

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

Of Tamar Petroleum Ltd. (the "Company")¹

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

1. **Section 6.2 of the Prospectus – the Sale Agreement**

For details with respect to the closing of the transaction for the purchase of working interests at a rate of 9.25% in the I/12 Tamar and I/13 Dalit leases from Delek Drilling – Limited Partnership, see the Company's immediate report dated July 23, 2017 (Reference No. 2017-01-062995), the information in which is included herein by way of reference.

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

Further to Section 6.7.2(e) of the Prospectus regarding the planned work plan for the period commencing April 1, 2017 forth for the Tamar project, which includes an upgrade and improvement of the Tamar platform and the terminal, including addition of structures and replacement of the chief disconnection valves in the Tamar platform with new valves of a different type in order to improve their function (the "**Upgrade Works**"), the operator of the Tamar project is expected to perform the Upgrade Works in September-October 2017, during an estimated period of 20 days, in two timeframes, while in each one of said timeframes, natural gas will be piped from the Tamar field to the production platform of the Tamar project through only one of the two pipes, and at a scope of half of the maximum production capacity. In the Company's estimation, the Upgrade Works are not expected to materially influence the Company's revenues from the sale of natural gas in Q3 and Q4 of 2017.

Caution regarding forward-looking information: the Company's estimations with respect to the timetables for the Upgrade Works and the mere performance thereof and regarding the influence of the Upgrade Works on the Company's revenues from the sale of natural gas in Q3 and Q4 of 2017, constitute forward-looking information as defined in the Securities Law, 5728-1968, which is based, *inter alia*, on estimations that the Company received from the operator and on the Company's estimations regarding the figures of the expected sales of natural gas in Q3 and Q4 of 2017. The actual performance of the Upgrade Works, including the timetables, and the Company's estimation regarding the

¹ The update includes material changes or innovations that took place in the Company's business commencing as of the release date of the prospectus for supplementation and the shelf prospectus of the Company on July 4, 2017 (the "**Prospectus**") (Reference No.: 2017-01-056551), as updated in the supplementary notice released on July 6, 2017 (Reference No.: 2017-01-057649) and in the shelf offering report released on July 18, 2017 (Reference No.: 2017-01-061960), and up to immediately prior to the date of this report, in any matter which should be described in a periodic report. The update refers to the section numbers in Chapter 6 (Description of the Company's Business) of the Prospectus.

expected influence of the Upgrade Works on the Company's revenues from the sale of natural gas, may materially differ from the aforesaid estimations, *inter alia*, as a result of operational and technical conditions and/or the actual performance of the project and/or from the actual figures of the sales of natural gas.

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

Production data of natural gas and condensate in Q2/2017 from the Tamar Project (assuming that the Company held interests in the I/12 Tamar lease from the date of commencement of gas piping from the Tamar project), are presented in the table below:²

		Natural gas	Condensate
Total output (attributable to the holders of the equity interests of the Company) during the period (in MMCF for natural gas and in barrels in thousands for condensate)		7,954	10.4
Average price per output unit (attributable to the holders of the equity interests of the Company) (Dollars per MCF and per barrel)		5.40	40.20
Average royalties (any payment derived from the output of the producing asset, including from the gross revenues from the petroleum asset) paid per output unit (attributable to the holders of the equity interests of the Company) (Dollars per MCF and per barrel)	The State	0.60	4.48
	Third parties	0.09	0.71
	Interested Parties	0.14	1.05
Average production costs per output unit (attributable to the holders of the equity interests of the Company) (Dollars per MCF and per barrel) ³		0.35	1.91
Average net revenues per output unit (attributable to the holders of the equity interests of the Company) (Dollars per MCF and per barrel)		4.22	32.05

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

Commencing as of September 1, 2017, Ms. Efrat Hozeh-Azrad will serve as the Company's general counsel.

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

Further to the immediate report dated July 17, 2017 (Reference No. 2017-01-061543) regarding the repurchase plan adopted by the Company's board of directors, the Company performed repurchases of Series A Bonds in a total sum of ILS 25,866,104 par value.

² The rate attributable to the holders of the equity interests of the Company in the output, royalties, production costs and net revenues, was rounded up to the nearest tenth

³ It is stressed that the average production costs per output unit include only current production costs and do not include the exploration and development costs of the reservoir.

Date: August 17, 2017

Tamar Petroleum Ltd.

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

Tamar Petroleum Ltd.

Board of Director's Report

**to the Interim Condensed Financial Statements as of June 30, 2017
and to the Interim Condensed Proforma Financial Statements as of
June 30, 2017**

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

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

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

A. Financial position, liquidity and financing sources

Financial position

1) Current assets

The current assets include the shareholder's debt balances for the equity issue on the day of incorporation of the Company in the sum of ILS 1,000.

2) Equity

The Company's issued and paid-up capital as of June 30, 2017 amounted to ILS 1,000.

Financing

In July 2017, the Company purchased 9.25% of the interests in the Tamar and Dalit leases (the “**Leases**”) through a public offering of bonds and shares as set forth in Note 5 to the Financial Statements.

Part Two – Explanations of the Board of Directors for the State of the Corporation's Business – Proforma

1. Results of operations – proforma

a. General

As of June 30, 2017, the Company was wholly controlled by Delek Drilling – Limited Partnership ("**Delek Drilling**" or the "**Partnership**"). In the course of July 2017, the Company raised financial sources by way of a public offering of bonds and shares, which served as part of the consideration for the purchase of working interests at a rate of 9.25% (out of 100%) in the Tamar and Dalit Leases from Delek Drilling, according to the terms of the sale agreement that was signed between the parties, as described in Note 6A to the Proforma Financial Statements as of June 30, 2017 attached below. Following the completion of the share offering, the holdings of Delek Drilling in the Company decreased to 40% in equity rights and 12% in the voting rights therein (as long as Delek Drilling holds more than 12% of the equity rights). Since the Company purchased rights in the Leases from the control holder, the purchase does not constitute a business combination as defined in IFRS3. Therefore, the Proforma Financial Statements were prepared under the assumption that the purchase transaction in respect of 9.25% of the Tamar reservoir shall be treated in accordance with the As Pooling method.

These Proforma Financial Statements were prepared under the assumption that the transaction will be closed on the basis of the Company's share (9.25%) in the Leases, while making various adjustments as specified below. The Proforma Statements are presented under the assumption that the purchase transaction was closed on January 1, 2014, and under additional assumptions specified in Note 3 to the Proforma Financial Statements as of June 30, 2017 attached below.

The Company's proforma profits in the six-month period ended June 30, 2017 (the "**Report Period**") amounted to approx. \$56.2 million, versus approx. \$49 million in the same period last year, an increase of approx. 14.7%.

The increase in profit in the Report Period compared to last year, mainly derives from an increase in revenues from natural gas sales to the customers of the Tamar project.

The Company's proforma profits in Q2/2017 amounted to approx. \$28.2 million, versus approx. \$24.6 million in the same period last year.

b. Analysis of income statements - proforma

Below are main figures with regard to the Company's proforma income statements in dollars in thousands:

	For the six-month period ended on		For the three-month period ended on		For the year ended on
	30.6.2017	30.6.2016	30.6.2017	30.6.2016	31.12.2016
Revenues from gas and condensate sales	85,003	75,693	42,674	38,491	159,850
Net of royalties	13,190	11,838	6,631	6,023	24,843
Net revenues	71,813	63,855	36,043	32,468	135,007
<u>Expenses and costs</u>					
Cost of production of natural gas and condensate	5,887	6,168	2,787	3,233	11,639
Depreciation, depletion and amortization expenses	9,062	8,010	4,739	4,258	16,156
Decrease in other direct expenses	-	-	-	-	(1)
G&A expenses	600	600	300	300	1,200
Total costs and expenses	15,549	14,778	7,826	7,791	28,994
Operating profit	56,264	49,077	28,217	24,677	106,013
Finance costs	(149)	(127)	(79)	(64)	(342)
Finance income	88	10	83	6	131
Finance income (costs), net	(61)	(117)	4	(58)	(211)
Net profit and total comprehensive income for the period	56,203	48,960	28,221	24,619	105,802
Gas sales in BCM¹	4.8	4.5	2.4	2.3	9.4
Condensate sales in thousands of barrels²	226	214	112	110	448

Revenues net of royalties in the Report Period amounted to approx. \$71.8 million compared with approx. \$63.9 million in the same period last year, an increase of approx. 12.5%. The increase in revenues in the Report Period compared with the same period last year mainly derives from an increase in the quantities of natural gas and condensate sold in the Tamar Project. Revenues net of royalties in Q2/2017 amounted to approx. \$36 million compared with approx. \$32.5 million in the same period last year.

The cost of gas sold mainly includes the operation expenses of the Tamar Project, which include, *inter alia*, expenses of shipping and transportation, payroll, consulting, maintenance and insurance. The cost of gas production in the Report Period amounted to approx. \$5.9 million compared with approx. \$6.2 million in the same period last year.

The cost of gas production in Q2/2017, amounted to approx. \$2.8 million compared with approx. \$3.2 million in the same period last year.

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

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

Expenses of depreciation, depletion and amortization amounted in the Report Period to approx. \$9.1 million compared with approx. \$8 million in the same period last year. The depreciation expenses include depletion depreciation in the Tamar Project. The increase mainly derives from an increase in the quantity of gas produced compared with the same period last year due to the increase in the demand for natural gas in the Israeli market. Expenses of depreciation, depletion and amortization in Q2/2017 amounted to approx. \$4.8 million compared with approx. \$4.3 million in the same period last year.

G&A expenses which constitute the Company's estimated G&A expenses amounted in the Report Period to approx. \$0.6 million and to approx. \$0.3 million in Q2/2017. For details see Note 3B4 to the Interim Proforma Financial Statements attached below.

Finance costs amounted in the Report Period to approx. \$149 thousand with no significant change compared with the same period last year. The financing expenses mainly derived from the effect of the passage of time on the petroleum and gas asset retirement obligation.

Finance income amounted in the Report Period to approx. \$88 thousands, compared to approx. \$10 thousands in the same period last year. Finance income mainly derive from interest revenues for cash in the accounts of the operator of the Tamar Lease.

2. Financial position, liquidity and financing sources – proforma

a. Financial position

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

The total balance sheet as of June 30, 2017 amounted to approx. \$410.7 million compared with approx. \$408.3 million as of December 31, 2016.

The current assets increased from approx. \$21.8 million as of December 31, 2016 to approx. \$22.1 million as of June 30, 2017. The change mainly derives from the factors specified below:

- (1) **Trade receivables** totaled approx. \$15.7 million as of December 31, 2016 compared with approx. \$18.2 million as of June 30, 2017. The increase in the trade receivables section mainly derives from customers' payments for May 2017 which were paid after the date of the condensed statement of financial position.
- (2) **Other receivables** decreased from approx. \$6.1 million as of December 31, 2016 to approx. \$3.9 million as of June 30, 2017. The decrease mainly derives from a decrease in the balance of the operator of the joint venture.

The non-current assets increased from approx. \$386.5 million as of December 31, 2016 to approx. \$388.6 million as of June 30, 2017. The change mainly derives from the factors specified below:

(1) Investments in petroleum and gas assets increased from approx. \$384.5 million as of December 31, 2016 to approx. \$386.6 million as of June 30, 2017. The increase mainly derives from the Company's investments in the Tamar project in the sum of approx. \$11.2 million. On the other hand, expenses of depreciation and amortization for the Tamar project were recorded in approx. \$9.1 million.

(2) Other long-term assets as of December 31, 2016 and as of June 30, 2017 amounted to approx. \$2 million and mainly related to receivables in respect of the construction of gas export infrastructures.

Other payables decreased from approx. \$12.2 million as of December 31, 2016 to approx. \$7.5 million as of June 30, 2017. The decrease mainly derives from the decrease in the Company's share in the liabilities of the joint venture in connection with the Tamar reservoir.

Other long-term liabilities as of December 31, 2016 amount to approx. \$9.2 compared with approx. \$9.4 million as of June 30, 2017 and include gas and petroleum asset retirement obligations in the Tamar Project. The increase mainly derives from an update of the effect of the passage of time on the asset retirement obligations.

The capital of the Company as of December 31, 2016 amounts to approx. \$386.8 million compared with approx. \$393.9 million as of June 30, 2017. The change in the capital is due to profits recorded for the Tamar Project, net of distributions to shareholders.

b. Cash flow

The cash flows derived to the Company from operating activities, amounted in the Report Period to approx. \$61.6 million compared with approx. \$55 million in the same period last year. The increase mainly derived from the increase in the net profit in the Report Period, compared with the profit in the same period last year, mainly due to an increase in the quantities of natural gas and condensate sold in the Tamar project.

The cash flows used for investment activity amounted in the Report Period to approx. \$12.5 million compared with approx. \$2.9 million in the same period last year. The increase mainly derived from an investment in the Report Period in the Tamar 8 well under the framework of the Tamar Project.

The cash flows used for financing activity amount in the Report Period to approx. \$49.1 million compared with approx. \$52.1 million in the same period last year. Cash flows for financing activity in the Report Period were used mainly for distributions to shareholders.

Part Three – Exposure to and Management of Market Risks

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

Since the Company was registered on November 4, 2015, and as of the Report Date has yet to commence its operations and has no cash balances and liabilities, the Company is not exposed to market risks, as of the date of the report.

B. Proforma report according to linkage bases, in thousands of dollars, as of June 30, 2017

As of the date of the Proforma Report, all of the Company's financial balances are in dollars and/or linked to U.S. dollar.

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

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

For material events subsequent to the date of the Interim Condensed Financial Statements, see Note 5 to the Financial States as of June 30, 2017 attached hereto.

Sincerely,

Yossi Abu
Chairman of the Board

Liami Vaisman
CEO

Date of signing: August 17, 2017

Tamar Petroleum Ltd.

Interim Condensed Financial Statements as of June 30, 2017

Expressed in U.S. Dollars in Thousands

Unaudited

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

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

Introduction

We have reviewed the accompanying financial information of Tamar Petroleum Ltd. (the "**Company**"), which includes the Condensed Statement of Financial Position as of June 30, 2017. The Company's board of directors and management are responsible for the preparation and presentation of financial information for such interim date in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("**IAS 34**"), and they are further responsible for the preparation of financial information for such interim date pursuant to Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on financial information for such interim period based on our review.

Scope of Review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Performed by the Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for 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 financial information is not prepared, in all material respects, in accordance with IAS 34.

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

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

Tel Aviv, August 17, 2017

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

	30.6.2017	30.6.2016	31.12.2016
Assets:	Unaudited	Unaudited	Audited
Current assets:			
Shareholders	*	*	*
Equity			
Company Equity	*	*	*

* Less than one thousand Dollars

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

<u>August 17, 2017</u>	<u>Yossi Abu</u>	<u>Liami Vaisman</u>	<u>Yuval Raikin</u>
Date of approval of the Financial Statements	Chairman of the Board	CEO	CFO

Note 1 – General:

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

As of the date of the Interim Condensed Statement of Financial Position, the Company was inactive and was wholly owned and fully controlled by Delek Drilling- Limited Partnership (the “**Partnership**” or “**Delek Drilling**”).

The Company began its activity upon the fulfillment of the conditions precedent of the sale agreement (see Note 5A below), retroactively from July 1, 2017. The Company’s articles determine that the Company shall only perform exploration, development, production and transmission actions to the target markets in connection with the leases I/12 "Tamar" and I/13 "Dalit" (collectively: the “**Leases**” or “**Tamar and Dalit leases**” and/or the “**Joint Venture**”).

The Company's main office address is 11 Galgalei Haplada St., Herzliya.

- B.** In the course of July 2017, the Company raised financial sources by way of a public offering of bonds (Series A) and shares (see Notes 5B and 5C below), which served as part of the consideration for the purchase of working interests at a rate of 9.25% (out of 100%) in the Leases from Delek Drilling, according to the terms of the sale agreement that was signed between the parties, as described in Note 5A below. Following the completion of the share offering, the holdings of Delek Drilling in the Company decreased to 40% in equity rights and 12% in the voting rights therein. The trade in the Company's shares on TASE began on July 24, 2017.
- C.** Following the completion of the purchase of the Leases, the Company engages in the sale of natural gas produced from the Tamar reservoir which is in the area of the Tamar lease (the “Tamar Project”) to various customers, and mainly to the Israel Electric Corp. Ltd. (the “IEC”), to industrial customers (such as Oil Refineries Ltd., etc.), to private electricity producers and to natural gas marketing companies. In addition, the Company engages in the sale of condensate produced from the Tamar Project to Paz Ashdod Refining, in promotion of expansion of the production system of the Tamar Project and in examination of the geological potential in the deep targets in the area of the Tamar lease.

Note 2 - Significant Accounting Policies:

- A. Declaration regarding compliance with International Financial Reporting Standards:**

The Interim Condensed Financial Statements comply with the provisions of IAS 34. The Interim Condensed Financial Statements do not include all of the information and disclosures that are required within the Annual Financial Statements. The Interim Condensed Financial Statements should be reviewed together with the Company's Annual Financial Statements for December 31, 2016 and the notes attached thereto, which comply with the IFRS.

- B. Principles for preparation of Financial Statements:**

The Interim Condensed Financial Statements include the additional disclosure required pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Note 2 - Significant Accounting Policies (Cont.):

- C. Within Note 2N to the Proforma Financial Statements for December 31, 2016, the Company noted that it is examining the accounting treatment with respect to petroleum and gas profits levy and the implications thereof on its financial position and results of operations. The Company further noted that according to its estimation, the accounting treatment of such levy is not expected to have an impact on the said Proforma Financial Statements. In this context, it is noted that in early August 2017, the Company applied, together with the other Israeli partners in the Tamar reservoir, to the ISA staff and expressed its position on the matter, including on the issue of whether the levy falls within IAS 12 or within IFRIC interpretation 21 – "Levies", as well as the date at which recognition will be required of the levy within the financial statements. As of the date of the approval of the Interim Financial Statements herein, the Company has not yet exhausted the review and discussions of this matter. It is clarified that in the Company's estimation, the accounting treatment of the aforesaid levy is not expected to have an impact on the Interim Condensed Financial Statements herein and that according to its position, as expressed in the application to the ISA staff as aforementioned, the liability for such levy should only be recognized on the date on which the obligation for payment thereof arises (i.e. only from the date of the commencement of payment thereof *de facto*).

Note 3 – Company's Equity:

The Company's issued and paid up capital as of the date of its establishment and as of the date of the Interim Condensed Statements is ILS 1,000.

With regard to the public offering of shares pursuant to the prospectus and a shelf offering report dated July 18, 2017, see Note 5C below. As of the date of the approval of the Interim Condensed Financial Statements, the Company's authorized, issued and paid up capital is 50,000,000 ordinary shares par value ILS 0.1 each.

Note 4 – Additional Information:

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

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

According to a report prepared on July 2, 2017 (after the date of the Condensed Statement of Financial Position) by Netherland Sewell & Associates Inc. ("NSAI", which is a certified, expert and independent reserve evaluator) according to the SPE-PRMS rules, in view of the data received from the "Tamar-8" development and production drilling (see Section 4 below), which are classified as reserves on production, as of June 30, 2017, and which are classified as proved reserves, are approx. 226.8 BCM and the quantity of reserves classified as proved + probable reserves is approx. 318.1 BCM. According to the said report, the condensate reserves in the Tamar and Tamar SW reservoirs, which are classified as reserves on production, as of June 30, 2017, which are classified as proved reserves, are approx. 10.4 million barrels and the quantity of reserves classified as proved + probable reserves is approx. 14.6 million barrels. See Section 3 below regarding uncertainty in the evaluation of reserves.

Note 4 – Additional Information:

A. The Michal Matan Joint Venture (the Tamar and Dalit leases) (Cont.):

2) The "Dalit" well:

According to a report prepared in May 2017 by NSAI, according to PRE-PRMS, the amount of the contingent resources in the "Dalit" lease, which are classified as Development Pending as of March 31, 2017, ranges between approx. 6.1 BCM (low estimate) and approx. 9.5 BCM (high estimate).

In the resource report, it is indicated that the contingent resources are contingent upon the approval of a project which includes an approved development plan and a reasonable projection for sales of natural gas. See Section 3 below regarding uncertainty in the appraisal of reserves.

The Company, together with its partners in the Dalit project, has submitted to the Commissioner a development plan which is integrated with the development plan of the "Tamar" field. In addition, the Company, together with its partners in the project, are updating a mapping of the Dalit reservoir and performing an analysis of the reservoir, based on a seismic survey that has been conducted.

- 3) The above appraisals regarding the reserves of natural gas and condensate in the Leases are based, *inter alia*, on geological, geophysical, engineering and other information received from the wells and from the Operator in the said rights. The above appraisals constitute professional hypotheses and appraisals of NSAI, which are uncertain. The quantities of natural gas and condensate that will actually be produced may be different to the said appraisals and hypotheses, *inter alia* as a result of operating and technical conditions and/or regulatory changes and/or supply and demand conditions in the natural gas and/or condensate market and/or commercial terms and/or the actual performance of the reservoir. The above appraisals and hypotheses may be updated insofar as additional information accrues and/or as a result of a gamut of factors relating to the petroleum and natural gas exploration and extraction projects.
- 4) In October 2016, the "Tamar-8" development and production drilling commenced, which is designated, *inter alia*, to increase the redundancy in the production system and allow for maximum supply from the Tamar reservoir at times of peak demand. The drilling was completed (including completion and connection to the production system) in April 2017 and the piping of the natural gas therefrom has commenced.

B. Royalties to the State:

In February 2017, a letter was received from the Ministry of Energy with respect to advance payments of royalties for 2017, whereby it was determined that the effective royalty rate to be paid as advance payments in 2017 in the Tamar Project would be 11.65%. It was also clarified that such rate is determined as an advance payment only. It is the position of the Tamar partners that the calculation of the actual rate of the State's royalties in respect of the revenues from the Tamar Project should reflect the complexity of the project, the risks involved therein and the amount of the investments in the project, compared with the Yam Tethys project. (Also see Note 5A(8) below).

Note 4 – Additional Information (Cont.):

C. Legal Proceedings:

On June 18, 2014, a motion for class certification was filed with the Tel Aviv District Court by a consumer of the IEC against the Tamar partners (the "**Certification Motion**"). The said Motion pertains to the price at which Tamar partners sell natural gas to the IEC, which according to the petitioners is unfair.

The remedies sought in the Certification Motion are: compensation of all electricity consumers by the difference between the price paid by the IEC and the fair price of the natural gas, which is estimated by a total of ILS 2.5 billion (in 100% terms) as well as declaratory orders whereby Tamar partners are not to sell the natural gas from the Tamar project for an amount exceeding that which is determined in the Certification Motion. In December 2016, the Supreme Court ruled that the motion of the Tamar partners for summary dismissal of the motion for class certification be promptly transferred for a hearing before a panel, and ordered the petitioner in the Certification Motion and the Attorney General to file replies to the motion for leave to appeal. On March 9, 2017, the Attorney General filed a position on his behalf on the motion for leave to appeal, whereby the motion for dismissal should be granted and the District Court ought to have summarily dismissed the action. A hearing on the motion for leave to appeal was held on March 16, 2017. A decision on the motion is expected to be issued in the upcoming months.

In the Company's estimation, based on the opinion of its legal counsel, the chances of the motion for class certification being accepted are lower than 50%. (Also see Note 5A(8) below).

D. Employment Terms of the Company's CEO:

On June 25, 2017, the Company's board of directors approved the appointment of Mr. Liami Vaisman ("**Mr. Vaisman**") as the Company's CEO. Pursuant to the employment agreement, Mr. Vaisman's monthly salary is ILS 80 thousand, gross (100%) (the monthly salary shall be updated every 3 months according to the CPI). Mr. Vaisman is entitled to related benefits as customary in respect of executives in Israel, all in accordance with the Company's policy. Mr. Vaisman is entitled to an annual bonus in every calendar year during the term of the employment agreement, pursuant to the Company's compensation policy. Furthermore, the Company may grant Mr. Vaisman a one-time bonus as well as equity compensation according to the provisions of the compensation policy. In the event of termination of his employment, Mr. Vaisman shall be entitled to an adjustment bonus and a retirement bonus, according to the compensation policy.

Note 5 – Events subsequent to the date of the Condensed Statement of Financial Position:

A. The sale agreement

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

1. Delek Drilling undertook, subject to the fulfillment of Conditions Precedent (regarding the fulfillment of the Conditions Precedent, see Section 11 below), to sell and transfer to the Company, working interests in the rate of 9.25% (out of 100%) in the Leases, subject to the existing obligations of payment of overriding royalties to affiliates and third parties, and the pro rata share (9.25%) of the rights and obligations under the Joint Operating Agreement, the agreements for the sale of gas from the Tamar lease, the Usage Agreement in the Yam Tethys Facilities, the shares of Tamar 10-Inch Ltd., the operating approval of the Tamar platform and the export approvals from Tamar (above and below: the “**Object of Sale**”).
2. In consideration for the Object of Sale, the Company undertook to pay Delek Drilling all of the amounts that will be raised in the framework of the Company's debt and capital raising, net of any amount that will be raised, if any, in the issuance of the debt over and above the amount in ILS that is equal to the product of the multiplication of \$650 million by the representative dollar rate as being at the end of the trading day in foreign currency on the date of the institutional tender, which will remain in the Company's possession. Pursuant to the Sale Agreement, insofar as all of the shares of the Company, to be offered in the Company's capital raising (under a shelf offering), are not sold to the public, the completion of the consideration for the Object of Sale shall be done by way of allocating to Delek Drilling the remaining shares of the Company which will not be sold in the offering (in a rate which shall not exceed 40% of the Company's capital). See Notes 5B. and 5C below in relation to bond and share issues that were performed by the Company.
3. Pursuant to the agreement, out of the consideration amount in cash which is due to Delek Drilling, the Company shall be entitled to leave in its possession the amount of up to \$40 million, in its discretion, as a loan which will bear an annual interest rate of 3%.
4. Subject to the fulfillment of the Conditions Precedent and the closing of the transaction contemplated in the Sale Agreement, the effective date for the purpose of calculation of the consideration amount and transfer of the responsibility due to the Object of Sale was determined to be July 1, 2017.
5. The Company undertook that subject to the closing of the transaction and starting from the effective date it will assume and bear all of the debts and liabilities pertaining to the Object of Sale vis-à-vis the Royalty Holders.

Note 5 – Events subsequent to the date of the Condensed Statement of Financial Position (Cont.):

A. The sale agreement (Cont.):

6. The Company undertook vis-à-vis Delek Drilling, that subject to the closing of the transaction and starting from the effective date it will pay and bear, according to its *pro rata* share, all of the expenses, payments, guaranties, collateral and liabilities that apply in respect of the Object of Sale and pursuant to the provisions of any law, including any liability, debt or claim in connection with the period prior to the date of execution of the Sale Agreement, and any tax, compensation, fine or other expense that will apply in connection with such undertaking, other than the undertakings which were explicitly determined to remain under the responsibility of Delek Drilling also after the effective date, as specified in Section 8 below.
7. Delek Drilling shall indemnify the Company for any damage or liability that will be caused to the Company in connection with any claim, argument or other legal proceeding of a governmental authority or third party as a result of Delek Drilling's breach of representations in the framework of the agreement. Delek Drilling shall not be responsible for any damage incurred by the Company as a result of a breach of the representations until such damage total exceeds U.S. \$500 thousand.
8. Pursuant to the agreement, Delek Drilling shall continue to be responsible with respect to the following issues, also after the date of closing of the transaction: The arbitration due to the production component rate, the appeal in the matter of the royalties with respect to the sale of gas from the Tamar Project to the Yam Tethys project customers, including with respect to any liability in connection with these proceedings that will be caused in the period following the effective date; The motion for class certification as specified in Note 4C. above, with respect to amounts that were received by Delek Drilling in the period before the effective date; Liability due to taxes and royalties to the State with respect to the period before the effective date, or with respect to any profit, income or revenues of Delek Drilling in relation to the Object of Sale (including if such tax assessment was performed after the effective date), other than taxes which refer to reports that were filed with the tax authorities prior to the effective date, in relation to the Taxation of Profits from Natural Resources Law, 5771-2011; Taxes that apply to Delek Drilling in relation to the transfer of the Object of Sale to the Company; claims of suppliers' liabilities to suppliers or customers of Delek Drilling due to the Object of Sale which refer to the period until the effective date, other than if provisions were made due to liability claims as provided in the Company's financial statements; and liabilities, insofar as there will be any, in relation to Delek & Avner (Tamar Bond) Ltd.
9. Each party shall bear any tax, levy or fee imposed thereon pursuant to any law due to its engagement in the Sale Agreement and the consummation thereof.

Note 5 – Events subsequent to the date of the Condensed Statement of Financial Position (Cont.):

A. The sale agreement (Cont.):

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

As aforesaid, the Sale Agreement set forth that out of the consideration amount in cash which is due to Delek Drilling, the Company shall be entitled to keep in its possession the amount of up to \$40 million, in its discretion, as a loan that shall bear an annual interest rate of 3%. As of the date of approval of the interim financial statements, the amount of the aforesaid loan is approx. \$14 million.

B. Public offering of Series A bonds

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

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

Note 5 – Events subsequent to the date of the Condensed Statement of Financial Position (Cont.):

B. Public offering of Series A bonds (Cont.):

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

- 1) To secure the Series A bonds, the Company undertook to pledge in favor of the trustee for the Series A bonds, in a first ranking fixed single pledge: 1) Its rights in the Tamar reservoir; 2) Its rights in the Tamar reservoir operating approval 3) The Company's existing and future rights with respect to property insurance policies of the Tamar lease; 4) The Company's existing and future rights in the Tamar agreements (other than spot agreements and agreements for sale of gas for a period that does not exceed 12 months, the quantity of the gas that will be sold pursuant to which does not exceed 0.1 BCM); 5) The Company's rights in the Joint Operating Agreement (JOA) including existing and future contractual rights to the common equipment and the Tamar reservoir production system; 6) The Company's rights in the agreement which regulates the use by the Tamar partnership of facilities of Yam Tethys; 7) The Company's existing and future rights in the Company's bank account in the project (the "**Operating Account**"); and 8) The Company's rights in the safety cushion account for payment of the principal and interest. Note that the aforesaid pledges are subject to the State's royalty rights and to rights of other Royalty Holders entitled to receive royalties from the Company.

The registration of the pledges mentioned in Sections 1, 2, 5 and 6 above, in whole or in part, may be subject to receipt of the Petroleum Commissioner's approval which, as of the date of approval of these interim financial statements, has not yet been received. Insofar as the aforesaid pledges are not registered within 120 days from the date of listing of the bonds, the same shall not constitute a breach of the Indenture, however, starting from the expiration of 120 days from the date of listing of the bonds, the annual interest rate that will be borne by the balance of the unpaid principal of the Series A bonds shall increase by 0.75% (the "**Additional Interest**") until the date of registration of the pledges, however, insofar as pursuant to the non-registration of the pledges, the Company's rating drops below A2, the Additional Interest shall be supplemented by interest in an additional rate of 0.25% for each notch by which the rating shall have dropped below A2 pursuant to the non-registration of the pledges (the "**Enhanced Interest**"). Once the pledges are registered, starting from the registration date, the Additional Interest and the Enhanced Interest shall be fully cancelled. The Company shall not be able to pledge the pledged assets in an additional pledge. In the event of the sale of a pledged asset, provisions have been determined with regard to the early payment of the bonds that will be made by the Company out of the amount that shall have been received for the sale.

Note 5 – Events subsequent to the date of the Condensed Statement of Financial Position (Cont.):

B. Public offering of Series A bonds (Cont.):

- 2) The interest rate to be borne by the Series A bonds shall be adjusted due to changes in the bond rating such that if the rating of the Series A bonds is updated such that the rating that will be determined therefor will be two or more notches lower than the Base Rating (the “**Reduced Rating**”), the annual interest rate that will be borne by the balance of the unpaid principal of the bonds shall increase by 0.5%, and in the event of every additional notch drop, the annual interest rate shall increase by 0.25%. The aforesaid notwithstanding, the increase of the interest rate due to a drop in the rating as aforesaid shall be limited such that the annual interest rate that will be added to the Base Interest shall not exceed 1.25%. In addition, so long as the Company pays added interest under Subsection 1 above, the Company shall not pay added interest under this Subsection 2 insofar as the reason for the rating drop is the non-registration of the pledges.
- 3) In addition, the Company shall pay added interest in the rate of 0.25% insofar as the Company’s equity (as defined in the Indenture) decreases below U.S. \$320 million. In any event, pursuant to a rating drop under Subsections 2 and 3 together, the Company shall not pay a rate that exceeds 1.25% above the Base Interest.
- 4) Taking on additional debt by the Company through increasing the Series A bonds and/or taking on a different debt, other than receipt of financing and/or opening a line of credit from a financial institution in the amount of up to \$5 million that will serve to take out bank guaranties which the Company will be required to deposit by law or pursuant to the Tamar agreements, shall be subject to the fulfillment of conditions set forth in the Indenture and, *inter alia*, that taking on the additional debt shall not cause the rating of the bonds to drop versus the rating of the bonds on the eve of taking on the additional debt.
- 5) The Company shall be entitled to perform a dividend distribution upon fulfillment of conditions that were determined in the Indenture, including that the “record date” for the dividend distribution shall fall on a date that shall be no later than 60 days from the date on which a principal and/or interest payment shall have been performed to holders of Series A bonds; the expected and historic debt service coverage ratio, as defined in the Indenture, shall be no less than 1:1.20 (the historic ratio shall be examined starting from the date of release of the Company’s financial statements as of December 31, 2018, and with respect to two consecutive examination dates); a deposit of the full amount required for the debt service shall have been made in the safety cushion.

Note 5 – Events subsequent to the date of the Condensed Statement of Financial Position (Cont.):

B. Public offering of Series A bonds (Cont.):

- 6) The Company undertook to irrevocably order all of the parties to the gas sale agreements to pay the amounts that are due from them to the Company, to a bank account as defined in the indenture and which was pledged in favor of the bondholders as aforesaid (the “**Operating Account**”). It was determined that all of the payments that will be deposited in the Operating Account shall serve exclusively for the making by the Company of payments that were explicitly determined in the indenture as permitted to be paid out of the Operating Account and according to the order of payments that was determined in the indenture. The Company shall be entitled to withdraw money from the Operating Account not for the purpose of payments as aforesaid, only in the amount that will be in the Operating Account on the date which is one day following the making of a principal and/or interest payment to the bondholders (and after the other payments that were determined as aforesaid shall have been made). Regarding payments that were withdrawn from the Operating Account, no limitation shall apply to the Company regarding the use thereof including making of “distributions” subject to the other conditions that are stated in the Indenture.
- 7) The Indenture defines events of default, the occurrence of which shall establish for the Series A bondholders grounds for acceleration of the Series A bonds, which include, *inter alia*, the following main events: Non-payment of amounts that are due to the lenders; A breach of the Company’s undertaking to meet financial covenants including an undertaking to minimum equity (within its definition in the Indenture) that shall be no less than \$250 million (during two consecutive quarters), a debt service coverage ratio (within its definition in the Indenture) that shall be no less than 1.05:1 (during two consecutive quarters) (the expected debt service ratio for the period of the 12 months from October 1, 2017 is 2.1), minimum economic equity (within its definition in the Indenture) that shall be no less than \$250 million (during two consecutive quarters); A breach of liabilities and representations; Insolvency events; Non-release of financial statements which the Company is obligated to release within 30 days from the last date on which it is obligated to release the same; Material aggravation in the Company’s business versus its situation on the offering date and the existence of real concern that the Company will be unable to repay the bonds in a timely manner; Other debts of the Company having been accelerated (cross default) in the scope as set forth in the indenture; A real concern that the Company will fail to meet its material undertakings to the holders of the Series A bonds; The bond rating being lower than Baa3; A “going concern” note added in the Company’s financial statements.

Note 5 – Events subsequent to the date of the Condensed Statement of Financial Position (Cont.):

B. Public offering of Series A bonds (Cont.):

An amount of \$650 million of the offering proceeds served the Company to finance the purchase of the Object of Sale pursuant to the Sale Agreement (which is described in Section a. above). The Company undertook that the proceeds from the Series A bond offering over and above the \$650 million amount shall serve for the repurchase or early payment of the Series A bonds. Accordingly, on July 17, 2017, the Company's board of directors approved a repurchase plan in the scope of ILS 26,368,000 par value of Series A bonds. As of the date of approval of the interim financial statements, the Company has completed a repurchase of ILS 25,886,104 par value of the Series A bonds in consideration for approx. \$7.4 million.

The Series A bonds began to be traded on TASE on July 10, 2017.

C. Public offering of shares

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

D. Guaranties

In accordance with the directives of the Petroleum Commissioner for giving collateral in relation to petroleum rights, the Company has provided bank guaranties with respect to the Tamar and Dalit Leases in the amount of approx. \$3.3 million and \$0.7 million, respectively. The Company has taken a line of credit for the purpose of providing the aforesaid guaranties.

Tamar Petroleum Ltd.

Proforma Interim Condensed Financial Statements as of June 30, 2017

Unaudited

Expressed in U.S. Dollars in Thousands

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

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

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

Introduction

We have reviewed the accompanying proforma financial information of Tamar Petroleum Ltd. (the “**Company**”), which includes the Proforma Condensed Statement of Financial Position as of June 30, 2017 and the Proforma Condensed Statements of Comprehensive Income and Cash Flows for the six-month and three-month periods then ended. The Company’s board of directors and management are responsible for the preparation and presentation of proforma financial information for such interim periods in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”) and the proforma assumptions that are specified in Note 3 and Note 5 to the proforma financial information, and they are further responsible for the preparation of proforma financial information for such interim periods pursuant to Regulation 38B of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on proforma financial information for such interim period, based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying proforma financial information is not prepared, in all material respects, in accordance with IAS 34 “Interim Financial Reporting” and with the assumptions specified in Note 3 and Note 5 to the proforma financial information.

In addition to the statement of the previous paragraph, nothing has come to our attention which causes us to believe that the accompanying proforma financial information does not comply, from all material aspects, with the provisions of Regulation 38B of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Ziv Haft
Certified Public Accountants

Tel Aviv, August 17, 2017

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

	30.6.2017	30.6.2016	31.12.2016
	Unaudited		Audited
Assets:			
Current assets:			
Trade receivables	18,240	14,697	15,692
Trade and other receivables	3,874	7,696	6,134
	<u>22,114</u>	<u>22,393</u>	<u>21,826</u>
Non-current assets:			
Investments in petroleum and gas assets	386,600	385,718	384,488
Other long-term assets	2,027	1,193	1,968
	<u>388,627</u>	<u>386,911</u>	<u>386,456</u>
	<u>410,741</u>	<u>409,304</u>	<u>408,282</u>
Liabilities and equity:			
Current liabilities:			
Trade and other payables	7,453	11,886	12,229
Non-current liabilities:			
Other long-term liabilities	9,351	8,395	9,228
Equity	<u>393,937</u>	<u>389,023</u>	<u>386,825</u>
	<u>410,741</u>	<u>409,304</u>	<u>408,282</u>

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

August 17, 2017

Date of approval of the
Proforma Financial
Statements

Yossi Abu
Chairman of the Board

Liami Vaisman
CEO

Yuval Raikin
CFO

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

	For the six months period ended on		For the three months period ended on		For the year ended on
	30.6.2017	30.6.2016	30.6.2017	30.6.2016	31.12.2016
	Unaudited		Unaudited		Audited
Revenues from gas and condensate sales	85,003	75,693	42,674	38,491	159,850
Net of royalties	13,190	11,838	6,631	6,023	24,843
Net revenues	<u>71,813</u>	<u>63,855</u>	<u>36,043</u>	<u>32,468</u>	<u>135,007</u>
<u>Expenses and costs</u>					
Cost of production of natural gas and condensate	5,887	6,168	2,787	3,233	11,639
Depreciation, depletion and amortization expenses	9,062	8,010	4,739	4,258	16,156
Decrease in other direct expenses	-	-	-	-	(1)
G&A expenses	600	600	300	300	1,200
Total costs and expenses	<u>15,549</u>	<u>14,778</u>	<u>7,826</u>	<u>7,791</u>	<u>28,994</u>
Operating profit	<u>56,264</u>	<u>49,077</u>	<u>28,217</u>	<u>24,677</u>	<u>106,013</u>
Finance cost	(149)	(127)	(79)	(64)	(342)
Finance income	88	10	83	6	131
Finance income (cost), net	<u>(61)</u>	<u>(117)</u>	<u>4</u>	<u>(58)</u>	<u>(211)</u>
Net profit and total comprehensive income	<u>56,203</u>	<u>48,960</u>	<u>28,221</u>	<u>24,619</u>	<u>105,802</u>
Base and diluted profit per share (in \$)	<u>1.12</u>	<u>0.98</u>	<u>0.56</u>	<u>0.49</u>	<u>2.12</u>
Weighted number of shares for the purpose of the above calculation	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>

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

Tamar Petroleum Ltd.
Proforma Interim Condensed Statements of Cash Flows (Dollars in thousands)

	For the six months period ended on		For the three months period ended on		For the year ended on
	30.6.2017	30.6.2016	30.6.2017	30.6.2016	31.12.2016
	Unaudited				Audited
<u>Cash flows - operating activities:</u>					
Profit for the period	56,203	48,960	28,221	24,619	105,802
Adjustments required for presentation of the cash flows for operating activities:					
Depreciation, depletion and amortization	9,062	8,010	4,739	4,258	16,156
Increase in long-term asset retirement obligation	123	111	62	56	308
Revaluation of investment in other long-term assets	(68)	-	(68)	-	(111)
Changes in assets and liabilities items:					
Increase in trade receivables	(2,548)	(1,701)	(3,953)	(1,281)	(2,696)
Decrease (increase) in trade and other receivables	(925)	(912)	(1,239)	469	50
Increase (decrease) in trade and other payables	(281)	526	337	1,068	483
Net cash deriving from operating activities	<u>61,566</u>	<u>54,994</u>	<u>28,099</u>	<u>29,189</u>	<u>119,992</u>
<u>Cash flows - investment activity:</u>					
Investments in petroleum and gas assets	(15,674)	(3,334)	(2,937)	(1,275)	(10,383)
Decrease (increase) due to the Joint Venture Operator balance	3,199	451	4,691	(1,229)	1,543
Net cash received from (used for) investment activity	<u>(12,475)</u>	<u>(2,883)</u>	<u>1,754</u>	<u>(2,504)</u>	<u>(8,840)</u>
<u>Cash flows - financing activity:</u>					
Distribution to holders	(49,091)	(52,111)	(29,853)	(26,685)	(111,152)
Net cash used for financing activity	<u>(49,091)</u>	<u>(52,111)</u>	<u>(29,853)</u>	<u>(26,685)</u>	<u>(111,152)</u>
Increase in cash and cash equivalents	-	-	-	-	-
Cash and cash equivalents balance at the beginning of the period	-	-	-	-	-
Cash and cash equivalents balance at the end of the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Annex A - Investment activity not involving cash flows</u>					
Investments in petroleum and gas assets against liabilities	1,028	2,225	1,028	2,225	5,141
Investment in other long-term assets	5	459	1	-	1,615
Asset retirement obligation against petroleum and gas assets	-	-	-	-	635
<u>Annex B - Additional information on cash flows</u>					
Interest received	19	10	14	6	21

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

Tamar Petroleum Ltd.

Notes to the Proforma Interim Condensed Statements as of June 30, 2017

Note 1 – General:

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

As of the date of the Interim Condensed Statement of Financial Position, the Company was inactive and was wholly owned and fully controlled by Delek Drilling-Limited Partnership (the “**Partnership**” or “**Delek Drilling**”).

The Company began its activity upon the fulfillment of the conditions precedent of the sale agreement (see Note 6A below), retroactively from July 1, 2017. The Company’s articles determine that the Company shall only perform exploration, development, production and transmission actions to the target markets in connection with the leases I/12 "Tamar" and I/13 "Dalit" (collectively: the “**Leases**” or “**Tamar and Dalit leases**” and/or the “**Joint Venture**”).

- B.** In the course of July 2017, the Company raised financial sources by way of a public offering of bonds (Series A) and shares (see Notes 6B and 6C below), which served as part of the consideration for the purchase of working interests at a rate of 9.25% (out of 100%) in the Leases from Delek Drilling, according to the terms of the sale agreement that was signed between the parties, as described in Note 6A below. Following the completion of the share offering, the holdings of Delek Drilling in the Company decreased to 40% in equity rights and 12% in the voting rights therein. The trade in the Company's shares on TASE began on July 24, 2017.

- C.** Following the completion of the Leases purchase, the Company engages in the sale of natural gas produced from the Tamar reservoir which is in the area of the Tamar lease (the “**Tamar Project**”) to various customers, and mainly to the Israel Electric Corp. Ltd. (the “**IEC**”), to industrial customers (such as Oil Refineries Ltd., etc.), to private electricity producers and to natural gas marketing companies. In addition, the Company engages in the sale of condensate produced from the Tamar Project to Paz Ashdod Refining, in promotion of expansion of the production system of the Tamar Project and in examination of the geological potential in the deep targets in the area of the Tamar lease.

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

- D.** The financial figures in the Proforma Interim Condensed Financial Statements are based on books, documents and accounting data provided to the Israeli participants by the operator of the Joint Venture and by the Partners.
- E.** The Company’s Proforma Interim Condensed Financial Statements should be read together with the Company’s Proforma Annual Financial Statements as of December 31, 2016 and the notes attached thereto (the “**Annual Financial Statements**”). Therefore, notes regarding relatively insignificant updates to information that was already reported in the Annual Financial Statements were not presented in these Interim Condensed Financial Statements.

Note 2 - Significant Accounting Policies:

A. Declaration regarding compliance with International Financial Reporting Standards:

The Proforma Interim Condensed Financial Statements comply with the provisions of IAS 34.

B. Principles for preparation of Proforma Interim Condensed Financial Statements:

The Proforma Interim Condensed Statements include the additional disclosure required pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

C. Within Note 2N to the Annual Financial Statements, the Company noted that it is examining the accounting treatment with respect to petroleum and gas profits levy and the implications thereof on its financial position and results of operations. The Company further noted that according to its estimation, the accounting treatment of such levy is not expected to have an impact on the said Proforma Financial Statements. In this context, it is noted that in early August 2017, the Company, together with the other Israeli partners in the Tamar reservoir, applied to the ISA staff and expressed its position on the matter, including on the issue of whether the levy falls within IAS 12 or within IFRIC interpretation 21 – Levies, as well as the date at which recognition will be required of the levy within the financial statements. As of the date of the approval of the Interim Financial Statements herein, the Company has not yet exhausted the review and discussions of this matter. It is clarified that in the Company's estimation, the accounting treatment of the aforesaid levy is not expected to have an impact on the Proforma Interim Condensed Financial Statements herein and that according to its position, as expressed in the application to the ISA staff as aforementioned, the liability for such levy should only be recognized on the date on which the obligation for payment thereof arises (i.e. only from the date of commencement of payment thereof *de facto*).

D. In continuation to the content of Note 2P to the Annual Financial Statements, the Company continued to examine the implications of the implementation of IFRS 15 regarding revenues from contracts with customers on the mandatory adoption date (January 1, 2018). According to the said review, at this stage, the Company concluded that the new standard is not expected to have material effect on its financial statements. The Company shall continue to examine relevant developments and publications and if there shall be any change to the said conclusion, the Company shall report the same in its subsequent financial statements.

Note 3 – Proforma Assumptions:

A. The Proforma Financial Statements were prepared on the basis of the following assumptions:

As specified in Note 6A below, in the context of the sale transaction, Delek Drilling sold to the Company 9.25% of its holding in the Leases. Since the Company purchased the rights in the Leases from the control holders, the purchase does not constitute a business combination as defined in IFRS3. Therefore, in the Proforma Financial Statements the purchase transaction of 9.25% of the holding in the Leases shall be treated in accordance with the As Pooling method.

These Proforma Financial Statements were prepared under the assumption that the transaction will be closed on the basis of the Company's share (9.25%) in the Leases, while making various adjustments, on January 1, 2014 as specified below.

Note 3 – Proforma Assumptions (Cont.):

B. Assumptions pertaining to the Proforma Financial Statements:

- 1) The Company prepared Proforma Financial Statements in order to reflect the transferred rights as if they were transferred at the beginning of the earliest period presented in the reports (January 1, 2014).
- 2) The Company did not participate in assets and liabilities before the date of the transfer of the Leases that derive from differences in the royalty rate to the State and to third parties that derives from a dispute between the partners in the Joint Venture and the Ministry of National Infrastructures, Energy and Water Resources. See Note 9E to the Proforma Annual Financial Statements.
- 3) The Company did not participate in assets and liabilities before the date of the transfer of the Leases that derive from disputes between the Tamar partners and a number of customers in connection with the price of gas that is linked to the electricity production tariff, see Note 9A5 to the Proforma Annual Financial Statements.
- 4) The G&A expenses were included according to the management's estimation of the share attributed to the Tamar Project out of the Partnership's total G&A expenses.
- 5) The Company did not record a finance cost in respect of the purchase of the rights in the Leases because the assumption is that the purchase rights were financed through equity.
- 6) Due to the fact that the legal structure of the entity in which the operations were performed does not include instructions regarding non- recording of amounts that were distributed to participants, distributions that were performed to participants were first recorded as repayment of shareholder investment and the balance as the distribution of surpluses.
- 7) The Proforma Financial Statements do not include taxes on income, since the Company's business that was included in these Proforma Financial Statements was performed in the framework of an entity which is not subject to any tax liability and therefore its financial statements did not include taxes on income. The tax liability in respect of the entity's profits applied to the holders of such entity.

C. There may be differences both in the proforma assumptions and in the sums presented in the Proforma Financial Statements, versus the sums included in such financial statements and the presentation that will be actually included in the financial statements of the Company for the periods following the completion of the purchase of the Leases.

D. See also Note 5 below in connection with additional financial information which includes Proforma Statements of Financial Position and of Comprehensive Income considering additional proforma assumptions specified in note 5, in addition to the aforesaid proforma assumptions.

Note 4 – Additional Information:

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

1) Evaluation of the natural gas and condensate reserves in the “Tamar” gas field:

According to a report prepared on July 2, 2017 (after the date of the Proforma Condensed Statement of Financial Position) by Netherland Sewell & Associates Inc. (“NSAI”, which is a certified, expert and independent reserve evaluator) according to the SPE-PRMS rules, in view of the data received from the “Tamar-8” development and production drilling (see Section 4 below), which are classified as reserves on production, as of June 30, 2017, and which are classified as proved reserves, are approx. 226.8 BCM and the quantity of reserves classified as proved + probable reserves is approx. 318.1 BCM. According to the said report, the condensate reserves in the Tamar and Tamar SW reservoirs, which are classified as reserves on production, as of June 30, 2017, which are classified as proved reserves, are approx. 10.4 million barrels and the quantity of reserves classified as proved + probable reserves is approx. 14.6 million barrels. See Section 3 below regarding uncertainty in the evaluation of reserves.

2) The "Dalit" well:

According to a report prepared in May 2017 by NSAI, according to PRE-PRMS, the amount of the contingent resources in the "Dalit" lease, which are classified as Development Pending as of March 31, 2017, ranges between approx. 6.1 BCM (low estimate) and approx. 9.5 BCM (high estimate).

In the resource report, it is indicated that the contingent resources are contingent upon the approval of a project which includes an approved development plan and a reasonable projection for sales of natural gas. See Section 3 below regarding uncertainty in the appraisal of reserves.

The Company, together with its partners in the Dalit project, has submitted to the Commissioner a development plan which is integrated with the development plan of the "Tamar" field. In addition, the Company, together with its partners in the project, are updating a mapping of the Dalit reservoir and performing an analysis of the reservoir, based on a seismic survey that has been conducted.

3) The above appraisals regarding the reserves of natural gas and condensate in the Leases are based, *inter alia*, on geological, geophysical, engineering and other information received from the wells and from the Operator in the said rights. The above appraisals constitute professional hypotheses and appraisals of NSAI, which are uncertain. The quantities of natural gas and condensate that will actually be produced may be different to the said appraisals and hypotheses, *inter alia* as a result of operating and technical conditions and/or regulatory changes and/or supply and demand conditions in the natural gas and/or condensate market and/or commercial terms and/or the actual performance of the reservoir. The above appraisals and hypotheses may be updated insofar as additional information accrues and/or as a result of a gamut of factors relating to the petroleum and natural gas exploration and extraction projects.

Note 4 – Additional Information (Cont.):

A. The Michal Matan Joint Venture (the Tamar and Dalit leases) (Cont.):

- 4) In October 2016, the “Tamar-8” development and production drilling commenced, which is designated, *inter alia*, to increase the redundancy in the production system and allow for maximum supply from the Tamar reservoir at times of peak demand. The drilling was completed (including completion and connection to the production system) in April 2017 and the piping of the natural gas therefrom has commenced. The cost of the drilling as of June 30, 2017, including the completion and development of the subsea system and connection of the well to the existing infrastructure in Tamar, is approx. \$241 million (100%; the Company’s share – approx. \$22 million).

B. Royalties to the State:

In February 2017, a letter was received from the Ministry of Energy with respect to advance payments of royalties for 2017, whereby it was determined that the effective royalty rate to be paid as advance payments in 2017 in the Tamar Project would be 11.65%. It was also clarified that such rate is determined as an advance payment only. It is the position of the Operator and the other Tamar partners that the calculation of the actual rate of the State’s royalties in respect of the revenues from the Tamar Project should reflect the complexity of the project, the risks involved therein and the amount of the investments in the project, compared with the Yam Tethys project. (Also see Note 6A(8) below).

- C. As stated in Note 9H to the Annual Financial Statements regarding a motion for class certification that was filed with the Tel Aviv District Court by a consumer of the IEC against the Tamar partners, in December 2016, the Supreme Court ruled that the motion of the Tamar partners for summary dismissal of the motion for class certification be promptly transferred for a hearing before a panel, and ordered the petitioner in the certification motion and the Attorney General to file replies to the motion for leave to appeal. On March 9, 2017, the Attorney General filed a position on his behalf on the motion for leave to appeal, whereby the motion for dismissal should be granted and the District Court ought to have summarily dismissed the action. A hearing on the motion for leave to appeal was held on March 16, 2017.

A decision on the motion is expected to be issued in the upcoming months.

In the Company’s estimation, based on the opinion of its legal counsel, the chances of the motion for class certification being accepted are lower than 50%. (Also see Note 6A(8) below).

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

- 1) In the event of a delay in the supply of gas for the first time by a new gas supplier, the Tamar partners will allow their customers, in accordance with gas supply agreements signed from the date of the Gas Framework until 4 years after the date on which the Commissioner approved the transfer of the rights in the “Karish” and “Tanin” gas reservoirs (the Date of Opening of the Options), who were supposed to transition to purchasing gas from the new supplier, in whole or in part, to extend the contract with them until such time as the new supplier is able to supply gas in

Note 4 – Additional Information (Cont.):

commercial quantities (but no more than 8 years from the date of signing of the agreement therewith), without changing the terms and conditions of the agreement.

- 2) The Tamar partners also clarified that they will grant a consumer who is an electricity producer, or another consumer seeking to construct new facilities and which is forced to sign a long-term gas supply agreement due to the requirements of the entities financing the facilities, the option to sign an agreement with them for a term exceeding 8 years, and in accordance with the supply capacity of the Tamar Project.

E. Employment Terms of the Company's CEO

On June 25, 2017, the Company's board of directors approved the appointment of Mr. Liami Vaisman ("**Mr. Vaisman**") as the Company's CEO. Pursuant to the employment agreement, Mr. Vaisman's monthly salary is ILS 80 thousand, gross (100%) (the monthly salary shall be updated every 3 months according to the CPI). Mr. Vaisman is entitled to related benefits as customary in respect of executives in Israel, all in accordance with the Company's policy. Mr. Vaisman is entitled to an annual bonus in every calendar year during the term of the employment agreement, pursuant to the Company's compensation policy. Furthermore, the Company may grant Mr. Vaisman a one-time bonus as well as equity compensation according to the provisions of the compensation policy. In the event of termination of his employment, Mr. Vaisman shall be entitled to an adjustment bonus and a retirement bonus, according to the compensation policy.

Note 5 – Additional Financial Information that Includes a Supplement to the Proforma Assumptions:

- A.** Further to the provisions of Note 3 above, the Company prepared additional Proforma Financial Statements of Financial Position and of Comprehensive Income which include, in addition to the Proforma assumptions in the aforesaid note, the following assumptions:

1. On the purchase transaction closing date as stated in Note 3A above, the Company issued 49,999,000 shares in consideration for U.S. \$330 million. The said issue was taken into account in the calculation of the profit per share.
2. On the purchase transaction closing date as stated in Note 3A above, the Company issued bonds linked to the dollar in the sum of U.S. \$650 million, payable in installments from 2018 and bearing effective interest of 4.69%. Such interest was recorded in the Statements of Comprehensive Income in this note as of January 1, 2014.
3. Taxes on income were calculated based on the Company's dollar accounting profit according to the statutory tax rate in each one of the presented periods (2017: 24%, 2016: 25%).
4. The Company's revenues and the trade receivables balance constitute 9.25% of the revenues of all of the Tamar partners, considering the provisions of Note 5K to the Proforma Annual Financial Statements regarding the commercial arrangement between the Yam Tethys partners and the Tamar partners.
5. The Company recorded deferred taxes according to the future known tax rate (23%) due to temporary differentials equal to the difference between the amount of the investment in the petroleum and gas assets presented in the Proforma Statement of

Tamar Petroleum Ltd.**Notes to the Proforma Interim Condensed Statements as of June 30, 2017****Note 5 – Additional Financial Information that Includes a Supplement to the Proforma Assumptions (Cont.):**

Financial Position as of June 30, 2017 and the cost of acquisition of the rights in the Tamar reservoir for tax purposes as stated in Note 3A above.

6. The expenses of the bond offering only were borne by the Company, and the expenses of the share offering – by the Partnership.

B. Proforma Interim Condensed Statements of Financial Position considering the additional assumptions as aforesaid in Section A, (Dollars in thousands):

	<u>30.6.2017</u>
	<u>Unaudited</u>
Assets:	
Current assets:	
Trade receivables	18,514
Trade and other receivables	3,874
	<u>22,388</u>
Non-current assets:	
Investments in petroleum and gas assets	386,600
Deferred Taxes	136,482
Other long-term assets	2,027
	<u>525,109</u>
	<u>547,497</u>
Liabilities and equity:	
Current liabilities:	
Trade and other payables	<u>7,453</u>
Non-current liabilities:	
Other long-term liabilities	9,351
Bonds	640,300
	<u>649,651</u>
Equity:	
Equity	723,937
Capital reserve	(833,544)
	<u>(109,607)</u>
	<u>547,497</u>

Tamar Petroleum Ltd.**Notes to the Proforma Interim Condensed Statements as of June 30, 2017****Note 5 – Additional Financial Information that Includes a Supplement to the Proforma Assumptions (Cont.):**

- C. Proforma Interim Condensed Statements of Comprehensive Income considering the additional assumptions as stated in Section A above:

	For the six months period ended on		For the three months period ended on		For the year ended on
	30.6.2017	30.6.2016	30.6.2017	30.6.2016	31.12.2016
	Unaudited		Unaudited		Audited
Revenues from the sale of gas and condensate	86,381	79,092	43,390	40,186	165,679
Net of royalties	13,404	12,368	6,742	6,288	25,749
Net revenues	<u>72,977</u>	<u>66,724</u>	<u>36,648</u>	<u>33,898</u>	<u>139,930</u>
<u>Costs and expenses</u>					
Cost of production of natural gas and condensate	5,887	6,168	2,787	3,233	11,639
Decrease in other direct expenses	-	-	-	-	(1)
Depreciation, depletion and amortization expenses	9,062	8,010	4,739	4,258	16,156
G&A expenses	600	600	300	300	1,200
Total costs and expenses	<u>15,549</u>	<u>14,778</u>	<u>7,826</u>	<u>7,791</u>	<u>28,994</u>
Operating profit	<u>57,428</u>	<u>51,946</u>	<u>28,822</u>	<u>26,107</u>	<u>110,936</u>
Financing expenses	(15,391)	(15,370)	(7,700)	(7,685)	(30,827)
Financing revenues	88	10	83	6	131
Financing expenses, net	<u>(15,303)</u>	<u>(15,360)</u>	<u>(7,617)</u>	<u>(7,679)</u>	<u>(30,696)</u>
Profit before taxes on income	<u>42,125</u>	<u>36,586</u>	<u>21,205</u>	<u>18,428</u>	<u>80,240</u>
Taxes on income	<u>(10,110)</u>	<u>(9,147)</u>	<u>(5,090)</u>	<u>(4,607)</u>	<u>(20,060)</u>
Net profit and total comprehensive profit	<u>32,015</u>	<u>27,439</u>	<u>16,115</u>	<u>13,821</u>	<u>60,180</u>
Base and diluted profit per share (in dollars)	<u>0.64</u>	<u>0.55</u>	<u>0.32</u>	<u>0.28</u>	<u>1.20</u>
Weighted number of shares for the purposes of the above calculation	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>

Note 6 – Events subsequent to the date of the Condensed Statement of Financial Position:

A. The sale agreement

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

1. Delek Drilling undertook, subject to the fulfillment of Conditions Precedent (regarding the fulfillment of the Conditions Precedent, see Section 11 below), to sell and transfer to the Company, working interests in the rate of 9.25% (out of 100%) in the Leases, subject to the existing obligations of payment of overriding royalties to affiliates and third parties, and the pro rata share (9.25%) of the rights and obligations under the Joint Operating Agreement, the agreements for the sale of gas from the Tamar lease, the Usage Agreement in the Yam Tethys Facilities, the shares of Tamar 10-Inch Ltd., the operating approval of the Tamar platform and the export approvals from Tamar (above and below: the “**Object of Sale**”).
2. In consideration for the Object of Sale, the Company undertook to pay Delek Drilling all of the amounts that will be raised in the framework of the Company's debt and capital raising, net of any amount that will be raised, if any, in the issuance of the debt over and above the amount in ILS that is equal to the product of the multiplication of \$650 million by the representative dollar rate as being at the end of the trading day in foreign currency on the date of the institutional tender, which will remain in the Company's possession. Pursuant to the Sale Agreement, insofar as all of the shares of the Company, to be offered in the Company's capital raising (under a shelf offering), are not sold to the public, the completion of the consideration for the Object of Sale shall be done by way of allocating to Delek Drilling the remaining shares of the Company which will not be sold in the offering (in a rate which shall not exceed 40% of the Company's capital). See Notes 6b. and 6c. below in relation to bond and share issues that were performed by the Company.
3. Pursuant to the agreement, out of the consideration amount in cash which is due to Delek Drilling, the Company shall be entitled to leave in its possession the amount of up to \$40 million, in its discretion, as a loan which will bear an annual interest rate of 3%.
4. Subject to the fulfillment of the Conditions Precedent and the closing of the transaction contemplated in the Sale Agreement, the effective date for the purpose of calculation of the consideration amount and transfer of the responsibility due to the Object of Sale was determined to be July 1, 2017.
5. The Company undertook that subject to the closing of the transaction and starting from the effective date it will assume and bear all of the debts and liabilities pertaining to the Object of Sale vis-à-vis the Royalty Holders.

Note 6 – Events subsequent to the date of the Condensed Statement of Financial Position (Cont.):

A. The sale agreement (Cont.)

6. The Company undertook vis-à-vis Delek Drilling, that subject to the closing of the transaction and starting from the effective date it will pay and bear, according to its *pro rata* share, all of the expenses, payments, guaranties, collateral and liabilities that apply in respect of the Object of Sale and pursuant to the provisions of any law, including any liability, debt or claim in connection with the period prior to the date of execution of the Sale Agreement, and any tax, compensation, fine or other expense that will apply in connection with such undertaking, other than the undertakings which were explicitly determined to remain under the responsibility of Delek Drilling also after the effective date, as specified in Section 8 below.
7. Delek Drilling shall indemnify the Company for any damage or liability that will be caused to the Company in connection with any claim, argument or other legal proceeding of a governmental authority or third party as a result of Delek Drilling's breach of representations in the framework of the agreement. Delek Drilling shall not be responsible for any damage incurred by the Company as a result of a breach of the representations until such damage total exceeds U.S. \$500 thousand.
8. Pursuant to the agreement, Delek Drilling shall continue to be responsible with respect to the following issues, also after the date of closing of the transaction: The arbitration due to the production component rate, the appeal in the matter of the royalties with respect to the sale of gas from the Tamar Project to the Yam Tethys project customers, including with respect to any liability in connection with these proceedings that will be caused in the period following the effective date; The motion for class certification as specified in Note 4C. above, with respect to amounts that were received by Delek Drilling in the period before the effective date; Liability due to taxes and royalties to the State with respect to the period before the effective date, or with respect to any profit, income or revenues of Delek Drilling in relation to the Object of Sale (including if such tax assessment was performed after the effective date), other than taxes which refer to reports that were filed with the tax authorities by a date prior to the effective date, in relation to the Taxation of Profits from Natural Resources Law, 5771-2011; Taxes that apply to Delek Drilling in relation to the transfer of the Object of Sale to the Company; Claims of suppliers, liabilities to suppliers or customers of Delek Drilling due to the Object of Sale which refer to the period until the effective date, other than if provisions were made for such liability claims as provided in the Company's financial statements; and liabilities, insofar as there will be any, in relation to Delek & Avner (Tamar Bond) Ltd.
9. Each party shall bear any tax, levy or fee imposed thereon pursuant to any law due to its engagement in the Sale Agreement and the consummation thereof.

Note 6 – Events subsequent to the date of the Condensed Statement of Financial Position (Cont.):

A. The sale agreement (Cont.)

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

As aforesaid, the Sale Agreement set forth that out of the consideration amount in cash which is due to Delek Drilling, the Company shall be entitled to keep in its possession the amount of up to \$40 million, in its discretion, as a loan that shall bear an annual interest rate of 3%. As of the date of approval of the interim financial statements, the amount of the aforesaid loan is approx. \$14 million.

B. Public offering of Series A bonds

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

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

Note 6 – Events subsequent to the date of the Condensed Statement of Financial Position (Cont.):

B. Public offering of Series A bonds (Cont.)

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

- 1) To secure the Series A bonds, the Company undertook to pledge in favor of the trustee for the Series A bonds, in a first ranking fixed single pledge: 1) Its rights in the Tamar reservoir; 2) Its rights in the Tamar reservoir operating approval 3) The Company's existing and future rights with respect to property insurance policies of the Tamar lease; 4) The Company's existing and future rights in the Tamar agreements (other than spot agreements and agreements for sale of gas for a period that does not exceed 12 months, the quantity of the gas that will be sold pursuant to which does not exceed 0.1 BCM); 5) The Company's rights in the Joint Operating Agreement (JOA) including existing and future contractual rights to the common equipment and the Tamar reservoir production system; 6) The Company's rights in the agreement which regulates the use by the Tamar partnership of facilities of Yam Tethys; 7) The Company's existing and future rights in the Company's bank account in the project (the **"Operating Account"**); and 8) The Company's rights in the safety cushion account for payment of the principal and interest. Note that the aforesaid pledges are subject to the State's royalty rights and to rights of other Royalty Holders entitled to receive royalties from the Company.

The registration of the pledges mentioned in Sections 1, 2, 5 and 6 above, in whole or in part, may be subject to receipt of the Petroleum Commissioner's approval which, as of the date of approval of these interim financial statements, has not yet been received. Insofar as the aforesaid pledges are not registered within 120 days from the date of listing of the bonds, the same shall not constitute a breach of the Indenture, however, starting from the expiration of 120 days from the date of listing of the bonds, the annual interest rate that will be borne by the balance of the unpaid principal of the Series A bonds shall increase by 0.75% (the **"Additional Interest"**) until the date of registration of the pledges, however, insofar as pursuant to the non-registration of the pledges, the Company's rating drops below A2, the Additional Interest shall be supplemented by interest in an additional rate of 0.25% for each notch by which the rating shall have dropped below A2 pursuant to the non-registration of the pledges (the **"Enhanced Interest"**). Once the pledges are registered, starting from the registration date, the Additional Interest and the Enhanced Interest shall be fully cancelled. The Company shall not be able to pledge the pledged assets in an additional pledge. In the event of the sale of a pledged asset, provisions have been determined with regard to the early payment of the bonds that will be made by the Company out of the amount that shall have been received for the sale.

Note 6 – Events subsequent to the date of the Condensed Statement of Financial Position (Cont.):

B. Public offering of Series A bonds (Cont.)

- 2) The interest rate to be borne by the Series A bonds shall be adjusted due to changes in the bond rating such that if the rating of the Series A bonds is updated such that the rating that will be determined therefor will be two or more notches lower than the Base Rating (the “**Reduced Rating**”), the annual interest rate that will be borne by the balance of the unpaid principal of the bonds shall increase by 0.5%, and in the event of every additional notch drop, the annual interest rate shall increase by 0.25%. The aforesaid notwithstanding, the increase of the interest rate due to a drop in the rating as aforesaid shall be limited such that the annual interest rate that will be added to the Base Interest shall not exceed 1.25%. In addition, so long as the Company pays added interest under Subsection 1 above, the Company shall not pay added interest under this Subsection 2 insofar as the reason for the rating drop is the non-registration of the pledges.
- 3) In addition, the Company shall pay added interest in the rate of 0.25% insofar as the Company’s equity (as defined in the Indenture) decreases below U.S. \$320 million. In any event, pursuant to a rating drop under Subsections 2 and 3 together, the Company shall not pay a rate that exceeds 1.25% above the Base Interest.
- 4) Taking on additional debt by the Company through increasing the Series A bonds and/or taking on a different debt, other than receipt of financing and/or opening a line of credit from a financial institution in the amount of up to \$5 million that will serve to take out bank guaranties which the Company will be required to deposit by law or pursuant to the Tamar agreements, shall be subject to the fulfillment of conditions set forth in the Indenture and, *inter alia*, that taking on the additional debt shall not cause the rating of the bonds to drop versus the rating of the bonds on the eve of taking on the additional debt.
- 5) The Company shall be entitled to perform a dividend distribution upon fulfillment of conditions that were determined in the Indenture, including that the “record date” for the dividend distribution shall fall on a date that shall be no later than 60 days from the date on which a principal and/or interest payment shall have been performed to holders of Series A bonds; the expected and historic debt service coverage ratio, as defined in the Indenture, shall be no less than 1:1.20 (the historic ratio shall be examined starting from the date of release of the Company’s financial statements as of December 31, 2018, and with respect to two consecutive examination dates); a deposit of the full amount required for the debt service shall have been made in the safety cushion.

Note 6 – Events subsequent to the date of the Condensed Statement of Financial Position (Cont.):

B. Public offering of Series A bonds (Cont.)

- 6) The Company undertook to irrevocably order all of the parties to the gas sale agreements to pay the amounts that are due from them to the Company, to a bank account as defined in the indenture and which was pledged in favor of the bondholders as aforesaid (the “**Operating Account**”). It was determined that all of the payments that will be deposited in the Operating Account shall serve exclusively for the making by the Company of payments that were explicitly determined in the indenture as permitted to be paid out of the Operating Account and according to the order of payments that was determined in the indenture. The Company shall be entitled to withdraw money from the Operating Account not for the purpose of payments as aforesaid, only in the amount that will be in the Operating Account on the date which is one day following the making of a principal and/or interest payment to the bondholders (and after the other payments that were determined as aforesaid shall have been made). Regarding payments that were withdrawn from the Operating Account, no limitation shall apply to the Company regarding the use thereof including making of “distributions” subject to the other conditions that are stated in the Indenture.
- 7) The Indenture defines events of default, the occurrence of which shall establish for the Series A bondholders grounds for acceleration of the Series A bonds, which include, *inter alia*, the following main events: Non-payment of amounts that are due to the lenders; A breach of the Company’s undertaking to meet financial covenants including an undertaking to minimum equity (within its definition in the Indenture) that shall be no less than \$250 million (during two consecutive quarters), a debt service coverage ratio (within its definition in the Indenture) that shall be no less than 1.05:1 (during two consecutive quarters) (the expected debt service ratio for the period of the 12 months from October 1, 2017 is 2.1), and minimum economic equity (within its definition in the Indenture) that shall be no less than \$250 million (during two consecutive quarters); A breach of liabilities and representations; Insolvency events; Non-release of financial statements which the Company is obligated to release within 30 days from the last date on which it is obligated to release the same; Material aggravation in the Company’s business versus its situation on the offering date and the existence of real concern that the Company will be unable to repay the bonds in a timely manner; Other debts of the Company having been accelerated (cross default) in the scope as set forth in the indenture; A real concern that the Company will fail to meet its material undertakings to the holders of the Series A bonds; The bond rating being lower than Baa3; A “going concern” note added in the Company’s financial statements.

Note 6 – Events subsequent to the date of the Condensed Statement of Financial Position (Cont.):

B. Public offering of Series A bonds (Cont.)

An amount of \$650 million of the offering proceeds served the Company to finance the purchase of the Object of Sale pursuant to the Sale Agreement (which is described in Section a. above). The Company undertook that the proceeds from the Series A bond offering over and above the \$650 million amount shall serve for the repurchase or early payment of the Series A bonds. Accordingly, on July 17, 2017, the Company's board of directors approved a repurchase plan in the scope of ILS 26,368,000 par value of Series A bonds. As of the date of approval of the interim proforma financial statements, the Company has completed a repurchase of ILS 25,886,104 par value of the Series A bonds in consideration for approx. \$7.4 million.

The Series A bonds began to be traded on TASE on July 10, 2017.

C. Public offering of shares

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

D. Guaranties

In accordance with the directives of the Petroleum Commissioner for giving collateral in relation to petroleum rights, the Company has provided bank guaranties with respect to the Tamar and Dalit Leases in the amount of approx. \$3.3 million and \$0.7 million, respectively. The Company has taken a line of credit for the purpose of providing the aforesaid guaranties.