,059
Dividend paid	-	-	-	(30,000)	(30,000)
Share-based payment	-	-	77	-	77
<b>Balance at September 30, 2019</b>	<b>2,517</b>	<b>784,495</b>	<b>(707,037)</b>	<b>125,553</b>	<b>205,528</b>
	<b>Ordinary share capital</b>	<b>Share premium</b>	<b>Capital reserves</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>Unaudited</b>				
<b>For the period of nine months ended September 30, 2018:</b>					
<b>Balance at January 1, 2018</b>					
(audited)	1,399	570,648	(707,206)	32,023	(103,136)
Total comprehensive income	-	-	-	72,297	72,297
Issue of shares	1,118	213,847	-	-	214,965
Dividend	-	-	-	(71,347)	(71,347)
Share-based payment	-	-	68	-	68
<b>Balance at September 30, 2018</b>	<b>2,517</b>	<b>784,495</b>	<b>(707,138)</b>	<b>32,973</b>	<b>112,847</b>

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



**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**

In U.S. Dollars in thousands

	<b>Ordinary share capital</b>	<b>Share premium</b>	<b>Capital reserves</b>	<b>Retained earnings</b>	<b>Total</b>
			<b>Unaudited</b>		
<b>For the period of three months ended September 30, 2019:</b>					
<b>Balance at July 1, 2019</b>	2,517	784,495	(707,063)	90,432	170,381
Total comprehensive income	-	-	-	35,121	35,121
Share-based payment	-	-	26	-	26
<b>Balance at September 30, 2019</b>	<u>2,517</u>	<u>784,495</u>	<u>(707,037)</u>	<u>125,553</u>	<u>205,528</u>

	<b>Ordinary share capital</b>	<b>Share premium</b>	<b>Capital reserves</b>	<b>Retained earnings</b>	<b>Total</b>
			<b>Unaudited</b>		
<b>For the period of three months ended September 30, 2018:</b>					
<b>Balance at July 1, 2018</b>	2,517	784,495	(707,164)	39,324	119,172
Total comprehensive income	-	-	-	32,973	32,973
Dividend	-	-	-	(39,324)	(39,324)
Share-based payment	-	-	26	-	26
<b>Balance at September 30, 2018</b>	<u>2,517</u>	<u>784,495</u>	<u>(707,138)</u>	<u>32,973</u>	<u>112,847</u>

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

**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**

In U.S. Dollars in thousands

	<u>Ordinary share capital</u>	<u>Share premium</u>	<u>Capital reserves Audited</u>	<u>Retained earnings</u>	<u>Total</u>
<b>For the year ended December 31, 2018:</b>					
<b>Balance at January 1, 2018</b>	1,399	570,648	(707,206)	32,023	(103,136)
Total comprehensive income	-	-	-	98,818	98,818
Issue of shares	1,118	213,847	-	-	214,965
Dividend paid	-	-	-	(71,347)	(71,347)
Share-based payment	-	-	92	-	92
<b>Balance at December 31, 2018</b>	<u>2,517</u>	<u>784,495</u>	<u>(707,114)</u>	<u>59,494</u>	<u>139,392</u>

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

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2019	2018	2019	2018	2018
	Unaudited				Audited
<b>Cash flows from operating activities:</b>					
Net income	96,059	72,297	35,121	32,973	98,818
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>					
Depreciation, depletion and amortization	37,208	33,128	13,238	13,939	44,466
Taxes on income	1,048	19,628	165	6,234	26,373
Amortization of bond discount and issue expenses	4,968	*4,168	1,644	*1,756	5,902
Finance expenses, net	38,276	*37,533	12,739	*14,246	50,757
Share-based payment	77	68	26	26	92
<b>Changes in asset and liability items:</b>					
Increase in trade receivables	(5,392)	(23,292)	(662)	(3,161)	(15,133)
Increase in other accounts receivable	(3,593)	(4,621)	(887)	(2,218)	(3,778)
Change in balance with joint venture operator	(4,936)	(3,852)	1,597	275	(1,807)
Increase (decrease) in other accounts payable	340	*2,464	(2,013)	*864	2,769
<b>Net cash provided by operating activities</b>	<b>164,055</b>	<b>137,521</b>	<b>60,968</b>	<b>64,934</b>	<b>208,459</b>
<b>Cash flows from investing activities:</b>					
Acquisition of additional working interests in Tamar and Dalit Leases (see Annex C)	-	(475,199)	-	-	(475,199)
Investment in restricted deposits	(20,000)	(31,567)	-	(10,210)	(31,567)
Investments in oil and gas assets	(7,917)	(3,380)	(2,795)	(1,918)	(7,231)
Investment in other long-term assets	(8,610)	-	(8,379)	-	-
Interest received	2,393	1,001	1,080	561	1,424
Receipts in connection with other long-term assets	706	557	235	235	792
<b>Net cash used in investing activities</b>	<b>(33,428)</b>	<b>(508,588)</b>	<b>(9,859)</b>	<b>(11,332)</b>	<b>(511,781)</b>
<b>Cash flows from financing activities:</b>					
Proceeds from bond issue, net	-	512,239	-	-	512,239
Repayment of bonds	(101,813)	(30,791)	(50,302)	(30,791)	(30,791)
Payment of share issue costs	-	(204)	-	-	(204)
Repurchase of bonds	-	(840)	-	-	(840)
Dividend paid	(30,000)	(32,023)	-	-	(71,347)
Interest paid	(54,153)	(46,978)	(26,542)	(27,517)	(46,978)
<b>Net cash provided by (used in) financing activities</b>	<b>(185,966)</b>	<b>401,403</b>	<b>(76,844)</b>	<b>(58,308)</b>	<b>362,079</b>
Exchange rate losses on cash and cash equivalents	(121)	(221)	(109)	(16)	(268)
Increase (decrease) in cash and cash equivalents	(55,460)	30,115	(25,844)	(4,722)	58,489
Cash and cash equivalents at beginning of period	86,928	28,439	57,312	63,276	28,439
<b>Cash and cash equivalents at end of period</b>	<b>31,468</b>	<b>58,554</b>	<b>31,468</b>	<b>58,554</b>	<b>86,928</b>

\* Reclassified.

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

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2019	2018	2019	2018	2018
	Unaudited				Audited
<b><u>Annex A - non-cash investing and financing activities:</u></b>					
Issue of shares as consideration for purchase of working interests in Tamar and Dalit Leases	-	215,169	-	-	215,169
Investments in oil and gas assets against payables	2,612	1,788	2,612	1,788	1,120
Asset retirement obligation against oil and gas assets	5,477	-	2,607	-	1,795
Unpaid declared dividend	-	39,324	-	39,324	-
<b><u>Annex B - additional cash flow information:</u></b>					
Income taxes paid	18,886	8,061	7,431	2,744	10,906
<b><u>Annex C - acquisition of additional working interests in Tamar and Dalit Leases:</u></b>					
Including the following identifiable assets and liabilities:					
Working capital, net	-	(1,092)	-	-	(1,092)
Oil and gas assets	-	697,288	-	-	697,288
Other long-term assets	-	1,440	-	-	1,440
Deferred taxes	-	778	-	-	778
Asset retirement obligation	-	(8,046)	-	-	(8,046)
Issue of share capital and premium	-	(215,169)	-	-	(215,169)
	-	475,199	-	-	475,199

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

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL**

- a. Tamar Petroleum Ltd. ("the Company") is engaged in the sale of natural gas produced from the Tamar reservoir within the area of the I/12 Tamar Lease ("the Tamar Lease" and "the Tamar project," respectively) to various customers, and primarily to the Israel Electric Corp. Ltd. ("the IEC"), industrial customers, independent power producers ("IPPs") and natural gas marketing companies. Likewise, the Company is engaged in the sale of condensate produced from the Tamar project to Paz Ashdod Oil Refinery, as well as in promoting the expansion of the Tamar project's production system.

The Company's revenues from gas sales are mainly affected by the scope of consumption of natural gas by the IEC (see Notes 3a, 3b and 3c below).

The Company's articles of association provide that the Company shall only perform operations of exploration, development, production and transmission of to the target markets in connection with the I/12 Tamar and I/13 Dalit Leases (jointly referred to as: "the Leases" or "Tamar and Dalit Leases" and/or "the Joint Venture"), in which the Company holds, as of the date of the financial statements, 16.75% of the interests (see paragraphs b and c below). The Company is an Israeli resident public company incorporated in Israel on November 4, 2015 under its previous name Karish Tanin Management Ltd. Trading in the Company's securities on the Tel Aviv Stock Exchange Ltd. ("the TASE") commenced in July 2017.

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

- b. The Company commenced operations on July 1, 2017, following fulfillment of the conditions precedent in the sale agreement signed with Delek Drilling – Limited Partnership ("Delek Drilling" or the "Partnership"), in which framework the Company acquired 9.25% (out of 100%) of the working interests in the Tamar and Dalit Leases and a proportionate share (9.25%) of the permits, rights and obligations under associated agreements in return for a cash amount of approximately \$ 845 million, financed by raising debt and capital from the public and using proceeds from the sale of Company shares (see Note 4a to the Company's annual financial statements as of December 31, 2018, "annual financial statements"). Prior to the acquisition of said interests, the Company was inactive and was wholly owned and controlled by Delek Drilling.
- c. On March 14, 2018, upon the fulfillment of the conditions precedent in the sale agreement of January 29, 2018, signed with Noble Energy Mediterranean Ltd. ("Noble" or "the Operator"), the Company acquired, with effect from January 1, 2018, an additional 7.5% (out of 100%) of the working interests in the Leases and a proportionate share (7.5%) of the permits, rights and obligations under associated agreements for approximately \$ 690 million. The acquisition was made for a cash consideration of \$ 475 million (financed through the issuance of Series B bonds) and for the allocation of shares of the Company (see Note 4b to the annual financial statements).

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL (Cont.)**

- d. As of the approval date of these condensed interim financial statements, to the best of the Company's knowledge, there is no controlling shareholder in the Company (within the meaning of a "controlling party" in the Securities Law, 5728-1968). Following completion of the acquisition of the rights as described in paragraph c above, Delek Drilling holds about 22.6% of the Company's shares. As for the voting rights attached to the shares held by Delek Drilling, see Note 13d to the Company's annual financial statements.
- 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**

The significant accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the annual financial statements, except as described below:

As detailed in Note 3t(1) to the annual financial statements regarding the initial adoption of IFRS 16, "Leases" ("the Standard"), the Company applies the provisions of the Standard as of January 1, 2019 using the modified retrospective approach (without restatement of comparative figures).

Below are the principal provisions of the Standard:

- According to the Standard, lessees are required to recognize an asset against a liability in respect of all leases in the statement of financial position (excluding certain exceptions, see below). Lessees will recognize a liability for lease payments with a corresponding right-of-use asset. Lessees will also recognize interest expense and depreciation expense separately.
- Variable lease payments that are not dependent on changes in the CPI or interest rates, but are based on performance or usage are recognized as an expense by the lessees as incurred.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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

- In the event of changes in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and record the effect of the remeasurement as an adjustment to the carrying amount of the right-of-use asset.
- The Standard includes two exceptions which allow lessees to account for leases based on the accounting treatment for operating leases - leases for which the underlying asset is of low financial value and short-term leases (up to one year).

The initial adoption of the Standard did not have a material effect on the financial statements.

**NOTE 3:- NATURAL GAS SUPPLY AGREEMENTS**

- a. In keeping with the matters discussed in Note 11c(9) to the annual financial statements regarding the IEC's application to the Company, the other Tamar partners and the Leviathan partners for an RFP for the supply of natural gas in excess of the IEC's consumption under its present agreement with the Tamar partners ("the RFP"), on April 4, 2019, the Tamar partners were notified by the IEC that their offer had not been accepted by the IEC.

On April 18, 2019, some of the Tamar partners (the Company, Isramco Negev 2 Limited Partnership, Dor Gas Exploration Limited Partnership and Everest Infrastructures Limited Partnership (collectively - "the petitioners")) filed with the Tel-Aviv District Court an administrative petition against the IEC and the Leviathan partners (collectively - "the respondents") in which the Court is asked to disqualify and reverse the decision made by the IEC's tenders committee ("the Committee") on April 4, 2019 to award the tender to the Leviathan partners on the grounds that said decision is illegal, inequitable and undermines basic principles underlying tender laws. Alternatively, the petitioners are asking the Court to order the Committee to reexamine the decision and consider other options as detailed in the petition. Also alternatively, the Court is asked to order the cancellation of the tender due to a serious flaw in the tender process.

On July 7, 2019, the Tel-Aviv District Court rendered its verdict which dismisses the administrative petition. On August 19, 2019, the petitioners appealed the verdict to the Supreme Court and asked the Supreme Court to order the reversal of the verdict and rule as sought in the petition. The petitioners are required to submit a summation of their arguments by December 1, 2019 the respondents are required to submit their summations by February 2, 2020. The petitioners will then be able to respond to the respondents' summations by February 27, 2020. The parties will supplement their written summations in an oral hearing scheduled for May 4, 2020.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 3:- NATURAL GAS SUPPLY AGREEMENTS (Cont.)**

- b. In keeping with the matters discussed in Note 11c(10) to the annual financial statements regarding a potential amendment to the agreement signed with the IEC, it should be noted that as of the date of approval of the condensed interim financial statements, the Company estimates that there is significant uncertainty involving the signing of the potential amendment, also in view of the prolongation of the proceeding and the failure to obtain the IEC's approval. Accordingly, and as a result of negotiations held by Tamar partners who have no interests in the Leviathan project with the IEC's management for examining a new potential amendment to the IEC agreement as specified in paragraph c below, in these condensed interim financial statements, the Company did not account for the potential amendment to the IEC agreement.
- c. In negotiations held by Tamar partners who have no interests in the Leviathan project (the Company, Isramco Negev 2 Limited Partnership, Dor Gas Exploration Limited Partnership and Everest Infrastructures Limited Partnership) with the IEC's management, the possible amendment of the IEC agreement was negotiated ("the amendment to the agreement") under the principles detailed below.

During the period between January 1, 2020, and June 30, 2021 ("the amended agreement period"), the IEC will pay Tamar partners a discounted price on the fixed price set forth in the IEC agreement in respect of the natural gas quotas purchased in excess of the minimum annual quota prescribed in the IEC agreement.

Moreover, effective from January 1, 2020, the maximum daily natural gas quota which the IEC may order under the amended agreement will be reduced from 655,200 MMBTU to 500,000 MMBTU, without reducing the hourly quota or the minimum annual quota which the IEC had undertaken to purchase (based on Take or Pay) in the IEC agreement. In return, the IEC will be entitled to a fee of up to \$ 70 million, of which \$ 10 million will be paid shortly following the signing of the amendment to the agreement and the balance will be paid over the amended agreement period subject to meeting certain consumption volume milestones by the IEC.

Since the negotiations with the IEC have been conducted without Noble or Delek Drilling (among others owing to their higher interests in the Leviathan project compared to their interests in the Tamar project), in September 2019, the negotiating Tamar partners contacted Noble and Delek Drilling and presented the amendment to the agreement to them. It should be clarified that the amendment to the agreement must be signed by all the Tamar partners and by the IEC. Also, as of the date of approval of the condensed interim financial statements, the amendment to the agreement has not been signed due to existing disputes between Noble and Delek Drilling and the other Tamar partners, including regarding the ability of Noble and Delek Drilling to prevent the consummation of the transaction underlying the amendment to the agreement. It should also be noted that the amendment to the agreement is contingent on obtaining all the necessary regulatory approvals and there is no certainty that it will indeed be signed in the proposed outline and/or any other outline.



**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 3:- NATURAL GAS SUPPLY AGREEMENTS (Cont.)**

- d. Engagement in agreements for export of natural gas to Egypt:

In keeping with the matters discussed in Note 11f(10) to the annual financial statements regarding an agreement for the export of natural gas from the Tamar project signed between Delek Drilling and Noble and Dolphinus Holdings Limited ("Dolphinus" or "the buyer" and "the original export agreement", respectively), which had been assigned to the Tamar partners, on September 26, 2019, the agreement which amends the original export agreement was signed between the Tamar partners and Dolphinus ("the amended export agreement") and a capacity allocation agreement regarding the Israel-Egypt gas pipeline was signed between Delek Drilling, Noble, the Leviathan project partners ("the Leviathan partners") and the Tamar partners ("the capacity allocation agreement"), as specified below.

It should be noted that concurrently with signing the amended export agreement and the capacity allocation agreement, another agreement which amends the export agreement signed between Leviathan partners and Dolphinus was signed ("the amended leviathan agreement").

1. The amended export agreement:
  - (a) The gas supply to the buyer according to the amended export agreement will be on a firm basis (as opposed to the gas supply according to the original export agreement which was on an interruptible basis with an option for the Tamar partners to supply gas on a firm basis).
  - (b) The overall contractual gas quota undertaken by the Tamar partners to supply to the buyer as per the amended export agreement is about 25.3 BCM ("the overall contractual gas quota") (as opposed to 32 BCM according to the original export agreement on an interruptible basis).
  - (c) The supply according to the amended export agreement will commence on June 30, 2020 and will continue until the earlier of December 31, 2034 or the supply of the entire overall contractual gas quota ("the agreement termination data"). If the buyer does not purchase the overall contractual gas quota by December 31, 2034, each party will be entitled to extend the supply period by a maximum of an additional two years.
  - (d) According to the amended export agreement, the Tamar partners are committed to supply the buyer annual gas quotas as follows: (i) from June 30, 2020 to June 30, 2022 – about 1 BCM per annum and (ii) from July 1, 2022 to the agreement termination date – about 2 BCM per annum.
  - (e) The buyer is committed to take or pay for minimum annual quotas based on the mechanism determined in the amended export agreement.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 3:- NATURAL GAS SUPPLY AGREEMENTS (Cont.)**

- (f) The price of the gas supplied to the buyer will be determined using a formula based on the price per Brent oil barrel consisting of a bottom price. The amended export agreement includes a price update mechanism of up to 10% (upward or downward) after the fifth and tenth anniversaries of the amended export agreement provided that the conditions stipulated therein are met. In the event of disagreement regarding the price update, the buyer will be able to reduce its contractual take or pay gas quantities based on a mechanism determined in the amended export agreement.
- (g) The amended export agreement sets forth customary provisions regarding termination of the agreement and a provision dictating the termination of the amended export agreement in the event of termination of the amended Leviathan agreement as a result of violation and the Tamar partners' refusal to also supply the quantities prescribed in the amended Leviathan agreement as detailed therein. The amended export agreement also provides for compensation mechanisms in the event of the above. To the best of the Company's knowledge, the amended Leviathan agreement also consists of similar provisions as in the amended export agreement.
- (h) All the suspending conditions determined in the original export agreement had been met, including the receipt of all the necessary approvals in Egypt and the consummation of the transaction for the purchase of the shares of East Mediterranean Gas Limited ("EMG") and the purchase of the EMG pipeline interests by EMED Pipeline BV ("the EMG transaction" and "EMED", respectively), but excluding the following suspending conditions determined in the amended export agreement: obtaining export approval from the Israeli Ministry of Energy's Petroleum Commissioner and obtaining the Israeli Tax Authority's approval for the amended export agreement. Insofar as these suspending conditions are not met by December 15, 2019, the parties will be able to cancel the agreement, which will continue to apply if not cancelled as above.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 3:- NATURAL GAS SUPPLY AGREEMENTS (Cont.)**

## 2. The capacity allocation agreement:

Concurrently with signing the amended export agreement, a capacity allocation agreement was signed regarding the following:

- (a) The distribution of capacity through the Israel-Egypt gas transmission system (both the EMG pipeline and the Israeli pipeline) will be on a daily basis according to the following priorities:
  - (1) First tier of up to 350,000 MMBTU a day to the Leviathan partners.
  - (2) Second tier, in excess of the first tier, of 150,000 MMBTU a day until June 30, 2022 ("the capacity increase date") and 200,000 MMBTU a day after the capacity increase date to the Tamar partners.
  - (3) Third tier – any capacity in addition to the second tier to the Leviathan partners.
- (b) On the date of consummation of the EMG transaction, the Tamar partners will pay \$ 50 million ("Tamar participation fee") and the Leviathan partners will pay \$ 200 million ("Leviathan participation fee") (to be used by Delek Drilling and Noble as part of the consideration payable by them in the EMG transaction), this in return for the obligation to allow the supply of natural gas from the Tamar and Leviathan reservoirs and to secure the EMG pipeline capacity, all as required for consummating the amended export agreements as described above. It should be noted that the final Tamar and Leviathan participation fees will be determined by June 30, 2022 based on the actual gas quantities supplied by the Tamar partners and the Leviathan partners using the EMG pipeline and the Israeli pipeline by than date (including unsupplied but paid gas quantities based on the take or pay obligation).

It should be noted that as of the date of approval of the condensed interim financial statements, the EMG transaction has been consummated and the Tamar participation fee has been paid (the Company's share is approximately \$ 8.4 million) and included in other long-lived assets in the condensed interim statement of financial position and in cash flows used in investing activities in the condensed interim statement of cash flows in the reporting period.

- (c) The capacity allocation agreement also determines a cost sharing mechanism for the EMG transaction and additional costs in connection with the supply of gas as well as investments needed for the maximum utilization of the EMG pipeline capacity to be jointly made by the Leviathan partners and the Tamar partners.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 3:- NATURAL GAS SUPPLY AGREEMENTS (Cont.)**

- (d) The capacity allocation agreement also sets forth a backup mechanism between the Leviathan partners and the Tamar partners whereby from the date of initial commercial gas supply from the Leviathan reservoir through the capacity increase date, if the Tamar partners are unable to supply the contractual gas quantities to the buyer, the Leviathan partners will supply the necessary quantities to the Tamar partners.
- (e) The capacity allocation agreement period will be until the end of the amended export agreement, unless it is terminated earlier in the following circumstances: payment default not rectified by the defaulting party; cancellation of the EMG share purchase agreement before its completion; failure to obtain extension by the Israel Competition Authority of the capacity lease & operatorship agreement signed between EMED and EMG according to which EMG granted EMED an exclusive right to lease and operate the EMG pipeline for supplying natural gas from Israel to Egypt beyond a period of ten years from the date of signing as per the resolution of the Director General of the Competition Authority. Moreover, each party is entitled to terminate its share of the capacity allocation agreement if their export agreement is cancelled.
- e. In keeping with the matters discussed in Note 11b(4) to the annual financial statements regarding the amendment to the agreement signed with Dalia Energy Ltd. ("Dalia Energy"), as of the date of approval of the condensed interim financial statements, all the conditions precedent underlying the coming into effect of the amendment have been met.
- f. In April 2019, the Tamar partners signed an amendment to the agreement with Dorad Energy Ltd. ("Dorad") in which Dorad committed to purchase from Tamar project the entire natural gas quantities consumed in its facilities during the period from the date of transmission of the gas from the Leviathan reservoir through the earlier of the date of exercise of the reduced purchased quantity option by Dorad (if exercised) or December 31, 2020. It was also agreed that to calculate the reduced purchased quantity in respect of Dorad's option, the calculation for the period from the beginning of transmission of gas from the Leviathan reservoir will be based on the minimum quota (according to the mechanism set forth in the amendment to the agreement) and not based on the quantity actually purchased by Dorad. As of the date of approval of the condensed interim financial statements, all the suspending conditions underlying the execution of the amendment to the agreement have been met.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 3:- NATURAL GAS SUPPLY AGREEMENTS (Cont.)**

- g. In April 2019, the Tamar partners signed an agreement with Oil Refiners Ltd. ("ORL") for the supply of natural gas at an estimated capacity of about 0.5 BCM for a period of six months from July 1, 2020. The agreement can be extended by ORL for additional six-month periods each until the beginning of transmission of gas from the Karish reservoir, but not more than a cumulative period of eight years. If the agreement for the purchase of natural gas from the Karish reservoir signed between ORL and Energean is cancelled, the Company's agreement with ORL will be extended by 12 months (assuming the cancellation occurs before the end of 2020) or will be extended by 18 months (assuming the cancellation occurs after the end of 2020). As of the date of approval of the condensed interim financial statements, all the suspending conditions underlying the execution of the agreement have been met.
- h. In November 2019 (after the condensed interim statement of financial position date), the Tamar partners signed amendments to agreements previously signed with OPC Rotem Ltd. ("Rotem") and OPC Hadera Ltd. ("Hadera") according to which Rotem and Hadera had undertaken to continue purchasing from the Tamar project the entire natural gas quantities consumed by their enterprises (excluding certain quantities for the Karish reservoir trial run) until the date of exercise of their option to reduce purchased gas quantities (if exercised) or the date of initial commercial operation of the Karish reservoir (whichever is later). It was also agreed that the calculation of the reduced purchase quantities underlying the reduction option granted to Rotem and Hadera will take into account the period from the beginning of gas supply from the Leviathan reservoir based on the minimum quotas they are committed to purchase from the Tamar project (using the mechanism determined in the amended agreements signed with them) and not based on the quantities actually purchased by Rotem and Hadera. As of the date of approval of the condensed interim financial statements, the suspending conditions underlying the execution of the above amendment (regarding the Competition Authority approval and the approval of Rotem's and Hadera's lenders) have not been met.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 4:- ADDITIONAL INFORMATION**

- a. In keeping with the matters discussed in Note 11j(3) to the annual financial statements regarding a claim and motion to approve the claim as a class action filed with the Tel-Aviv District Court in February 2019 against the Company, Delek Drilling, the CEO of the general partner in Delek Drilling who served as Chairman of the Company's Board until January 17, 2019 and as a director in the Company until March 6, 2019, the Company's CEO, the Company's CFO and Leader Issues (1993) Ltd. in connection with the issue of the Company's shares in July 2017. On August 12, 2019, the Company and the other respondents submitted their response to the motion. According to the Court's decision, the petitioners can submit their counter responses by December 15, 2019. It should be noted that the legal proceeding is in very early stages; however, based on its legal counsel, the Company estimates that at this stage it is more likely than not that the motion for approval of a class action will be rejected.
- b. In keeping with the matters discussed in Note 15d to the annual financial statements regarding the Company's obligation to pay royalties at a rate of 6.5% (instead of 1.5%) to Delek Energy Systems Ltd./Delek Royalties (2012) Ltd. and Delek Group Ltd. ("**the royalty owners**"), on August 4, 2019, the Company and the royalty owners signed an agreement ("**the mediation and arbitration agreement**") whereby they agreed to attempt to settle their dispute regarding the determination of the date of return of the investment, as defined in the rights transfer agreement, in a mediation proceeding before the Honorable Supreme Court Justice (ret.) Yoram Danziger. The parties agreed that insofar as the mediation proceeding is terminated without reaching a settlement, they will apply to arbitration based on the dispute resolution mechanism stipulated in the agreement. The parties began the mediation proceeding in September 2019.

As discussed in Note 15d to the annual financial statements, the Company has strong arguments for the inclusion of the windfall profits tax pursuant to the Natural Resources Windfall Profits Tax Law, 2011 ("**the Sheshinski levy**") in the determination of the date of return of the investment which will lead to the deferral of the date of return of the investment. In contrast, the royalty owners informed the Company that they have serious arguments in favor of advancing the date of return of the investment to apply much earlier. Based on its legal counsel, the Company believes that it is more likely than not that the arguments of the royalty owners for advancing the date of return of the investment will not be accepted.

It should be noted that on the date of signing the above agreement, Delek Energy Systems Ltd. signed a letter of liability whereby it will pay the Company any amount awarded in an arbitration proceeding against Delek Royalties (2012) Ltd. or anyone on its behalf as a result of the arbitrator's decision to include the Sheshinski levy and the amounts payable to the State in its respect in the determination of the date of return of the investment. Furthermore, insofar as the Company chooses to exercise its offset right towards the royalty owners in respect of the Sheshinski levy, said letter of liability will become null and void and expire from the offset date.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 4:- ADDITIONAL INFORMATION (Cont.)**

- c. In keeping with the matters discussed in Note 11j(2) to the annual financial statements regarding the petition submitted against the Company for disclosure and inspection of documents to be used by the petitioner for filing a motion for approval of a derivative claim against officers in the Company, on March 21, 2019, the petitioner submitted its response to the motion for dismissal in limine filed by the Company based on the letters of quittance granted by the Company to its officers. In its response, the petitioner argues, *inter alia*, that the Company's quittance argument requires making a factual inquiry and therefore is inappropriate for this stage of the legal proceeding. Also, in view of other grounds for the claim stated in the motion, even if the quittance argument is accepted, it will not render the hearing of the petition for disclosure of documents as a whole irrelevant. On April 11, 2019, the petitioner responded to the Company's response to the petition for disclosure of documents and on April 16, 2019 the Company submitted its counter response to the petitioner's response to the motion for dismissal in limine.

On May 2, 2019, a hearing was held at the District Court in which the Company informed the Court that it had contacted the holders of the royalty for investigating the issue of the levy imposed by virtue of the Windfall Profits Tax, 5771-2011 in an arbitration proceeding, as prescribed in the rights transfer agreement. See Note 15d to the annual financial statements. Accordingly, it was decided that at this stage the hearing will be postponed and the Company will submit an updated notice of the developments in the arbitration proceeding ("the update notice"). The Company submitted the update notice on its behalf on August 7, 2019, mainly pertaining to the developments in the negotiations between the Company and the royalty owners and the signing of a mediation and arbitration agreement, as described in paragraph b above. On August 8, 2019, the Court ordered the parties to submit an update notice regarding any development in the proceedings with the royalty owners or in corresponding proceedings by November 3, 2019. On said date, the Company submitted a second update notice and filed a motion for dismissal of the petition for disclosure of documents in which it informed the Court of the developments in the mediation proceeding with the royalty owners as discussed above. In view of the mediation proceeding, the Court was asked to order the dismissal of the petition for disclosure of documents. Based on its legal counsel, the Company estimates that it is more likely than not that the petition for disclosure of documents will be rejected.

- d. In keeping with the matters discussed in Note 15b to the annual financial statements regarding the hearing held between the Tamar partners and the Petroleum Commissioner regarding the measurement of the market value at the wellhead of the royalties payable to the State from the Tamar project, on March 28, 2019, a letter was received from the Ministry of Energy whereby effective from 2019 until further notice, the effective royalty rate payable for the Tamar Lease is 11.3%. It was clarified that this rate solely represents an advance.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 4:- ADDITIONAL INFORMATION (Cont.)**

- e. On July 9, 2019, a petition was filed with the Tel-Aviv District Court (Economic Department) against the Company, Isramco Negev 2 Limited Partnership, Alon Natural Gas Exploration Ltd. and Dor Gas Exploration Limited Partnership (collectively - "the respondents") for the disclosure and review of documents pursuant to Article 198A to the Israeli Companies Law, 1999 ("the petition") whose aim is to obligate the respondents to disclose various documents, as detailed in the petition, in connection with the RFP (see Note 3a above), to allow the petitioner to review a derivative action motion filed against officers and key management personnel whose illegal and uncompetitive conduct allegedly caused damages to the respondents as a result of Tamar partners' failure to win the RFP. The Court allowed the Company and the other respondents to the petition to submit their responses by January 5, 2020 and the petitioner 60 days from such date to submit its response. It should be noted that the respondents are considering applying to the Court with a petition for suspending the litigation proceeding, among others due to the appeal on the verdict filed by the respondents (see Note 3a above). Based on its legal counsel, the Company believes that at this preliminary stage, the chances of the petition to be accepted cannot be assessed.
- f. In keeping with the matters discussed in Note 6f to the annual financial statements regarding the Eran license mediation proceeding, in April 2019, a court verdict status was granted to the mediation agreement signed between the Eran license partners prior to its expiration and the State whereby the Tamar SW reservoir will be divided between the Tamar Lease area (78%) and the Eran license area (22%) (after obtaining the consent of Tamar partners) and the Eran license rights will be divided between the State (76%) and the holder of the Eran license (24%). As of the date of approval of the condensed interim financial statements, the Tamar partners, the State and the Eran license partners are holding negotiations for reaching understanding needed to implement the mediation agreement specified above. It should be noted that on March 25, 2019, the Tamar partners notified the Minister of Energy that they are withdrawing the appeal to the Commissioner of Petroleum's decision on the approval of the Tamar SW reservoir development plan.
- g. Dividends:
- On April 7, 2019, the Company's Board approved the distribution of a dividend of approximately \$ 30,000 thousand (\$ 0.34 per share) to the Company's shareholders. The dividend was distributed on May 2, 2019.
- On October 10, 2019 (after the condensed interim statement of financial position date), the Company's Board approved the distribution of a dividend of approximately \$ 10,000 thousand (about \$ 0.113 per share) to the Company's shareholders. The dividend was distributed on November 7, 2019.



**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 4:- ADDITIONAL INFORMATION (Cont.)**

- h. In April 2019, the Company's Board decided to earmark funds totaling approximately \$ 20 million that are expected to be expensed as construction or operation costs of the Tamar project and place them in a special purpose restricted expense account, as defined in Section 5.10.2 to the indentures of bonds (Series A and B).
- i. Information of certain financial covenants underlying the bonds (Series A and B):

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

1. Expected debt service coverage ratio (as defined in the trust deed) of no less than 1:1.05 (during two consecutive quarters) and of no less than 1:1.20 for a dividend distribution. It should be noted that before the date of the annual financial statements, the Company did not include in the calculation of the expected debt service coverage ratio the effect of the finance expenses paid by the Company in respect of the bonds on its tax liability ("the tax shield"), which are included in these condensed interim financial statements. The inclusion of the tax shield increased the expected debt service coverage ratio the expected debt service ratio for the 12-month period beginning on January 1, 2020 by about 0.1 to 1.51.

It should be noted that according to the bond indentures, given that more than 120 days have elapsed from the date of publication of the discounted cash flow, the Company is required to confirm to the trustee that no material adverse changes, as defined in the bond indentures, have occurred in the parameters underlying the coverage ratio which are likely to change the coverage ratio in a manner that will not allow distribution and/or will represent breach of the bond indentures (namely, a ration below 1:1.20 and 1:1.05, respectively). According to the Company's estimates as of the date of approval of the condensed interim financial statements, the changes in the parameters underlying the discounted cash flow do not represent material adverse changes as discussed above.

2. Minimum economic equity (as defined in the trust deeds) of no less than \$ 250 million (during two consecutive quarters) for the bonds (Series A) and of no less than \$ 350 million (during two consecutive quarters) for the bonds (Series B) - the economic equity as of September 30, 2019 is approximately \$ 934 million.

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

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 4:- ADDITIONAL INFORMATION (Cont.)**

## j. 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 (Level 1) whose fair value as of September 30, 2019 is approximately \$ 918 million (December 31, 2018 - approximately \$ 1,084 million, September 30, 2018 - approximately \$ 1,113 million) and whose carrying amount, including accrued interest, as of that date approximates \$ 1,035 million (December 31, 2018 - approximately \$ 1,146 million, September 30, 2018 - approximately \$ 1,131 million).

## k. Terms of employment of the Chairman of the Company's Board:

On September 2, 2019, the Company's Board approved the appointment of Mr. Eitan Meir as director in the Company and also approved, after having obtained the approval of the Remuneration Committee, that the terms of Mr. Meir's service and tenure will be identical to those of the Company's other directors.

The Company's Board also approved the appointment of Mr. Meir as active Chairman of the Board in effect from January 1, 2020, following an orientation period with the acting Chairman, Mr. Ran Efrati. Furthermore, following the approval of the Remuneration Committee and subject to the approval of the Company's general meeting, in its meetings on September 2, 2019 and September 23, 2019, the Company's Board approved the Company's engagement in an agreement settling Mr. Meir's service as active Chairman of the Board ("the management agreement") as follows: Mr. Meir will provide the Company management services as active Chairman of the Board at a position scope of 50% in return for monthly management fees of NIS 50,000 plus VAT as required by law ("the management fees"); Mr. Meir will be entitled to reimbursement of vehicle expenses of NIS 6,500 a month; Mr. Meir will be entitled to reimbursement of reasonable expenses incurred by him in the course and for the purpose of fulfilling his duties as Chairman of the Company's Board in keeping with the Company's remuneration policy, as determined from time to time; Mr. Meir is entitled to an annual cash bonus in an aggregate amount of up to six months of management fees, as determined based on the targets and criteria established by the Company's Remuneration Committee and Board and in accordance with the Company's remuneration policy; Mr. Meir is entitled to receive from the Company a letter of indemnity and quittance in the standard format practiced by the Company and be included in the Company's officers' liability insurance policy.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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**NOTE 4:- ADDITIONAL INFORMATION (Cont.)**

The management agreement will be in effect from January 1, 2020 and will remain in effect as long as Mr. Meir serves as director in the Company. Each party may terminate the management agreement by providing the other party a two-month advance written notice. Notwithstanding the aforesaid, according to the management agreement, the Company may terminate the management agreement with immediate effect if certain special circumstances are met such as conviction of moral turpitude, breach of fiduciary duty to the Company etc. From the effective date of the management agreement through its termination, Mr. Meir will not be entitled to any annual or board meeting fees by virtue of his service as director in the Company. On November 7, 2019 (after the condensed interim statement of financial position date), the Company's general meeting approved the reappointment of Mr. Meir as director in the Company for a period ending on the date of the Company's next annual general meeting and also approved the terms of his service as director and active Chairman of the Company's Board as discussed above.

1. Proposed merger of Alon Natural Gas Exploration Ltd. ("Alon") with the Company:

On November 17, 2019 (after the condensed interim statement of financial position date), the Company's Board approved applying to Alon's board of directors with a nonbinding proposal for negotiating a merger transaction with the Company according to which Alon's entire shareholders will receive Company shares in return for their shares in Alon as a result of which Alon will become a wholly owned subsidiary of the Company.

According to the proposal, in return for Alon's entire shares, Alon's shareholders will be allocated shares of the Company accounting for 26% of the Company's issued share capital, after adjustment for dividend distributions, if any. Alon holds 95% of the interests in Dor Gas Exploration Limited Partnership, which holds 4% of the working interests (of 100%) in the Tamar and Dalit Leases.

It should be clarified that currently there is no certainty that the proposal will mature into a binding agreement. If a binding agreement is indeed reached, its completion will be contingent, among others, on obtaining all the approvals required by law and/or applicable provisions of agreements signed by the parties.

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**November 17, 2019**

**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:

Independent auditors' review report dated November 17, 2019 on the Company's condensed financial information as of September 30, 2019 and for the periods of nine and three months then ended.

**Kost Forer Gabbay & Kasierer**  
**Certified Public Accountants (Israel)**

*This report is a translation of Tamar Petroleum Ltd.'s Hebrew-language Report on the Effectiveness of the Internal Control over Financial Reporting and Disclosure, and is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in the event of any discrepancy, the Hebrew version shall prevail.*

# **Tamar Petroleum Ltd.**

## **Report Concerning the Effectiveness of the Internal Control over Financial Reporting and Disclosure**

**Quarterly Report Concerning the Effectiveness of the Internal Control over Financial Reporting and Disclosure under Regulation 38C(a) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 for the Third Quarter of 2019**

The Management of Tamar Petroleum Ltd. ("**the Company**"), under the supervision of its Board of Directors, is responsible for designing and maintaining proper internal control over financial reporting and disclosure within the Company.

For this purpose, the members of Management are:

1. Liami Vaisman, CEO
2. Yuval Raikin, CFO
3. Efrat Hozeh-Azrad, General Counsel and VP

Internal control over financial reporting and disclosure consists of existing controls and procedures within the Company that were designed by, or under the supervision of, the CEO and the CFO, or persons performing similar functions, under the supervision of the Board of Directors, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, and to ensure that information required to be disclosed by the Company in the reports it issues under the provisions of the law is collected, processed, summarized and reported within the time and in the form prescribed in the law.

Internal control includes, inter alia, controls and procedures designed to ensure that information required to be disclosed by the Company as aforesaid, is accumulated and communicated to the Company's Management, including the CEO and the CFO, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Owing to its structural limitations, internal control over financial reporting and disclosure is not intended to provide complete assurance regarding the prevention or detection of misstatements or the omission of information in reports.

In the interim report on the effectiveness of internal control over financial reporting and disclosure attached to the interim report for the period ended June 30, 2019 ("**the latest interim report of internal control**"), the internal control in the Company was evaluated as effective.

Through the date of this Report, the Company's Board of Directors or Management have not been informed of any events or circumstances that are likely to change their assessment of the effectiveness of internal control, as presented in the latest interim report of internal control.

As of the date of this Report, based on the assessment of the effectiveness of internal control in the latest interim report of internal control and based on information presented to the Company's Management and Board of Directors as discussed above, internal control is effective.

## Officers' Certification

Certification of Chief Executive Officer pursuant to Regulation 38C(d)(1):

### Certification of Chief Executive Officer

I, Liami Vaisman, hereby certify that:

- (1) I have reviewed the interim report of Tamar Petroleum Ltd. ("**the Company**") for the third quarter of 2019 ("**the Reports**");
- (2) Based on my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports;
- (3) Based on my knowledge, the financial statements and other financial information included in the Reports, fairly present, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports;
- (4) I have disclosed to the Company's independent auditors, Board of Directors, Audit Committee and Financial Statement Review Committee, based on my most recent evaluation of the internal control over financial reporting and disclosure:
  - (a) All significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize and report financial information, in a manner capable of casting doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and
  - (b) Any fraud, whether or not material, that involves the CEO or anyone directly or indirectly subordinate thereto, or other employees who have a significant role in the internal control over financial reporting and disclosure;
- (5) I, alone or together with others in the Company:
  - (a) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to ensure that material information relating to the Company is made known to me by others within the Company, particularly during the period of preparation of the Reports; and
  - (b) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including generally accepted accounting principles;
  - (c) I have not been informed of any events or circumstances that occurred in the period from the latest report date (the Interim Report as of June 30, 2019) through the date of this Report that are likely to change the conclusion reached by the Company's Board of Directors and Management regarding the effectiveness of internal control over financial reporting and disclosure in the Company.

That aforementioned does not derogate from my responsibility or the responsibility of any other person pursuant to applicable law.

November 17, 2019

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Liami Vaisman  
CEO

## Officers' Certification

Certification of Chief Financial Officer pursuant to Regulation 38C(d)(2):

### Certification of Chief Financial Officer

I, Yuval Raikin, hereby certify that:

- (1) I have reviewed the interim financial statements and other financial information included in the interim reports of Tamar Petroleum Ltd. ("**the Company**") for the third quarter of 2019 ("**the Reports**" or "**the Interim Reports**");
- (2) Based on my knowledge, the interim financial statements and other financial information included in the Interim Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports;
- (3) Based on my knowledge, the interim financial statements and other financial information included in the Interim Reports, fairly present, in all material respects, the financial position, results of operations and cash flows of the Company as of the dates and for the periods presented in the Reports;
- (4) I have disclosed to the Company's independent auditors, Board of Directors, Audit Committee and Financial Statement Review Committee, based on my most recent evaluation of the internal control over financial reporting and disclosure:
  - (a) All significant deficiencies and material weaknesses in the design or operation of the internal control over financial reporting and disclosure as it relates to the interim financial statements and other financial information included in the Interim Reports, which are reasonably likely to adversely affect the Company's ability to collect, process, summarize and report financial information, in a manner capable of casting doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and
  - (b) Any fraud, whether or not material, that involves the CEO or anyone directly or indirectly subordinate thereto, or other employees who have a significant role in the internal control over financial reporting and disclosure;
- (5) I, alone or together with others in the Company:
  - (a) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to ensure that material information relating to the Company is made known to me by others within the Company, particularly during the period of preparation of the Reports; and
  - (b) Designed controls and procedures, or caused to be designed and maintained, under my supervision, controls and procedures, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including generally accepted accounting principles;
  - (c) I have not been informed of any events or circumstances that occurred in the period from the latest interim report date (the Interim Report as of June 30, 2019) through the date of this Report, as they relate to the interim financial statements and other financial information included in the Interim Reports, that are likely to change the conclusion reached by the Company's Board of Directors and Management regarding the effectiveness of internal control over financial reporting and disclosure in the Company.

That aforementioned does not derogate from my responsibility or the responsibility of any other person pursuant to applicable law.

November 17, 2019

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Yuval Raikin  
CFO